



## INTRODUCTION

This Franchise Offering Circular is required by federal law to be given to you at least 10 Business Days before you can sign any agreement with us or give us any money. It contains 23 standard items of information about the franchise offering required to be disclosed by all franchisors selling franchises in the U.S. including the franchisor and its principals, certain litigation and bankruptcy history, the costs to purchase a Zero's Subs Franchise, certain provisions of the Zero's Subs Franchise Agreement, our financial information, a listing of our Franchisees, and copies of the Zero's Subs Franchise Agreement and other contracts you are required to sign. In addition, several states require that we register our franchise offering with the state and be approved before we can offer you a Zero's Subs Franchise. If you are a resident of one of these states, or the Zero's Subs Franchise is to be located in one of these states, there is a state cover page and certain state-specific addenda included as Exhibit G to this Franchise Offering Circular.

## ITEM 1 - THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES

To simplify the language in this Franchise Offering Circular, "Zero's" and "we" and "us" and "ours" means Zero's Mr. Submarine, Inc., a Delaware corporation, the Franchisor. The "Franchisee" and "you" means the person to whom the Franchised Business is granted and includes the Franchisee's owners and co-investors if the Franchisee is a corporation, partnership or other business entity.

### THE FRANCHISOR

The name of the franchisor is Zero's Mr. Submarine, Inc. We do business under the name "Zero's Subs." We do not do business under any other name. We maintain our principal business address at 2859 Virginia Beach Blvd., Suite 105 Virginia Beach, VA 23452. We are a Delaware corporation formed on January 20, 2000.

### OUR EXPERIENCE

We have conducted a business of the type you will operate for over 5 years. We began selling franchises in January 2000. We are not in any other line of business, except for the ownership, operation and sale of the type of franchise offered under this Franchise Offering Circular. Our Predecessor company and our principals have been operating the type of business you will operate for 38 years.

### OUR BUSINESS

We grant Franchised Businesses to qualified candidates for the operation of a Zero's Subs Restaurant. We are not presently engaged in business activities other than the development of the "Zero's Subs" and the offer, sale and support of Franchised Businesses.

### OUR OTHER BUSINESS ACTIVITIES

We do not have any other business activities.

### OUR PREDECESSOR

On December 8, 1999, our Affiliate, American Kiosk Corporation, a Delaware corporation, entered into an Asset Purchase Agreement with X. S., Inc., a Virginia corporation, Zero's Mr. Submarine, Inc., a Virginia corporation and its shareholders (collectively, the "Predecessor") whereby the Predecessors agreed to sell to American Kiosk Corporation substantially all of its assets including all of its existing Zero's Subs Franchise Agreements, Area Development Agreements, Area Representative Agreements and ancillary agreements, all of its proprietary property

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*All capitalized terms not specifically defined in this Franchise Offering Circular have the same meaning as the terms defined in ARTICLE 19 (Definitions) of the Zero's Subs Franchise Agreement attached as Exhibit A to this Franchise Offering Circular.*

including its "Zero's Subs" trademarks and copyrights, manuals, secret recipes and other confidential information and other assets licensed or loaned to a franchisee as part of the Zero's Subs franchise system, subject to the approval of the Franchisor's shareholders. On January 14, 2000, the shareholders approved the sale.

The closing took place on January 14, 2000, at which time the assets were transferred to a wholly owned subsidiary of American Kiosk Corporation, Zero's Mr. Submarine, Inc., a Delaware corporation to be formed ("New Zero's"). The former franchisor, Zero's Mr. Submarine, Inc., a Virginia corporation, has changed its corporate name to "Zero's Mr. Submarine of Virginia, Inc." and has no continued involvement with the Zero's Subs franchise system. We assumed all of the obligations of the former franchisor under all the Zero's Subs Franchise Agreements, Area Development Agreements, Area Representative Agreements and ancillary agreements.

As discussed above, our Predecessor previously offered Zero's Mr. Submarine Franchises until December 1999 and is no longer offering Zero's Mr. Submarine Franchises. Our Predecessor never offered franchises in any other lines of business.

#### **OUR AFFILIATE**

The name of the Franchisor's Affiliate is American Kiosk Corporation. The Affiliate does business under the names "American Kiosk Corporation" and "Pizza Place." The Affiliate does not do business under any other name. The Affiliate maintains its principal business address at 2859 Virginia Beach Blvd., Suite 105, Virginia Beach, Virginia 23452. The Affiliate is a Delaware corporation formed on April 26, 1997.

