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^FARMER BOYS®
FRANCHISE AGREEMENT

EXHIBIT C-2

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ATTACHMENTS:^

- 1: Approved Location
- 2: Authorization Agreement for Prearranged Payment
- 3: Nondisclosure and Noncompetition Agreement
- 4: Assignment of Telephone Numbers
- 5: Personal Guaranty

FARMER BOYS® FRANCHISE AGREEMENT

ARTICLE 1. PARTIES

This Agreement is signed on _____ [date], between Farmer Boys Food, Inc. ("Farmer Boys"), a California corporation with its principal office in Riverside, California, and ^ _____ [franchisee's legal name] ("you").

ARTICLE 2. RECITALS

2.1. Ownership of System

We are the owner of certain intellectual property rights, including the Farmer Boys trade name and mark, "FARMER BOYS®." We have spent a considerable amount of time, effort, and money to devise, and continue^ to develop, business methods, technical knowledge, and marketing concepts including operational processes, trade secrets, commercial ideas, advertising materials, marketing strategies, information on sources of supply, administrative procedures, business forms, distinctive signs, trade dress, architectural design and uniforms, and employee training techniques that, taken together, make up a proprietary system for the operation of restaurants.

2.2. Objectives of Parties

To help achieve our mission of continually exceeding our guests' expectations and achieving their 100% satisfaction through superiority and excellence in product, service, and ambiance, we would like to grant to you and you would like to accept from us a franchise to own and operate a FARMER BOYS® Restaurant, using our trade name, marks, and system, upon the terms and conditions below.

ARTICLE 3. DEFINITIONS

For purposes of this Franchise Agreement, when any of the following words and phrases begins with a capital letter, its meaning is defined in this Article 3:

3.1. Adjusted Gross Revenue

"Adjusted Gross Revenue" means "the total amount of money received by you and your Related Parties for all goods sold and services rendered from the Approved Location or in connection with the Trade Name or Marks, less sales tax, returns, and allowances, within an accounting period."

3.2. Agreement

^ "The Agreement" or "this Agreement" means "this Franchise Agreement."

3.3. Approved Location

"Approved Location" means "a location that we have approved in writing as a site at which you may own and operate a FARMER BOYS® Restaurant."

3.4. CPI

"CPI" means "the Consumer Price Index: All Items/U. S. City Average - All Urban Consumers (1982-1984 = 100), published by the Bureau of Labor Statistics, U. S. Department of Labor, or a comparable index we select if the above-referenced index is no longer published."

3.5. Designated Manager

"Designated Manager" means "you in your role as general manager of a FARMER BOYS® Restaurant or a person whom you have appointed as general manager of a FARMER BOYS® Restaurant and whom we have approved in writing as Designated Manager."

3.6. Farmer Boys

"Farmer Boys" means "Farmer Boys Food, Inc. or any person or company to which Farmer Boys Food, Inc. allocates all or part of its rights and obligations under this Agreement."

3.7. FARMER BOYS® Restaurant

"FARMER BOYS® Restaurant" means "an enterprise that we conduct or ha[^]ve authorized a franchisee to conduct under the Trade Name, Marks, and System at an Approved Location."

3.8. Franchise Network

"Franchise Network" means "the interdependent network composed of Farmer Boys, all FARMER BOYS® franchisees, our Related Parties, and any other people or business entities that we have licensed to use the Trade Name, Marks, System, or any of them."

3.9. Good Standing

"Good Standing" means "your timely compliance and that of your Related Parties with all provisions of this Agreement and the Manual, specifically including provisions for timely payment of money you owe to us or our Related Parties."

3.10. Manual

"Manual" means "the Manual that we will lend you during the term of this Agreement, containing information, forms, and requirements for the establishment and operation of a FARMER BOYS® Restaurant and for use of our Trade Name and Marks."

3.11. Marks

"Marks" means "selected marks licensed to you by us under this Agreement, including the principal mark FARMER BOYS®."

3.12. Proprietary Product

"Proprietary Product" means "any product that has been manufactured in accordance with our specifications or that has been packaged or labeled with the FARMER BOYS® Marks."

3.13. Protected Area

"Protected Area" means "a specified area surrounding an Approved Location within which we agree to refrain from certain competitive activities."

3.14. Related Party

"Related Party" or "Related Parties" means "people and companies affiliated with us or you, as the context indicates, including, but not limited to, owners, general partners, limited partners owning an interest in us or in you, shareholders owning an interest in us or in you, corporations in which we or you have an interest, corporations in which any person or company owning an interest in you also has an interest, or your or our officers, directors, employees or agents."

3.15. Start Date

"Start Date" means "the earlier of _____ or the date when your FARMER BOYS® Restaurant opens." The Start Date may be extended only with our written consent.

3.16. System

"System" means "the business methods, technical knowledge, and marketing concepts licensed by us to you under this Agreement, including the right to use our operational processes, trade secrets, purchasing arrangements, commercial ideas, advertising materials, marketing strategies, information on sources of supply, administrative

procedures, business forms, distinctive signs, trade dress, architectural design and uniforms, and employee training techniques."

3.17. Termination

"Termination" means "expiration of this Agreement; nonrenewal of this Agreement; or termination, under the circumstances described in Article 10 of this Agreement, of the then-current term of this Agreement prior to its normal expiration date."

3.18. Trade Name

"Trade Name" means "the commercial name 'FARMER BOYS®.'"

3.19. Transfer

"Transfer" means "any sale, gift, or other change in ownership of all or any part: (1) of the rights and obligations of this Agreement; (2) of a significant portion of the assets used in operating the FARMER BOYS® Restaurant, including the lease for the premises of the FARMER BOYS® Restaurant or ownership of the land on which the FARMER BOYS® Restaurant is built; or (3) of an ownership interest in you.

3.20. You

"You" means "the person or company that is named as 'you' in Article 1 of this Agreement." "'You' means, in addition, "all people or entities that succeed to your interest by Transfer or operation of law."

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ARTICLE 4. TERRITORIAL RIGHTS

4.1. Grant of Franchise

We grant to you and you accept from us a franchise to operate a FARMER BOYS® Restaurant at an Approved Location within a Protected Area designated in Attachment 1 to this Agreement under the Trade Name, Marks and System according to the terms of this Agreement.

4.2. Protected Area

With the exceptions described below, we agree not to authorize any other franchisee to base a similar or competitive restaurant within the Protected Area, base any company-owned similar or competitive restaurant within the Protected Area, or allow any other franchisee or company-owned similar or competitive restaurant to relocate to a site within the Protected Area. Your Protected Area may overlap someone else's Protected Area.

4.3. Rights Reserved

An exception to the exclusive rights granted to you in the previous Section is that we reserve the right to locate or relocate any company-owned or franchised FARMER BOYS® Restaurant to any major, regional or enclosed mall, theme or amusement park, county or state fair, special event location, mobile unit, kiosk, or institution of higher education within the Protected Area. Also, we reserve the exclusive right to control Internet sales, catering activities, and wholesale sales. Further, we reserve all rights not expressly granted in this Agreement, including the right to sell Proprietary Products through any means of distribution not specifically prohibited by another provision of this Agreement.

4.4. Relocation

You may relocate the FARMER BOYS® Restaurant within the Protected Area only with our prior written consent, which will be granted [^]if the following conditions are fulfilled and which will not be unreasonably withheld or delayed:

- (a) You and your Related Parties are in Good Standing under the Franchise Agreement, any other Agreement between us or our Related Party and you, and the Manual;
- (b) You and any Related Parties that have signed the original Franchise Agreement have signed a copy of the Franchise Agreement that is currently effective at the time of relocation;
- (c) You agree to plan, construct, equip, and furnish your new FARMER BOYS® Restaurant so that the premises meet the standards of appearance and function applicable to the premises of new FARMER BOYS® Restaurants at the time of relocation;
- (d) You and any Related Parties that are parties to the Franchise Agreement have signed a release of claims in a form satisfactory to us with respect to past dealings with us and our Related Parties concerning the franchise and franchised business;
- (e) Farmer Boys Food, Inc. has given its prior written approval to the new site and the provisions of the lease for the new premises; and
- (f) The new site is not within another franchisee's Protected Area.

4.5. Term and Renewal

4.5.1. Initial Term

The initial term of the franchise will begin on the Start Date and will continue for a period of twenty (20) years.

4.5.2. Renewal

You will have the right to renew the franchise twice for additional ten- (10-) year terms on the same terms and conditions as those on which we are customarily granting new franchises at the times of renewal if at the times of renewal the following conditions have been fulfilled:

- (a) You and your Related Parties are in Good Standing under this Agreement, any other Agreement between us or our Affiliate and you, and the Manual;
- (b) You have notified us in writing at least one hundred twenty (120) days before the expiration date of this Agreement of your wish to renew;
- (c) You and any Related Parties that have signed this Agreement have signed a copy of the new Franchise Agreement not less than thirty (30) days before the expiration of this Agreement or thirty (30) days after you receive the new Franchise Agreement from us, whichever is later;
- (d) You have agreed that you will, before the renewal term begins, at your own expense, remodel, modernize and redecorate the FARMER BOYS® Restaurant premises and replace and modernize the fixtures, equipment, and signs used in the FARMER BOYS® Restaurant so that the premises of the FARMER BOYS® Restaurant meet the standards of appearance and function applicable to the premises of new FARMER BOYS® Restaurants at the time of renewal;
- (e) You have renewed or have the right to renew the lease for the Approved Location; and
- (f) You and any Related Parties that are parties to this Agreement have signed a release of claims in a form satisfactory to us with respect to past dealings with us and our Related Parties concerning the franchise and franchised business.

The provisions of the standard franchise agreement in use by us at the times of renewal may be materially different from this Agreement's provisions. Changed provisions may include but are not limited to increased royalties and marketing fund contributions.

ARTICLE 5. SERVICES TO FRANCHISEE

We agree to perform the following services for you at locations selected by us provided that you are, at the time when service is to be rendered, in Good Standing under this Agreement, every other agreement(s) with us or our Related Party(ies), and the Manual:

5.1. Construction and Layout

We will assist you in selecting a contractor and advise you on obtaining permits and licenses for construction of the premises of your franchised business. We will give you prototype or sample plans and specifications, or plans and specifications for one or more existing company restaurants or FARMER BOYS® businesses to guide you in constructing tenant improvements to, furnishing, and equipping your FARMER BOYS® Restaurant. You must, at your own expense, tailor the plans and specifications provided by us for your individual use and then submit the customized plans and specifications to us for written approval, which may not be unreasonably withheld. If you use our suggested architect, your plans will be considered approved.

5.2. Training

5.2.1. Initial Training

For your first Restaurant, we will conduct an initial training program in the operation of the FARMER BOYS® Restaurant under the FARMER BOYS® System for as many as two (2) members of your management who must attend at the same time. You must attend and successfully complete the training program to our satisfaction.

5.2.2. Continuing Education

We may offer continuing education programs on matters related to the operation or promotion of the FARMER BOYS® Restaurant on an optional or mandatory basis, as we consider appropriate.

5.3. Operational Assistance

For your first Restaurant, at no additional charge, we will place an experienced manager in your restaurant for approximately a month at opening. The manager will further train you and your employees and help you with the operational and administrative issues confronting you as a new business owner.

5.4. Consultation

We, for no additional charge, will use our best efforts to make our personnel available to you for consultation throughout the term of the franchise in a timely manner. We will provide you with information on hiring and training employees, suggest suitable prices, and advise you of improvements and developments in the fast casual restaurant business. In addition, we may undertake research and development related to Restaurant operation.

5.5. Manual

We will lend you or make available to you on the FARMER BOYS® intranet a Manual containing explicit instructions for use of the Marks, specifications for goods that will be used in or sold by the Restaurant, sample business forms, information on marketing, management, and administrative methods developed by us for use in the Restaurant,

names of approved suppliers, and other information that we believe may be necessary or helpful to you in your operation of the Restaurant. We will revise the manual periodically to conform to the changing needs of the Franchise Network and will distribute updated pages containing these revisions to you, or, if the Manual has been placed on the FARMER BOYS® intranet, will post revised pages there. Any paper copy of the Manual must be kept in a secure place in the Restaurant.

5.6. Marketing

5.6.1. Marketing Fund

We will administer the marketing fund, which will be accounted for separately on the general ledger. The purpose of the Fund is to pool marketing money of ours and each of our franchisees so as to achieve greater benefits for all in promoting the Trade Name and Marks. The Fund may be used to pay for market research, marketing materials, media space and time for a national or regional advertising program, or any combination of them. The Fund may also be used for marketing grants to franchisees, collectively on a regional basis or individually on a local basis. In addition, the Fund may be used to pay for point-of-purchase materials or public relations projects. Up to twenty percent (20%) of Fund money may be used to compensate us for overhead and other expenses incurred in connection with our administration of the Fund. We will distribute to our franchisees, once a year, a marketing fund report which will set out the total amounts of money collected and spent by the Fund during the past year and list, by general category, the manner in which the money was spent.

5.6.2. Allocation of Expenditures

We will give preference to marketing fund projects that are national or regional in scope, but may make allocations of marketing fund money to individual franchisees when we consider it desirable. Because the benefits of marketing and promotion are difficult to measure, subject to the provisions of section 5.6.1, we reserve the unqualified right to determine, in our sole discretion, how marketing fund money may be spent.

5.6.3. Repayment of Advances

We have the right to loan money to the marketing fund, without interest, and to repay ourselves from the Fund during the same or a subsequent fiscal year.

5.7. Approved Suppliers

We will give you, in the Manual or otherwise in writing, a list of names and addresses of approved suppliers of specified goods and services that you will use or sell in your FARMER BOYS® Restaurant. **In approving a particular supplier, we expressly disclaim any warranties or representations as to the condition of the goods or services sold by the suppliers, including, without limitation, express or implied warranties of merchantability or fitness for any intended purpose.** You agree to look

solely to the manufacturer of goods or the supplier of services for the remedy for any defect in the goods or services.

5.8. Proprietary Products Availability

We will use our best efforts to ensure that a designated supplier will at all times have a supply of Proprietary Products for sale to you.

ARTICLE 6. PAYMENTS BY FRANCHISEE

6.1. Initial Franchise Fee

When you sign this Agreement, you will pay us in cash or other form of payment that is immediately accessible to us, such as cashier's check or wire transfer, an initial franchise fee of (\$_____).

6.2. Royalties

On Wednesday of each week during the term of this Agreement (or on any other day of the week designated in writing by us), you will pay us a weekly royalty of five percent (5%) of Adjusted Gross Revenue of the FARMER BOYS® Restaurant during the immediately preceding week. You must submit a statement of Adjusted Gross Revenue on a form ^we designate in advance of each royalty payment, at the time and in the manner specified in the Manual.

6.3. Marketing Fund Contributions

On Wednesday of each week (or on any other day of the week designated in writing by us) during the term of this Agreement, you will pay the marketing fund a weekly contribution of three percent (3%) of the Adjusted Gross Revenue of the FARMER BOYS® Restaurant during the immediately preceding week.

6.4. Payment of Royalties and Marketing Fund Contributions

Your obligation to pay ongoing weekly royalties and weekly marketing fund contributions begins on the Start Date of this Agreement, as defined in Article 3 of this Agreement.

6.5. Audit

We will have the right during normal working hours to audit your books and records, including your tax returns, with respect to the FARMER BOYS® Restaurant. The auditor may be an employee of ours or an independent contractor and need not be an accountant. If an audit discloses an underpayment of royalties or marketing fund contributions payable under this Agreement, you will immediately pay these amounts to us together with accrued interest on the amount underpaid in accordance with Section 6.11

of this Agreement. In addition, if the underpayment exceeds three percent (3%) of the total royalty or marketing fund contribution payable for any period covered under the audit, you must reimburse us for all expenses actually incurred by us in connection with the audit.

6.6. Training Fees and Costs

If this is your first Restaurant, we will not charge a fee for the initial training program for up to two (2) people if both people attend the training program at the same time. However, for the managers of additional Restaurants or if a replacement Designated Manager is employed, we may charge a training fee for his or her training of up to three hundred fifty dollars (\$350) a day. We may also charge a training fee for continuing education programs of up to three hundred fifty dollars (\$350) a day. For all training offered by us, you will pay any costs of travel, lodging, meals, and other incidental expenses incurred by you or your employees and your employees' wages.

6.7. Consulting Costs

As described in Section 5.4 of this Agreement, we will, at no additional charge to you, use our best efforts to make our personnel available to you for consultation in a timely manner if you request such assistance. You will promptly reimburse us for all incidental expenses incurred by us in rendering consulting services, including, but not limited to, the cost of business class transportation, lodging, meals, and telephone, fax, and courier charges.

6.8. Loan of Employees

At your request and at our option, we may temporarily lend you trained employees to enable you to meet System standards at opening or at other times when you are temporarily understaffed. If this occurs, you must reimburse us promptly upon invoice for the employee's wages or salary while working in your Restaurant, payroll taxes in connection with this pay, the employee's travel expenses and a charge of three dollars (\$3) an hour, which is paid to the employee.

6.9. Transfer Fee

As a condition of Transfer of this franchise, you must pay, before Transfer may take place, a Transfer fee of ^twenty thousand dollars (^\$20,000) of the currently effective initial franchise fee or, if the transferee is an existing franchisee, of five thousand dollars (\$5,000).