The Affiliate was formed for the purpose of selling directly or through distributors frozen food products, ovens, display material and related service parts and accessories. As described above, the Affiliate is no longer involved in selling any Pizza Place Franchises and there are currently no locations of the concept. The Predecessor has not offered Zeros' Mr. Submarine franchises or franchises in any other line of business.

#### **OUR AGENTS FOR SERVICE OF PROCESS**

Our agents for service of process in all states are listed on Exhibit D.

#### **DESCRIPTION OF THE FRANCHISED BUSINESS**

A Zero's Subs Restaurant is a specialty restaurant with a universal appeal. The menu includes a widely diverse selection of high quality subs, pizzas, salads, and other products, that cater to all age and income groups. Zero's restaurants offer seating for between 24 and 70 persons. Each restaurant operates pursuant to a unique system (the "System") relating to the establishment, development and operation of a Zero's Subs Restaurant. The System is characterized by distinctive exterior and interior facility layout, design and color scheme; exclusively designed signage, decorations, furnishings and materials; special recipes, formulae, menus and food and beverage designations; the Zero's Manual of Operating Data (the "MOD Manual"); food and beverage storage, preparation, service and delivery procedures and techniques; operating procedures for sanitation and maintenance; and methods and techniques for inventory and cost controls, record keeping and reporting, personnel management, purchasing, sales promotion and advertising; all of which we may change and develop from time to time.

We have a proprietary line of specially formulated meatballs, spice packets and other food products (the "Trade Secret Food Products"), which are sold to customers from the restaurant in addition to our hot oven-baked submarine sandwiches, and pizza. A full array of soft drinks and snacks are also offered for sale. In addition, beer is sold at various locations for on-premise consumption. Most items are sold for either on-premise, or carryout consumption. We also offer catering as part of the System. You can only offer catering and delivery with our prior consent.

We offer a moderate priced product, which is attractive to all facets of the general public. We compete directly with local restaurants as well as national fast food chains. Our stores are either freestanding buildings or "in line" stores in retail strip shopping centers. We have no interior shopping mall locations at the present time.

You will be licensed to use Zero's service mark "Zero's Mr. Submarine<sup>®</sup>" and logo, as well as related trademarks, service marks, logos and slogans (the "Proprietary Marks"), and the System developed by Zero's for the operation of a franchised business. Franchisees are also licensed to utilize Zero's confidential Operations Manuals (the "Manuals") which sets forth the standards and specifications for the management and operation of the Franchised Business.

We will grant to you a protected area in which you may establish and operate your Franchised Business and we will provide you with guidelines and specifications for the operation and management of the Franchised Business, including advertising and promotional techniques. Also, we will provide an initial training program detailing the operation of the Franchised Business for up to 2 persons including a Franchisee/General Manager, and a shift supervisor. You may supplement the initial training program by having our field support training staff provide up to 2 weeks of additional training at your location before and during the Grand Opening of the Franchised Business.

#### **GENERAL MARKET**

The general market for the products and services to be offered by you is the general public frequenting restaurants:

#### **INDUSTRY SPECIFIC REGULATIONS**

The restaurant industry is heavily regulated. Many of the laws, rules and regulations that apply to business generally, such as The Americans With Disabilities Act, The Federal Wage and Hour Laws and The Occupation, Health and Safety Act also apply to restaurants. However, other laws, rules and regulations have particular applicability to restaurants and especially restaurants that offer full bar service.

You must have a liquor license before you can sell beer in the restaurant. The difficulty and cost of obtaining a liquor license, and the procedures for securing the license, vary greatly from area to area. Also, there is wide variation in state and local laws and regulations that govern the sale of alcoholic beverages. In addition, state dram shop laws may give rise to potential liability for injuries that are directly or indirectly related to the sale and consumption of alcohol.

The U.S. Food and Drug Administration, the U.S. Department of Agriculture and state and local health departments administer and enforce laws and regulations that govern good preparation and service and restaurant sanitary conditions. State and local agencies inspect restaurants to ensure that they comply with these laws and regulations.

Federal legislation known as The Clean Air Act and a variety of state laws require certain state and local areas to meet national air quality standards by limiting emissions of ozone, carbon monoxide and particulate matters, and placing caps on omissions from commercial food preparation. Also, some areas have adopted or are considering proposals that would regulate indoor air quality. You should consider these laws and regulations when evaluating your purchase of a franchise.

#### **COMPETITION**

You will have to compete with other businesses selling similar products and services. Competitors include such chains as Blimpie, Jersey Mike's, Subway and Quizno's, as well as independent sub shops.