6.10. Annual Meeting Fee

Before attending the Annual Meeting, you must pay us a registration fee if we assess one. The fee will not exceed five hundred dollars (\$500) a day.^

6.11. Interest on Late Payments

Any payment not received by us when due will bear interest at eighteen percent (18%) per year or at the highest rate allowed by applicable law on the date when payment is due, whichever is less. Interest charges on late payments are intended to partially compensate us for loss of use of the funds and for internal administrative costs resulting from late payment which would otherwise be difficult to measure with precision. The fact that such charges are imposed should not be construed as a waiver of our right to timely payment.

ARTICLE 7. OBLIGATIONS OF FRANCHISEE

7.1. Use of Trade Name and Marks

7.1.1.Context

You may use the Trade Name and Marks only in the operation of a FARMER BOYS® Restaurant at an Approved Location. You may not use any other trade name or marks in connection with a FARMER BOYS® Restaurant.

7.1.2.Changes in Trade Name and Marks

We have invested a great deal of time, energy, and money in the promotion and protection of our Trade Name and other Marks. We do not intend to change them. However, rights in intangible property such as the Trade Name and Marks are often difficult to establish and defend and changes in the cultural and economic environment within which the System operates or third party challenges to our rights in the Marks may make it desirable or necessary to change the Trade Name and Marks. We therefore have the right to change our Trade Name and Marks and the specifications for each when we believe that the changes will benefit the Franchise Network. You must promptly conform, at your own expense, to any such changes.

7.2. Advertising Materials

You agree to submit to us copies of all advertising materials that you propose to use at least two (2) weeks before the proof deadline. We will review the materials within a reasonable time and will promptly notify you whether we approve or reject them. We may not withhold our approval unreasonably. For purposes of this paragraph, advertising materials that differ from previously approved materials only in such variables as date or price will be considered to be previously approved. Even if we have approved specified materials, we may later withdraw our approval if we reasonably believe it necessary to make the advertising conform to changes in the System or to correct unacceptable features of the advertising, including any misrepresentation in the advertising material.

7.3. Legal Protection

You agree to notify us immediately in writing if you become aware of any unauthorized use of our Trade Name, Marks, or System. You will promptly notify us in writing of any claim, demand, or suit against you or against your principals in connection with your use of the Trade Name, Marks, or System. In any action or proceeding arising from or in connection with any such claim, demand, or suit, you agree that we may select legal counsel and have the right to control the proceedings.

7.4. Quality Assurance

7.4.1. Training

For your first Restaurant, you and your Designated Manager or your Designated Manager and another management employee must faithfully attend all phases of the initial training program and complete it to our satisfaction, as certified by us in writing. Failure to successfully complete any aspect of the training program, as determined by us in our sole discretion, constitutes grounds for immediate termination of franchise, but we have the right to offer you one or more remedial courses of action, such as additional training or employment of supplemental personnel, if we believe the alternative or alternatives may make termination of the franchise unnecessary. If you do not accept the alternative course of action within the time allowed by us, we may declare the franchise terminated, effective immediately.

When we consider it necessary, we may require you to attend and complete, to our reasonable satisfaction, ongoing or supplemental training sessions. Failure to conform to any requirement of this nature is a material breach of this Agreement and could lead to your Termination.

7.4.2. Decoration and Furnishing

You must furnish and decorate the Restaurant according to our specifications and submit your plans and furnishings to us for our prior written approval. If you employ an approved interior designer, your decoration and furnishings will be considered approved. Once every five years, beginning on the date you first open for business, you, or your successor in interest must make a minimum remodeling expenditure of forty-one thousand five hundred dollars (\$4^{1,500}), as adjusted annually by the CPI, to completely remodel the exterior and interior of your Restaurant according to our current standards.

7.4.3. Opening

You may not open the FARMER BOYS® Restaurant to the public until we certify in writing that, in the view of our management, you and your employees are prepared to do so. **By certifying that our management believes the FARMER BOYS® Restaurant is prepared to open, we do not warrant that the FARMER BOYS® Restaurant will be successful.** Success is dependent on a number of factors, including your skill, your efforts, and general economic conditions, that are not within our control.

7.4.4. Compliance with Manual

You must operate the FARMER BOYS® Restaurant in total compliance with the standards and specifications stated in the Manual. We may make changes in these standards and specifications, when, in our reasonable discretion, change is needed for the continued success and development of the Franchise Network. Such changes may necessitate the purchase of equipment, supplies, furnishings or other goods, completion of additional training by your employees, changing or increasing your restaurant's hours of operation, or other cost to you. You must promptly conform to the modified standards and specifications at your own expense. If you have a paper copy of the Manual, you must at all times keep your copy current by inserting in it revised pages given to you by us and deleting superseded pages. If there is any dispute as to the requirements of the Manual at any point in time, the terms of the master copy of the Manual maintained by us will control.

7.4.5. Products and Services Offered

You must offer and sell all the products and services and only the products and services that we have authorized you to provide. If you would like to use or sell any product which is sold by a supplier not previously designated or approved by us, you must advise us of this fact and, upon our request, give us product specifications, sample products, and/or information about the supplier. We will promptly communicate to you either our approval or our reasons for withholding our approval. Silence may not be construed as consent. As a condition of approving a supplier, we will require you to reimburse us for any expenses reasonably incurred by us in inspecting the supplier's premises, checking the supplier's credentials, or testing the product. As a condition of approving a supplier of any product that bears the Trade Name or Marks, we may require that the supplier sign our License Agreement. We may withdraw our approval of a supplier if the supplier no longer meets our standards.

7.4.6. Customer Comments

If we institute a customer response card program, you must distribute the cards in the form prescribed by us for return by your customers to us. If your scores from the customer response cards do not meet our currently effective standards, as described in the Manual, or if other types of customer communications suggest that your performance is deficient, we may suggest ways in which you can improve. If you do not take immediate, effective steps to bring your operation up to System standards, your failure to do so will constitute a material breach of this Agreement.

7.4.7. Inspections

Farmer Boys will conduct periodic quality assurance inspections of the FARMER BOYS® Restaurant during normal business hours. Quality assurance inspections may be made with or without prior notice. You must promptly correct any deficiencies in your operation of which you are advised by us. If you do not take immediate, effective steps to

bring your operation up to our standards, your failure to do so will constitute a material breach of this Agreement.

7.4.8. Proprietary Products

The Proprietary Products used in the FARMER BOYS® Restaurant are unique and their formula and manufacturing process are trade secrets that are important to the success of the System. The Proprietary Products must be used as prescribed. You may purchase the Proprietary Products only from us or our designated supplier. Use or sale of any substitute for the Proprietary Products is a material breach of this Agreement and will result in immediate Termination of your franchise.

7.4.9. Notification of Complaints

You must notify us promptly if you are served with a complaint in any legal or administrative proceeding that is in any way related to the FARMER BOYS® Restaurant or if you become aware that you are the subject of any complaint to or investigation by a governmental licensing authority or consumer protection agency.

7.5. Personnel

7.5.1. Management

Your Designated Manager must devote all his or her productive time and effort to the management and operation of the FARMER BOYS® Restaurant. If we determine that a Designated Manager is not properly performing his or her duties, we will advise you and you must immediately take steps to correct the situation. Failure to comply with this provision is a material breach of this Agreement. You must keep us informed as to the identity of your Designated Manager(s).

7.5.2. Employees

You must maintain at all times a staff of properly trained employees, including management employees, that is large enough to operate the FARMER BOYS® Restaurant in compliance with our standards.

7.6. Advertising

7.6.1. Grand Opening

You must spend at least two thousand five hundred dollars (\$2,500), in addition to your ongoing local advertising obligation, on a grand opening advertising program conducted in accordance with the general guidelines in the Manual for an initial advertising program.

7.6.2. Local Advertising

You must spend at least one percent (1%) of your Adjusted Gross Revenue per year on local advertising and promotion in a manner that conforms with the Manual. For purposes of this paragraph, "local advertising" means advertising that is primarily directed

to people or companies within the Protected Area, if you have a single restaurant franchise, or the Territory, if you have an Area Development Agreement. It includes the expense of preparing, publishing, or broadcasting approved advertising materials as well as the cost of employing public relations professionals to promote your business. Markdowns and discounts will not be counted toward your local advertising obligation. You must submit, on a monthly basis, copies of invoices for advertising materials and/or media space and time showing compliance with the provisions of this paragraph during the immediately preceding month. Advertising expenditures in excess of the required minimum in any quarter may be used to offset shortfalls in any later month, as long as the total advertising expenditures for the calendar year, on a cumulative basis, equal or exceed the stated minimum. Fifty percent (50%) of money you pay into a cooperative advertising account maintained by a regional advertising cooperative, as described below, may be credited against the local advertising spending requirement, in a maximum amount equal to one-half percent (.5%) of Adjusted Gross Revenue.