#### **ITEM 2 - BUSINESS EXPERIENCE**

The following persons are the directors, principal officers and other executives who have management responsibility in the operation of our business for the Franchise described in this Franchise Offering Circular and all franchise brokers. The principal occupation, title and business experience of each person during the last 5 years including the names and locations of employers is indicated below:

**DIRECTORS, OFFICERS AND OTHER EXECUTIVES**

**Martin A. Palacios, Director, Chairman, President/CEO**

Mr. Palacios has been a Director of Zero's, Mr. Submarine, Inc. of Delaware since the acquisition of Zero's, Mr. Submarine, Inc. of Virginia in Jan of 2000. He has also served as President/CEO of the Predecessor since its inception in March 1989 Zero's, Mr. Submarine, Inc. of Virginia. Mr. Palacios is a Director and President/CEO of American Kiosk Corporation. From June 1971 to 2000 January he served as Executive Vice President and Controller of X.S., Inc the founding company of the Zero's chain in 1967. Mr. Palacios is currently running the Zero's, Mr. Submarine, Inc. of Delaware full time.

**Larry Graybill, Director and Vice President/CFO/Secretary/Treasurer.**

Mr. Graybill is a Director and Vice President/CFO/Secretary/Treasurer since incorporation. He has been also a Director and Vice President/CFO/Secretary/Treasurer of the Affiliate since June 1998. Mr. Graybill was most recently President and CFO of Austin's International Inc., a publicly traded restaurant company located in Fort Lauderdale, Florida from July 1990 to June 1998. From 1988 to 1990, he held the position of Controller with Outrigger Lodging Services, a hotel management company located in Los Angeles. From 1985 to 1988, he was General Manager for Pine Plantation Inc., a corporation that owned a hotel and two restaurant/nightclubs in Fort Lauderdale, Florida. From 1980 to 1985, Mr. Graybill was President of First Family Savings and Loan in Heber Springs, Arkansas.

**Randall Appel, Director.**

Mr. Appel has served as a director of the Company since incorporation. Mr. Appel has over 15 years of financial planning and broker-dealer experience. He is also a Director of the Affiliate since November 1998. Mr. Appel is President of LTD Network, 1123 Broadway, Suite 800, New York, N.Y. 10010 since 1989.

**Gary Hartman, CPA**

Mr. Hartman handles our day-to-day accounting. He has been with us since January 2000. Mr. Hartman was with Zero's, Mr. Submarine, Inc. of Virginia since 1994.

**FRANCHISE BROKERS**

We engage the services of franchise brokers we call Area Representatives. A list of Area Representatives including their names, 5-year biographies, 10-year litigation histories and areas of responsibility are set forth in Exhibit F.

There can be no assurance that these persons will remain affiliated with us indefinitely or for any time, or that the scope of their involvement will not change.

**ITEM 3 - LITIGATION**

No litigation is required to be disclosed in this Franchise Offering Circular. See Exhibit G to this FOC for additional state-required disclosures regarding litigation.

**ITEM 4 - BANKRUPTCY**

No company or person who is an officer identified in ITEMS 1 or 2 of this Franchise Offering Circular has been involved as a debtor in proceedings under the U.S. Bankruptcy Code required to be disclosed in this ITEM except: Mr. Graybill was the President and Chief Financial Officer of Austin International, Inc., a Delaware corporation, whose subsidiary, Austin International, Inc., a Florida corporation, filed a Chapter 11 Liquidation Proceeding on July 18, 1997 in the U.S. Bankruptcy Court, Southern district of Florida, Case No. 97-24528 BKC RBR. The Court confirmed the Plan of Reorganization on May 5, 1998. The case was closed on March 31, 1999..

**ITEM 5 - INITIAL FRANCHISE FEE****INITIAL FRANCHISE FEE**

The total Initial Franchise Fee payable to us by a Franchisee who is granted the right to operate a single Franchised Business is \$20,000. This amount is payable in full upon the signing of the Franchise Agreement, a copy of which is attached to this Franchise Offering Circular as Exhibit A. The Initial Franchise Fee is deemed fully earned upon receipt by us, and is non-refundable. For Maryland purchasers, please refer to Exhibit G.

**TRAINING FEES**

We will provide, at no extra charge to you, initial training and training materials for up to 2 Trainees (you and a general manager). You are responsible for all expenses of the trainees in attending initial training including all travel, lodging and meal expenses. You will pay all expenses incurred to have your additional employees or agents attend initial training, including reasonable training fees. We will make available to you a Supplemental Training Program, which provides on-site assistance both before and during the initial 2 weeks of operation of your Franchised Business at the location of the Franchised Business for an additional fee of \$150/ per day. You are solely responsible for all travel, meals and lodging costs for your attendees. Any training fee paid is not refundable under any circumstance. See ITEM 11 for additional information on training.