7.7. Signs

You must permanently display, at your own expense, at your business premises, FARMER BOYS® signs of any nature, form, color, number, location and size, and containing any legends that we have designated in writing. These may include signs or notices concerning the availability of franchises.

7.8. Financial Information

7.8.1.Records

You must record all sales and all receipts of revenue on individual machine serial-numbered receipts. Cash registers must validate the receipts that are presented at the time of sale to your customers. You must retain daily sales reporting forms and accompanying cash register tapes for at least three (3) years after the dates of sale. If your cash register must be repaired, you must use a replacement cash register while it is absent.

7.8.2.Reports

In addition to weekly sales reports required under § 6.2 of this Agreement, you must submit to us, on or before the last day of each month or at another time specified in the Manual, financial reports on the income and expenses and assets and liabilities of the FARMER BOYS® Restaurant in the format specified in the Manual. Annual financial statements (financial reports on the income and expenses and assets and liabilities of the FARMER BOYS® Restaurant) will be due on or before January 31 of each year. We will require you to purchase or lease computer and/or communications equipment and software that meet specifications stated in the Manual to facilitate the creation of standardized financial records and their electronic conveyance to us and to enable you to participate in the FARMER BOYS® intranet. We will also require you to give us access to your cash register or computer by modem at your own expense for purposes of data collection. You

must also submit to us, at the time of filing, copies of all federal, state, and local income, sales, and property tax returns. We may use this data to confirm that you are complying with your obligations under this Agreement and to formulate earnings and expense information to disclose to prospective franchisees as well as to advise you on restaurant operations.

7.9. Insurance

You must purchase and maintain a policy or policies of comprehensive public liability insurance, including products liability coverage, covering all FARMER BOYS® Restaurant assets, personnel, and activities on an occurrence basis with a combined single limit for bodily injury, death, or property damage of not less than two million dollars (\$2,000,000). We may increase the minimum coverage requirement annually if necessary to reflect inflation or other changes in circumstances. You must also carry (1) casualty insurance in a minimum amount equal to the replacement value of your interest in the FARMER BOYS® Restaurant premises, including furniture, fixtures, and equipment; and (2) business interruption insurance in an amount sufficient to cover the rent of the FARMER BOYS® Restaurant premises, salary, or wages of key personnel, and other fixed expenses. In addition, you must maintain policies of workers' compensation insurance, disability insurance, and any other types of insurance required by applicable law. Each insurance policy that is required under this Agreement must contain a provision that the policy cannot be canceled without ten (10) days' written notice to us. It must be issued by an insurance company that is admitted in the State where you do business and that is rated B+ or better in Best's Key Rating, designate us as an additional named insured and be satisfactory to us in form, substance, and coverage. You must deliver a certificate of the issuing insurance company evidencing each policy to us within ten (10) days after the policy is issued or renewed.

7.10. Financial and Legal Responsibility

7.10.1. Compliance with Law

You must comply with all federal, state, and local laws and regulations pertaining, directly or indirectly, to the FARMER BOYS® Restaurant. You must keep current all licenses, permits, bonds, and deposits made to or required by any government agency in connection with the operation of the FARMER BOYS® Restaurant.

7.10.2. Payment of Indebtedness

You must pay promptly when due all taxes and debts that you incur in the conduct of your business.

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ARTICLE 8. RELATIONSHIP OF PARTIES

8.1. Interest in Marks and System

You may not at any time do or cause to be done anything contesting or impairing our interest in our Trade Name, Marks, or System. You acquire no rights in any of these things except for your right to use them in accordance with the express terms of this Agreement. We retain the right to grant other franchises or licenses to use the Trade Name, Marks, and System on any terms that we would like, subject only to your limited territorial rights described in Article 4 of this Agreement, and any rights conveyed by your Area Development Agreement, if you are a party to one.

8.2. Independent Status

You are an independent legal company and must make this fact clear in your dealings with suppliers, lessors, government agencies, employees, customers, and others. You must rely on your own knowledge and judgment in making business decisions, subject only to the requirements of this Agreement and the Manual. You may not expressly or implicitly hold yourself out as an employee, partner, member, shareholder, joint venturer, or representative of ours, nor may you expressly or implicitly state or suggest that you have the right or power to bind us or to incur any liability on our behalf. You may not use the FARMER BOYS® Trade Name as part of your legal name.

8.3. Display of Statement

You must conspicuously display a sign that states that "THIS IS AN INDEPENDENTLY OWNED AND OPERATED FRANCHISED BUSINESS" at the Approved Location. Business cards, stationery, purchase order forms, invoices, leases, tax returns, and other documents you use in your business dealings with suppliers, lessors, government agencies, employees, and customers must clearly identify you as an independent legal entity operating under a FARMER BOYS® franchise.

8.4. Confidentiality

The information, ideas, forms, marketing plans, and other materials disclosed to you under this Agreement, whether or not included in the Manual, are confidential and proprietary information and trade secrets of ours. You agree to maintain the confidentiality of all such material. You may not disclose any such information to any third party, except to your employees and agents as necessary in the regular conduct of the FARMER BOYS® Restaurant and except as authorized in writing by us. You will be responsible for requiring compliance of your Related Parties with the provisions of this section. Each of your Related Parties must sign a written nondisclosure agreement, in the form of Attachment 3 to this Agreement, when you sign this Agreement. You must obtain a nondisclosure agreement from each new Related Party with which you become affiliated

during the term of this Agreement and promptly send a copy of the nondisclosure agreement to us.

8.5. Mutual Indemnification

You will indemnify and hold us harmless from all expenses and liabilities of any kind arising from or in any way connected to any activity of yours. If we are made a party to a legal proceeding in connection with your act or omission, we may hire counsel to protect our interests and bill you for all costs and expenses incurred by us. You must promptly reimburse us.

We will indemnify and hold you harmless from all expenses and liabilities of any kind arising from or in any way connected to any third party claim that your operation of a FARMER BOYS® Restaurant infringes our intellectual property rights or misappropriates our trade secrets. If you are made a party to a legal proceeding in connection with a claim of this type, we will hire counsel to protect our interests and will defend you at our own expense. You will be bound by any settlement negotiated by us, but we will reimburse you for your direct cost of compliance with the settlement agreement.

8.6. Covenant Not to Compete

You may not, during the term of this Agreement and for one (1) year after its Termination, operate or own more than a ten percent (10%) beneficial interest in ^food service establishment that ^specializes in hamburgers, sandwiches or breakfast and that is located within a three- (3-) mile radius of any FARMER BOYS® Restaurant. You agree to obtain the individual written agreement of each of your Related Parties to the provisions of this section in the form of Attachment 3 to this Agreement.

8.7. Non-Solicitation

During the term of this Agreement and for one (1) year after its Termination, you may not disrupt, damage, impair, or interfere with the our business or any of our other franchisees by directly or indirectly soliciting their employees to work for you or for any individual or company then in competition with the FARMER BOYS® Network.^

ARTICLE 9. TRANSFER OF FRANCHISE

9.1. Purpose of Conditions for Approval of Transfer

Our grant of this franchise is made in reliance on your integrity, ability, experience, and financial resources. Neither the franchise nor the FARMER BOYS® Restaurant operated under it may be Transferred unless you have first obtained our written consent, which may not be unreasonably withheld or delayed. To ensure that no Transfer jeopardizes the Trade Name, the Marks, or our interest in the successful operation of the FARMER BOYS® Restaurant, ^we will consent to a Transfer only if you comply with the

provisions of Sections 9.2 and 9.3 of this Agreement. If you would like to transfer this franchise, you must notify us in writing before listing your Restaurant or the land that it stands on for sale. Upon finding a prospective buyer you must submit to us: (a) the form of franchise purchase application currently in use by us, completed by the prospective transferee; (b) a written notice, describing all the terms and conditions of the proposed Transfer; and (c) the Transfer fee described in Article 6 of this Agreement. If the Transfer is not approved by us, we will return the Transfer fee to you after deducting direct costs incurred in connection with the proposed Transfer.

9.2. Consent by Farmer Boys; Right of First Refusal

We must respond in writing to your written notice within fifteen (15) days after receiving it, or, if we request additional information, within the later date of fifteen (15) days after receipt of the additional information or the final day of the original fifteen- (15-) day period. We may either consent to the Transfer, state in writing our reason for refusing to consent, or purchase the FARMER BOYS® Restaurant from you ourselves on the same terms and conditions as those offered by the third party. Silence may not be construed as consent. If we consent to the Transfer, then you may Transfer the interest described in the notice only to the named transferee and only on the terms and conditions stated in the notice. Consent by us to a particular Transfer will not constitute consent to any other or subsequent Transfer.