**ITEM 6 - OTHER FEES**

The following is a detailed description of other recurring or isolated fees or payments that you must pay to us or that we impose or collect for a third party. All fees and payments are non-refundable.

<b>Name of Fee</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Royalty Fee (Note 1)	5% of Gross Sales (Note 2) (Note 3)	Payable on the day of the week we periodically designate (based on the prior week's Gross Sales)	We will debit your bank account for Royalties due (Note 3)
National Advertising Fund Contributions Expenditure (Note 5)	Up to 2% of Gross Sales	As evidenced	We will debit your bank account for the advertising fees due (Note 3)
Transfer Fee (Note 6)	30% of the then current Initial Franchise Fee for each Franchised Business being Transferred	30 days before transfer	Upon a transfer, you or your personal representative or other legal representative must pay a Transfer Fee in lieu of an Initial Franchise Fee. If the transfer is to a corporation wholly owned by you, or to your spouse or child, no Transfer Fee will be charged.
Audit Fee (Note 7)	Cost of Audit plus interest on the underpayment at the Default Rate	Due only if the audit shows an understatement of 2% or more	We have the right to have an audit made of your records and conduct a physical inventory. If any inspection discloses an understatement of any reported amount of any type, in any report, of 2% or more of Gross Revenues, you will, in addition to paying us the amount of the understatement, reimburse us for all expenses of the

			inspection (including reasonable accounting and attorneys' fees and costs).
Training Expenses (Note 8)	Variable	During initial training	We provide to you, at no additional cost, up to 6 weeks of initial training for you and/or your general manager. You are solely responsible for all travel, meals and lodging costs for your attendees.
Supplemental Training Fee (Note 9)	\$150 per day plus expenses	Before the grand opening of Franchised Business	
Indemnification (Note 10)	All losses and expenses incurred	Upon being incurred by us	You indemnify and hold us harmless from all damages (including reasonable attorneys' fees and costs, even if incident to appellate, post-judgment or bankruptcy proceedings), from claims brought by third parties involving your ownership or operation of your Zero's Subs Franchise. This indemnity obligation continues in full effect after the expiration or termination of your Franchise Agreement.
Offering Documents Review Fee (Note 11)	\$5,000	Upon review of Offering Documents	If you desire to offer for sale corporate securities or partnership or membership interests in your Zero's Subs Franchise or an entity owning a direct or indirect equity interest in the Zero's Subs Franchise, by public or private offering, or otherwise, you will pay to Zero's Subs a non-refundable Offering Fee of \$5,000 or any greater amount necessary to reimburse us for our reasonable expenses associated with reviewing the proposed offering materials, including legal and accounting fees.
Management Consulting Fee (Note 12)	\$200 to \$400 per day plus meals and expenses	Before consultation	
Financial Statements (Note 13)	Variable	Annually, within 4 months of the end of Franchisee's fiscal year	
Alteration Costs (Note 14)	Variable	Every 5 to 7 years	
Manuals Replacement Fee (Note 15)	\$500 per volume	Due only if the Manuals are lost, stolen, damaged, etc.	Upon the theft, loss or destruction of any of the Manuals, a replacement copy

			will be loaned to you at a fee of \$200 for each Manual. A partial loss or failure to update any Manual is considered a complete loss.
Renewal Fee (Note 16)	10% of the then current Initial Franchise Fee	Upon signing Renewal Agreement	Rather than being required to pay the new Initial Franchise Fee then in effect, you must pay an Option(renewal) Fee to reimburse us for our legal, administrative and other costs.
Estimated Royalty (for not reporting sales timely) and Advertising Fee Payments	Minimum of \$200 per week for Royalties and \$100 per week for Advertising Fee; greater if we reasonably estimate that your Franchisee is generating higher Gross Sales	Payable on the day of the week we periodically Designate (based on the Prior week's gross sales) (note 3)	Payable only if you fail to submit timely reports of Gross Sales to us; we will reconcile these amounts with the actual amounts owed after you submit the reports. We will debit your bank account for these sums due (note 3)

- 1 This fee is payable to us.
- 2 This fee is payable to the Cooperative.
- 3 The following states have statutes that restrict or prohibit the imposition of liquidated damages provisions: California [Civil Code Section 1671], Indiana [IC 23-2-2.7-1(10)], Minnesota [Rule 2860.4400J], South Dakota [Civil Law 53-9-5]. State courts also restrict the imposition of liquidated damages. The imposition of liquidated damages is also restricted by fair practice laws, contract law and state and federal court decisions.