9.3. Conditions for Consent to Transfer

Our consent is subject to certain conditions, including but not limited to:

- (a) Satisfaction of our determination, based on the information that you submit and any other information available, that the proposed transferee meets all of the criteria of character, business experience, financial responsibility, net worth, and other standards that we customarily apply to new franchisees at the time of Transfer;
- (b) Payment of all your outstanding debts to us and our Related Parties;
- (c) Cure of all defaults under the Franchise Agreement, any other agreement(s) between us or our Related Party and you or your Related Party, and the Manual;
- (d) Before the Transfer is completed, you repair or replace damaged or nonfunctional fixtures, equipment, furniture, and signs used in the Restaurant so that they meet the standards of appearance and function applicable to Restaurant premises at the time of Transfer;
- (e) [^]Signing by the transferee of the then-current form of franchise agreement[^] and signing by the transferee's Related Parties of required ancillary agreements in the forms attached to the applicable franchise agreement.
- (f) Your payment of the Transfer fee described in Article 6 of this Agreement;

- (g) Completion by the transferee of our initial training program to our satisfaction;
- (h) Signing by you and your Related Parties of a release of claims with us and our Affiliates in the form prescribed by us;
- (i) Our determination, based on our review of the proposed purchase agreement or notice, that the agreement and any financing of the sale will give the buyer a reasonable chance to succeed as a FARMER BOYS® franchisee; and
- (j) Your opening an escrow for the franchise Transfer to ensure compliance with the bulk sales laws and fulfillment of the conditions for Transfer listed above.

9.4. Changes of Ownership Not Considered To Be Transfers

As used in this Agreement, the word "Transfer" does not mean an assignment to:

- (a) Any Trustee, Guardian, Executor, or Conservator for the account and benefit of a spouse, ancestor, or decedent;
- (b) Any business company if the beneficial ownership of the business company immediately following the assignment is the same and in the same proportions as the beneficial ownership immediately before the assignment. However, no assignment of this type will relieve the original party of any of its obligations under this Agreement. Information on the identity of the shareholders and officers of the corporation, the percentage of ownership, and the address where corporate records are maintained must be submitted promptly to us; or
- (c) Any of your employees under any employee stock option plan or stock purchase plan, as long as any share certificate distributed in connection with a plan of this type is marked with a legend describing the restrictions and conditions of Transfer required by this Agreement.

9.5. Change of Ownership Upon Death or Total Disability

If you die or become totally disabled while this Agreement is in effect, your heirs or beneficiaries will have sixty (60) days within which to demonstrate to our satisfaction that they meet all of the criteria of character, business experience, financial responsibility, net worth, and other standards that we require of new franchisees at that time. If we approve your heirs or beneficiaries as transferees of the franchise, we will waive any Transfer fee in connection with the Transfer. If we advise your heirs or beneficiaries in writing that we do not approve them as transferees of the franchise, or if we fail to approve or disapprove the Transfer within sixty (60) days following your death, your heirs or beneficiaries may have one hundred twenty (120) additional days from the date of disapproval of the Transfer or the end of the sixty- (60-) day period, whichever is first, within which to find and notify us of a proposed Transfer to a qualified transferee in compliance with the provisions of this article. If your heirs or beneficiaries do not advise us of a qualified transferee within the specified period, the franchise will automatically terminate at the end of the period unless a written extension of time has been granted by us.

9.6. Assignment by Farmer Boys

We may assign our interest in this Agreement or any rights or obligations created by it at any time without your consent upon the following conditions: (a) We reasonably believe that the assignee is capable of performing our obligations under this Agreement and (b) the assignee expressly agrees in writing to assume our obligations under this Agreement.

ARTICLE 10. TERMINATION OF FRANCHISE

10.1. Termination by Consent of the Parties

This Agreement may be terminated upon the mutual written consent of the parties.

10.2. Termination by Farmer Boys

10.2.1. Notice of Default

This Agreement will terminate thirty (30) days after written notice of default is given to you if any of the defaults described in subsections (a) through (c) below has not been cured. This Agreement will terminate five (5) days after written notice is given to you if the default described in subsection (d) below has not been cured. This Agreement will terminate immediately upon written notice to you if any of the defaults described in subsections (e) through (o) below occurs.

10.2.2. Acts of Default

Upon the occurrence of any of the following defaults, we at our option, may terminate this Agreement:

- (a) If you do not submit to us in a timely manner any information or report you are required to submit under this Agreement;
- (b) If you do not begin operation of a FARMER BOYS® Restaurant by the Start Date of this Agreement, or if you operate your FARMER BOYS® Restaurant in a manner that does not conform to this Agreement and the Manual, or if you fail to operate your Restaurant on all days on which and at all times at which we require you to operate, as specified in the Manual;
- (c) If you (1) default in the performance of any material obligation under this Agreement not otherwise described in this list of defaults or if you are notified in writing of your default under any other agreement with us or our Related Party and (2) fail to cure it within any applicable cure period;

- (d) If you fail to make any payment when due under this Agreement or any other agreement between you or your Related Party and us or our Affiliate;
- (e) If you fail to successfully complete the initial training program and we conclude, in our sole discretion, that you are unable or unwilling to do so; or you fail to earnestly pursue the experience requirement in a competent and professional manner before your Restaurant opens,
- (f) If you misuse the Marks or the System or engage in conduct which reflects materially and unfavorably on the goodwill associated with them or if you use in a FARMER BOYS® Restaurant any names, marks, systems, logotypes, or symbols that we have not authorized you to use;
- (g) If you or any of your Related Parties has any direct or indirect interest in the ownership or operation of any business that is confusingly similar to a FARMER BOYS® Restaurant or that uses the System or the Marks without authorization from us, or if you fail to give us a signed copy of the Nondisclosure and Noncompetition Agreement for each of your Related Parties within ten (10) days after we requests it;
- (h) If you or your Related Party attempts to assign your rights under this Agreement or to transfer the FARMER BOYS® Restaurant in any manner not authorized by this Agreement;
- (i) If you or your Related Party has made any material misrepresentation in connection with the acquisition of a FARMER BOYS® Restaurant or to induce us to enter into this Agreement;
- (j) If you act without our prior written approval or consent in regard to a matter for which our prior written approval or consent is expressly required by this Agreement;
- (k) If you stop operating the FARMER BOYS® Restaurant under circumstances that lead to the conclusion that you do not intend to resume operation;
- (l) If your Health Department inspection grade is less than an "A" three times in any twelve- (12-) month period, or less than a "B" twice in any twelve- (12-) month period or if we make a reasonable determination that the continued operation of the FARMER BOYS® Restaurant will pose a threat to public health or safety;
- (^m) If we give you written notice of any default and we have twice previously given you written notice of the same type of default within the preceding twelve (12) months, whether or not you cure the default;^
- (^n) Except as otherwise required by the United States Bankruptcy Code, if you become insolvent, are adjudicated a bankrupt, or file or have filed against you a petition in bankruptcy, reorganization, or similar proceeding; or

- (o) If you are convicted of a felony or any criminal misconduct which is relevant to the operation of the FARMER BOYS® Restaurant. ^

10.3. Rights and Obligations After Termination

Upon termination of this Agreement for any reason, the parties will have the following rights and obligations:

- (a) We may discontinue performance of our obligations under this Agreement;
- (b) You must give us a final accounting for the FARMER BOYS® Restaurant, pay us within thirty (30) days after Termination all payments due to us, and return the Manual and any other property belonging to us.
- (c) You must immediately and permanently stop using the Marks or any confusingly similar marks, the System, or any advertising, signs, stationery, or forms that bear identifying marks or colors that might give others the impression that you are operating a FARMER BOYS® Restaurant;
- (d) You must promptly sign any documents and take any steps that in our judgment are necessary to delete your listings from classified telephone directories, disconnect or, at our option, assign to us any telephone numbers that have been used in the FARMER BOYS® Restaurant, and terminate all other references that indicate you are or ever were affiliated with us. By signing this Agreement, you irrevocably appoint us your attorney-in-fact to take the actions described in this paragraph if you do not do so yourself within seven (7) days after this Agreement is terminated.
- (e) You must maintain all records required by us under this Agreement for a period of not less than three (3) years after final payment of any money you owe to us when this Agreement is terminated.
- (f) We have an option to purchase any and all of your personal property used in or by the FARMER BOYS® Restaurant, including its equipment, supplies and inventory, during a period of sixty (60) days following the effective date of Termination, valued as follows:
 - (i) The lower of cost or fair market value of the supplies and inventory; and
 - (ii) Depreciated value of other tangible personal property calculated on the straight-line method over a five- (5-) year life, less any liens or encumbrances.

We must send written notice to you within thirty (30) days after Termination of this Agreement if we elect to exercise the option to purchase. If the parties do not agree on a price within the option period, the option period may be extended for up to fifteen (15) business days to permit appraisal by an independent appraiser who is mutually satisfactory to the parties. If the parties fail to agree on an

appraiser within the specified period, each must appoint an appraiser and the two appraisers thus appointed must agree on a third appraiser within ninety (90) days after Termination who must determine the price for the physical assets of the FARMER BOYS® Restaurant in accordance with the standards specified above. This determination will be final and binding on both us and you.

(g) We have an option to replace you as lessee under any equipment lease for equipment that is used in connection with the FARMER BOYS® Restaurant. Upon request by us, you must give us copies of the leases for any equipment used in the FARMER BOYS® Restaurant. Upon request by us, you must allow us the opportunity, at a mutually satisfactory time, to inspect the leased equipment. To exercise the option, we must request the information and access described in this paragraph within fifteen (15) days after Termination[^]. We must advise you of our wish to exercise the option within fifteen (15) days after we have received the information and/or inspected the equipment. We may assume any equipment lease in return for our assumption of future obligations under the lease. Upon our exercise of this option[^], you will be fully released and discharged from future rents and other future liabilities under the lease if the terms of the lease permit it, but not from any debts to the lessor that already exist on the date when the option is exercised.

(h) We have an option to replace you as lessee or owner of the premises of the FARMER BOYS® Restaurant. If you rent the premises of the FARMER BOYS® Restaurant, we may assume the lease in return for our assumption of future obligations under the lease. Upon exercise of this option by us, you will be fully released and discharged from future rents and other future liabilities under the lease if the terms of the lease permit it, but not from any debts to the lessor that already exist on the date when the option is exercised.

If you own the premises of the FARMER BOYS® Restaurant, we may purchase the premises from you in return for the fair market value of the property. We must send written notice to you within thirty (30) days after Termination of this Agreement of our election to exercise the option to purchase and must be prepared to close the transaction within sixty (60) days after the fair market value has been determined. If we and you fail to agree on the fair market value of the property within the option period, each must appoint an appraiser and the two appraisers thus appointed must agree on a third appraiser within ninety (90) days after we have given notice of our election to purchase. The appraisers, or a majority of them, must determine the fair market value of the premises of the FARMER BOYS® Restaurant. This determination will be final and binding on both us and you.

If the franchise granted in this Agreement is terminated because of your default, our rights described above may not necessarily be our exclusive remedies, but will instead supplement any other equitable or legal remedies available to us. If this Agreement is

terminated because of your material default, nothing in this section may be construed to deprive us of the right to recover damages as compensation for lost profits. Termination of this Agreement will not end any obligation of either party that has come into existence before Termination. All obligations of the parties which by their terms or by reasonable implication are to be performed in whole or in part after Termination will survive Termination.

ARTICLE 11. MISCELLANEOUS PROVISIONS

11.1. Construction of Contract

Section headings in this Agreement are for reference purposes only and will not in any way modify the statements contained in any section of this Agreement. Each word in this Agreement may be considered to include any number or gender that the context requires. If there is any conflict between this Agreement and the Manual, this Agreement will control.

11.2. Governing Law

This Agreement is made in the State of California and its provisions will be governed by and interpreted under the laws of that State, with the following exceptions: (a) provisions of the Franchise Investment Law and California Franchise Relations Act will not apply unless they would be applicable without this Agreement's designation of governing law; (b) the arbitration clause is exclusively governed by and should be construed in accordance with the Federal Arbitration Act; and (c) trademark rights will be governed by and construed in accordance with the Lanham Act.

11.3. Notices

The parties to this Agreement should direct any notices to the other party at the address below that party's name on the final page of this Agreement or at another address if advised in writing that the address has been changed. Notice may be delivered by facsimile (with simultaneous mailing of a copy by first class mail), courier, or first class mail. Notice by facsimile will be considered delivered upon transmission; by courier, upon delivery; and by first class mail, three days after posting. Notice of termination or nonrenewal must be given by a receipted form of delivery.

11.4. Amendments

This Agreement may be amended only by a document signed by all of the parties to this Agreement or by their authorized agents.

11.5. Waiver

Waiver of any breach of this Agreement may not be interpreted as a waiver of any subsequent breach.

11.6. Integration

This Agreement and any exhibits or attachments to it are the entire agreement between the parties concerning the franchise it grants. All other agreements and representations are superseded by it.

11.7. Negotiation and Mediation

11.7.1. Agreement to Use Procedure

The parties have reached this Agreement in good faith and in the belief that it is mutually advantageous to them. In the same spirit of cooperation, they pledge to try to resolve any dispute without litigation or arbitration. They agree that, if any dispute arises between them, before beginning any legal action to interpret or enforce this Agreement, they will first follow the procedures described in this section. Good-faith participation in these procedures to the greatest extent reasonably possible, despite lack of cooperation by one or more of the other parties, is a precondition to maintaining any legal action or arbitration to interpret or enforce this Agreement.

11.7.2. Initiation of Procedures

The party that initiates these procedures ("Initiating Party") must give written notice to the other party, describing in general terms the nature of the dispute, specifying the Initiating Party's claim for relief, and identifying one or more people with authority to settle the dispute for him, her, or it. The party receiving the notice ("Responding Party") has ten (10) days within which to designate by written notice to the Initiating Party one or more people with authority to settle the dispute on the Responding Party's behalf. These people are called the "Authorized People."

11.7.3. Direct Negotiations

The Authorized People may investigate the dispute as they consider appropriate, but agree to meet in person, by prearranged teleconference, or by video conference within fourteen (14) days from the date of the Initiating Party's written notice to discuss resolution of the dispute. The Authorized People may meet at any times and places and as often as they agree.

11.7.4. Mediation

If the Dispute has not been resolved within thirty (30) days after the initial meeting, either party may begin mediation procedures. Mediation will be conducted by and under the rules of the American Arbitration Association ("AAA"). The parties will share equally the costs of mediation.

11.8. Arbitration

Any dispute arising out of or in connection with this Agreement, if not resolved by the negotiation and mediation procedures described above, must be determined in Riverside, California by the AAA. This arbitration clause will not deprive either party of any right it may otherwise have to seek provisional injunctive relief from a court of competent jurisdiction. The arbitrator must be an attorney with substantial experience in franchise law. The parties ask that the arbitrator limit discovery to the greatest extent possible consistent with basic fairness to minimize the time and expense of arbitration. If proper notice of any hearing has been given, the arbitrator will have full power to proceed to take evidence or to perform any other acts necessary to arbitrate the matter in the absence of any party who fails to appear. The arbitrator will have no power to 1) stay the effectiveness of any pending Termination of franchise; 2) assess punitive damages against either party; or 3) make any award that modifies or suspends any lawful provision of this Agreement. All expenses of arbitration must be paid by the party against which the arbitrators render a decision. Judgment on any award may be entered by any court of competent jurisdiction.

11.9. Injunctive Remedy for Breach

You recognize that you are a member of a Franchise Network and that your acts and omissions may have a positive or negative effect on the success of other businesses operating under our Trade Name and in association with our Marks. Failure on the part of a single franchisee to comply with the terms of its franchise agreement is likely to cause irreparable damage to us and to some or all of our other franchisees. For this reason, you agree that if we can demonstrate to a court of competent jurisdiction that there is a substantial likelihood of your breach or threatened breach of any of the terms of this Agreement, we will be entitled to an injunction restraining the breach and/or to a decree of specific performance, without showing or proving any actual damage, until a final determination is made by an arbitrator.

11.10. Limitation of Actions

Neither party may maintain an action or arbitration proceeding against the other party unless (a) the party delivers written notice of any claim to the other party within one hundred eighty (180) days after the event complained of becomes known to the party; (b) thereafter follows the negotiation and mediation procedures described above; and (c) files an arbitration within one (1) year after the notice.

11.11. Severability

Each provision of this Agreement will be considered severable. If, for any reason, any provision of it is determined to be invalid or in conflict with any existing or future law or regulation, that provision will not impair the operation of the remaining provisions of this Agreement. The invalid provisions will be considered not to be a part of this Agreement. However, if we determine that the finding of illegality adversely affects the basic

consideration for our performance under this Agreement, we may, at our option, terminate it.

11.12. Approval and Guaranties

If you are a corporation, all officers and shareholders with a ten percent (10%) or greater interest in you, or, if you are a partnership, all your general partners, must approve this Agreement, permit you to furnish the financial information required by us, and agree to the restrictions placed on them, including restrictions on the transferability of their interests in the franchise and FARMER BOYS® Restaurant and limitations on their rights to compete, and sign separately written guaranties of your payments and performance in the form of Attachment 5 to this Agreement.

11.13. Acceptance by Farmer Boys

This Agreement will not be binding on us unless and until it has been signed by an authorized officer of Farmer Boys.

11.14. Disclaimer of Representations

NO REPRESENTATIONS OR PROMISES OF ANY KIND HAVE BEEN MADE BY FARMER BOYS® TO INDUCE YOU TO SIGN THIS AGREEMENT EXCEPT THOSE SPECIFICALLY STATED IN THE FRANCHISE DISCLOSURE DOCUMENTS THAT HAVE BEEN DELIVERED TO YOU. YOU ACKNOWLEDGE THAT NEITHER WE NOR ANY OTHER PERSON HAS GUARANTEED THAT YOU WILL SUCCEED IN THE OPERATION OF THE FARMER BOYS® RESTAURANT OR HAS PROVIDED ANY SALES OR INCOME PROJECTIONS OF ANY KIND TO YOU. YOU HAVE MADE AN INDEPENDENT INVESTIGATION OF ALL IMPORTANT ASPECTS OF THE FARMER BOYS® RESTAURANT. YOU UNDERSTAND THAT WE ARE NOT A FIDUCIARY AND HAVE NO SPECIAL RESPONSIBILITIES BEYOND THE NORMAL RESPONSIBILITIES OF A SELLER IN A BUSINESS TRANSACTION.

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IN WITNESS TO THE PROVISIONS OF THIS AGREEMENT, the undersigned have signed it on the date stated in Article 1.

FRANCHISOR
FARMER BOYS FOOD, INC.

By: _____
Demetris Havadjias, CEO
3452 University Avenue
Riverside, CA 92501

Sign here if Franchisee is an individual:

FRANCHISEE

Signature: _____
Print Name: _____
Print Address: _____

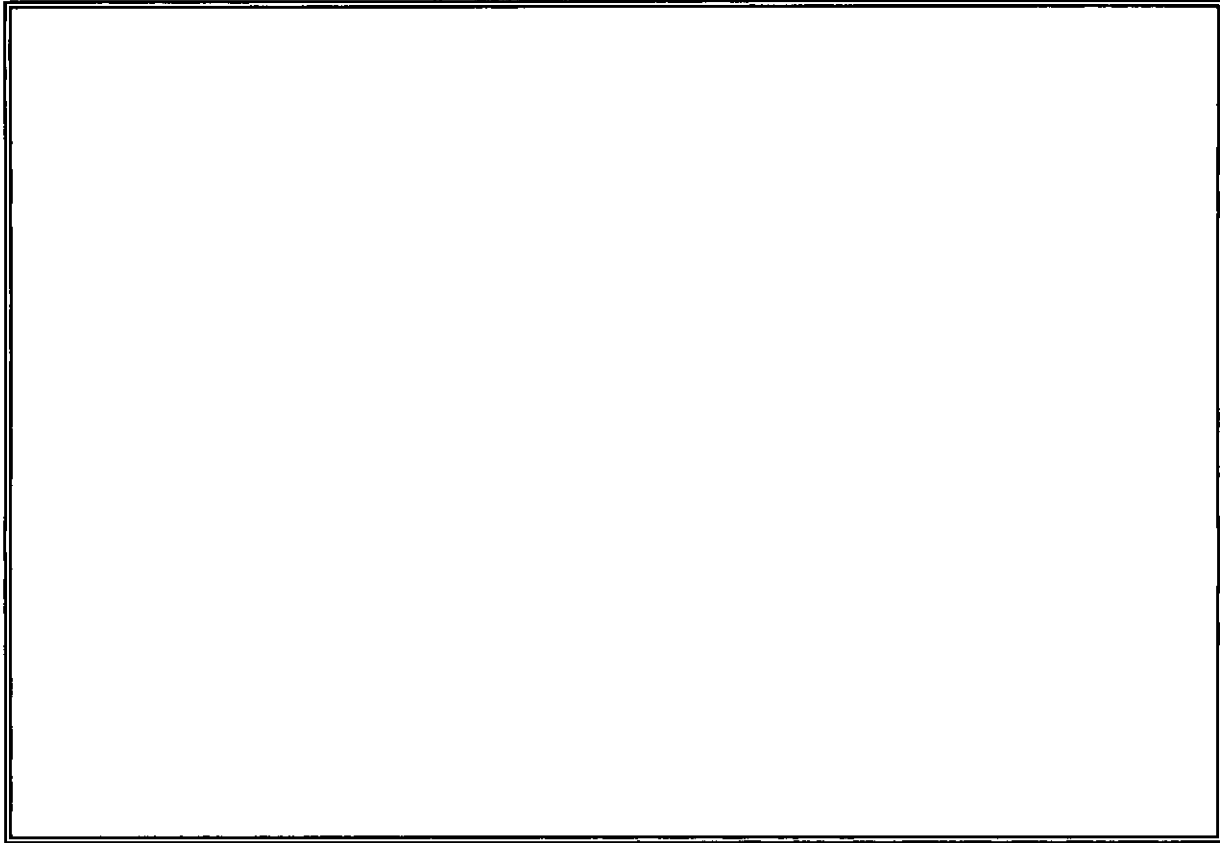
Sign here if Franchisee is a company:

FRANCHISEE

Print Company Name: _____

Signature: _____ *By:* _____
Print Name: _____
Print Title: _____
Print Address: _____

APPROVED LOCATION



ATTACHMENT 1

@PFDesktop\::ODMA\WORLD\DOX\W\WDOX\CLIENTS\FBF\012\00013517.WPD
Approved Location
April 24, 2006

AUTHORIZATION AGREEMENT FOR PREARRANGED PAYMENT (DIRECT DEBITS)

The undersigned depositor ("Depositor") authorizes Farmer Boys Food, Inc. ("Farmer Boys") to request debit entries and/or credit correction entries to the Depositor's checking and/or savings account(s) indicated below and the depository ("Depository") to debit the account according to Farmer Boys instructions.

Depository

Branch

Street Address, City, State, Zip Code

Bank Transit/ABA Number

Account Number

This authorization is to remain in full force and effect until Depository has received joint written notification from Farmer Boys and Depositor of the Depositor's termination of the authorization in a time and manner that will give Depository a reasonable opportunity to act on it. In spite of the foregoing, Depository will give Farmer Boys and Depositor thirty (30) days' prior written notice of the termination of this authorization. If an erroneous debit entry is made to Depositor's account, Depositor will have the right to have the amount of the entry credited to the account by Depository, if within fifteen (15) calendar days following the date on which Depository sent to Depositor a statement of account or a written notice pertaining to the entry or forty five (45) days after posting, whichever occurs first, Depositor has sent Depository a written notice identifying the entry, stating that the entry was in error, and requesting Depository to credit the amount of it to the account. These rights are in addition to any rights Depositor may have under federal and state banking laws.

Depositor

^

Depository

By

^

By

Title

^

Title

Date

^

Date

ATTACHMENT 2

NONDISCLOSURE AND NONCOMPETITION AGREEMENT

In return for his or her training by Farmer Boys Food, Inc. ("Farmer Boys") to operate a FARMER BOYS® Restaurant or his or her employment by Farmer Boys or one of its franchisees, ^ _____
[confidant's legal name] ("Franchisee") agrees as follows:

1. Nondisclosure of Trade Secrets and Confidential Information

Confidant agrees, during the term of the Franchise Agreement and following termination, expiration, or assignment of the Agreement, not to disclose, duplicate, sell, reveal, divulge, publish, furnish, or communicate, either directly or indirectly, any Trade Secret or other Confidential Information of Farmer Boys to any other person or company unless authorized in writing by Farmer Boys. Confidant agrees not to use any Trade Secrets or Confidential Information for his or her personal gain or for purposes of others, whether or not the Trade Secret or Confidential Information has been conceived, originated, discovered, or developed, in whole or in part, by Confidant or represents Confidant's work product. If Confidant has assisted in the preparation of any information that Farmer Boys considers to be a Trade Secret or Confidential Information or has himself or herself prepared or created the information, Confidant assigns any rights that he or she may have in the information as its creator to Farmer Boys, including all ideas made or conceived by Confidant.

2. Definition of Trade Secrets and Confidential Information

For purposes of this Agreement, the terms "Trade Secrets" and "Confidential Information" mean any knowledge, techniques, processes, or information made known or available to Confidant that Farmer Boys treats as confidential, whether existing now or created in the future, including but not limited to information about the cost of materials and supplies; supplier lists or sources of supplies; internal business forms, orders, customer accounts, manuals and instructional materials describing Farmer Boys' methods of operation, including Farmer Boys' Operations Manual; products; drawings, designs, plans, proposals, business development plans and marketing plans; all concepts or ideas in, or reasonably related to Farmer Boys' business that have not previously been publicly released by Farmer Boys; and any other information or property of any kind of Farmer Boys

ATTACHMENT 3

that may be protected by law as a Trade Secret, confidential, or proprietary. The Trade Secrets and Confidential Information described in this Agreement are the sole property of Farmer Boys.

3. Return of Proprietary Materials

Upon termination of franchise ownership or employment by Farmer Boys or a FARMER BOYS® franchisee, Confidant must surrender to Farmer Boys all materials considered proprietary by Farmer Boys, technical or nontechnical, whether or not copyrighted, that relate to Trade Secrets, Confidential Information, or conduct of the operations of Farmer Boys. Confidant expressly acknowledges that any such materials of any kind given to him or her are and will remain the sole property of Farmer Boys.

4. Solicitation of Employees

Confidant further agrees that he or she will not furnish to or for the benefit of any competitor of Farmer Boys, or the competitor's Confidants, or the competitor's subsidiaries, the name of any person who is employed by Farmer Boys or by any other Confidant of Farmer Boys. He or she will not, directly or indirectly or by action in connection with others, induce or influence (or seek to induce or influence) any person who is engaged (as an agent, employee, or independent contractor) by Farmer Boys or any FARMER BOYS® franchisee to terminate his or her employment or engagement.

5. Noncompetition

Confidant agrees and covenants that because of the confidential and sensitive nature of the Confidential Information and because the use of the Confidential Information in certain circumstances may cause irrevocable damage to Farmer Boys, Confidant will not, until the expiration of one (1) year after the termination of the employment relationship between Confidant and Farmer Boys or the Farmer Boys Confidant that employs him or her, or termination of the ownership interest of Confidant in a FARMER BOYS® franchise, engage, directly or indirectly, or through any corporations or Related Parties, in any ^food service establishment that ^specializes in hamburgers, sandwiches or breakfast and is located within three (3) miles of any FARMER BOYS® Restaurant.

6. Saving Provision

Confidant agrees and stipulates that the agreements and covenants not to compete contained in the preceding paragraph are fair and reasonable in light of all the facts and circumstances of the relationship between Confidant and Farmer Boys; however, Confidant and Farmer Boys are aware that in certain circumstances courts have refused to enforce certain agreements not to compete. Therefore, in furtherance of the provisions of the preceding paragraph, Confidant and Farmer Boys agree that if a court or arbitrator should decline to enforce the provisions of the preceding paragraph, that paragraph must be considered modified to restrict Confidant's competition with Farmer Boys to the maximum extent, in both time and geography, which the court or arbitrator finds enforceable.

7. Irreparable Harm to Farmer Boys

Confidant understands and agrees that Farmer Boys will suffer irreparable injury that cannot be precisely measured in monetary damages to its Trade Secrets if Confidential Information or proprietary information is obtained by any person, firm, or corporation and is used in competition with Farmer Boys. Accordingly, Confidant agrees that it is reasonable and for the protection of the business and goodwill of Farmer Boys for Confidant to enter into this Agreement. If there is a breach of this Agreement by Confidant, Confidant consents to entry of a temporary restraining order or other injunctive relief and to any other relief that may be granted by a court having proper jurisdiction.

8. Binding Effect

This Agreement will be binding on Confidant's heirs, executors, successors, and assignees as though originally signed by those people.

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9. Applicable Law

The validity of this Agreement will be governed by the laws of the state where Confidant lives. If any provision of this Agreement is void or unenforceable in that State, the remainder of the Agreement will be fully enforceable according to its terms.

CONFIDANT

[Signature of Confidant]

ASSIGNMENT OF TELEPHONE NUMBERS AND SPECIAL POWER OF ATTORNEY

1. ^ _____ [Franchisee's legal name] ("You"), in return for valuable consideration, including Farmer Boys' signing of a franchise agreement with you at the same time that this assignment is signed, assign to Farmer Boys, all telephone numbers and listings you advertise, publicize, or otherwise make known to customers or the public in the operation of a FARMER BOYS® franchised Restaurant, both now and in the future, in ^ _____.

2. This assignment will automatically become effective immediately upon Termination (meaning "termination, expiration, or nonrenewal") of your FARMER BOYS® franchise. When the franchise is terminated, you agree to do whatever is necessary to cause the telephone company providing local service to the franchised restaurant to promptly transfer the telephone numbers and associated directory listings to Farmer Boys or its designee.

3. You agree to pay the telephone company, on or before the date when the franchise is Terminated, all amounts you owe the telephone company in connection with the telephone numbers, including payment for any advertisements or listings in a classified telephone directory or directories. You further agree to indemnify Farmer Boys for any money Farmer Boys must pay the telephone company before the telephone company will carry out this agreement.

4. You appoint Farmer Boys as your attorney-in-fact to sign any documents and do any things necessary to carry out this agreement if you fail to sign or do them within three (3) business days after termination of the franchise agreement. You further agree to indemnify Farmer Boys for any expenses, including legal fees, that Farmer Boys incurs which would not have been incurred if you had performed as you promised under this agreement.

Dated: ^ _____

FRANCHISEE

[Signature of franchisee]

ATTACHMENT 4

PERSONAL GUARANTY AND SUBORDINATION AGREEMENT

The undersigned, [^] _____
[*guarantor's legal name*], to induce Farmer Boys Food, Inc. ("Franchisor") to enter into or
permit assignment of a certain FARMER BOYS® Franchise Agreement with
[^] _____
[*franchisee's full legal name*] ("Franchisee"), signed on the same date as the date of this
Guaranty, unconditionally, jointly and severally, personally guaranties to Franchisor, its
successors, or its assignees, the prompt full payment and performance of all obligations
of Franchisee that are or may become due and owing to Franchisor, including, but not
limited to, all obligations arising out of the Franchise Agreement or any other agreement
between the parties and all extensions or renewals of it in the same manner as if the
Franchise Agreement was signed between Franchisor and the undersigned, as franchisee,
directly.

The undersigned expressly waives notice of the acceptance by Franchisor to or
for the benefit of Franchisee, of the purchase of inventory and goods by Franchisee, the
maturing of bills and the failure to pay the same, the incurring by Franchisee of any
additional future obligations and liability to Franchisor, and any other notices and demands.
This Personal Guaranty will not be affected by the modification, extension, or renewal of
any agreement between Franchisor and Franchisee, the taking of a note or other obligation
from Franchisee or others, the taking of security for payment, the granting of an extension
of time for payment, the filing by or against Franchisee of bankruptcy, insolvency,
reorganization, or other debtor relief afforded Franchisee under the Federal Bankruptcy Act
or any other state or federal statute or by the decision of any court, or any other matter,
whether similar or dissimilar to any of the foregoing; and this Personal Guaranty will cover
the terms and obligations of any modifications, notes, security agreements, extensions, or
renewals. The obligations of the undersigned will be unconditional in spite of any defect in
the validity of the Franchisee's obligations or liability to Franchisor, or any other
circumstances whether or not referred to in this Guaranty that might otherwise constitute
a legal or equitable discharge of a surety or guarantor.

This is an irrevocable, unconditional, and absolute guaranty of payment and
performance and the undersigned agrees that the undersigned's liability under this
guaranty will be immediate and will not be contingent upon the exercise or enforcement by
Franchisor of whatever remedies it may have against the Franchisee or others, or the
enforcement of any lien or realization upon any security Franchisor may at any time
possess.

ATTACHMENT 5

The undersigned agrees that any current or future indebtedness by the Franchisee to the undersigned will always be subordinate to any indebtedness owed by Franchisee to Franchisor. The undersigned will promptly modify any financing statements on file with state agencies to specify that Franchisor's rights are senior to those of Guarantor.

The undersigned further agrees that as long as the Franchisee owes any money to Franchisor (other than royalty and marketing fund payments that are not past due), the Franchisee will not pay and the undersigned will not accept payment of any part of any indebtedness owed by Franchisee to any of the undersigned, either directly or indirectly, without the consent of Franchisor.

In connection with any litigation or arbitration to determine the undersigned's liability under this Personal Guaranty, the undersigned expressly waives the right to trial by jury and agrees to pay costs and reasonable attorney fees as fixed by the court or arbitrator.

If this Personal Guaranty is signed by more than one individual, each person signing this Personal Guaranty will be jointly and severally liable for the obligations created in it.

This Personal Guaranty will remain in full force and effect until all obligations arising out of and under the Franchise Agreement, including all renewals and extensions, are fully paid and satisfied.

IN WITNESS TO THE FOREGOING, the undersigned signed this guaranty on _____ [date].

[Signature of guarantor]

[Print name of guarantor]