#### Notes

1. **Royalty Fee.** In addition to the Initial Franchise Fee discussed above in ITEM 5, you will be required to pay to us a continuing non-refundable weekly royalty fee for each Franchised Business in an amount equal to 5% of your Gross Sales, as that term is defined in Note 2.

2. **Gross Sales.** "Gross Sales" is defined as all sales generated through the Franchised Business including fees for any and all services you perform, whether for cash or credit (regardless of collectibility), and billings of every kind related to the Franchised Business, including revenues from the sale of merchandise of proprietary products or clothing, catering, use of jukeboxes, vending machines, video games, pinball machines or similar arcade-like machines from video lottery terminals; provided, however, that "Gross Sales" shall not include any sales tax or other taxes collected from customers by you for transmittal to the appropriate taxing authority.

3. **Payment.** The Royalty Fee and the National Advertising Fund Contributions are non-refundable and will be paid weekly to us, payable on the day of the week we periodically designate. Before opening you must sign and deliver to us and your bank all documents needed to permit us to debit your bank account for each week's Royalty Fee and National Advertising Fund Contributions and other payments that you make to us.

4. **National Advertising Fund.** We have created a National Advertising Fund. We will collect a weekly contribution from you of up to 2% of Gross Sales weekly, payable on the day of the week we periodically designate by direct debit from your bank account. After the first full year of operation of your Franchised Business, contributions will be pre-calculated on the basis of the previous year's Gross Sales. You will be required to make contributions to the Fund in addition to your obligation to conduct local marketing and promotion as set forth in Note 5.

5. **Minimum Local Marketing and Promotion Expenditure.** Annually, you will be required to spend at least 2% of Gross Sales on your own local marketing and promotion. This local marketing and promotion will be conducted by you either individually or in conjunction with other Franchisees and must comply with the policies and procedures established by us for our prior approval of all proposed marketing and promotion campaigns and materials. You will be required to submit to us a report on a form prescribed by us that demonstrated that you have fulfilled your requirement for local marketing and promotion. These local marketing and promotion requirements and fees exist independently of a National Advertising Fund. Therefore, you are required to make minimum local marketing and promotion expenditures whether or not a National Advertising Fund is established.

6. **Transfer Fee.** Under the Franchise Agreement and Area Development Agreement a non-refundable transfer fee equal to 30% of the then current Initial Franchise Fee must be paid to us by you in order to cover our administrative and other expenses in connection with the transfer of the Franchised Business, unless the transfer is made by you to a corporation formed solely for the convenience of ownership. All transfers must be in accordance with the terms of the Franchise Agreement and consistent with the transfer guidelines provided to you by us. This transfer fee must be fully paid before any such transfer. In addition, the transferee, its Franchisee/General Manager, and key kitchen employee must complete any training program then in effect for current franchisees upon our reasonable terms and conditions, and at the transferee's expense. The transfer fee is non-refundable.

7. **Audit Fee and Related Financial Reporting Obligations.** We have the right to audit the books and records of the Franchised Business. Audits will be conducted at our expense, unless an audit discloses an understatement in any report of 2% or more, in which case you must pay for any and all costs and expenses incurred by us in connection with the audit (including reasonable accountants' and attorneys' fees), together with interest on the undisclosed or under-reported sums at the Default Rate which will be payable immediately upon your receipt of written notice from us. All such audit fees, costs and expenses, as well as the interest thereon, are non-refundable.

8. **Training Expenses.** We provide you with a mandatory initial training program in restaurant operations and management for up to 2 persons during a training period of up to 6 weeks at our training facility and our administrative offices in Virginia Beach, VA or a designated training facility. We require you to attend the initial training program before the opening of your first Franchised Business and will provide the initial training program, including curriculum materials, at no cost to you. However, you will be solely responsible for your expenses and those of your employees during the training program including the costs of travel, lodging, meals, and the wages of your employees.

9. **Supplemental Training Fee.** For an additional fee of \$150 per day, plus meal and travel expenses, you may supplement the initial training program by having our field support training person provide up to 2 weeks of additional training at the Franchisee's location before and during the grand opening of the Franchised Business.

10. **Indemnification.** Under the Franchise Agreement, you are obligated to indemnify us from all losses and expenses incurred in connection with any action, suit, proceeding, claim, demand, investigation, or formal or informal inquiry (regardless of whether same is reduced to judgment) or any settlement thereof which arises out of, or is based upon any of the items listed in the section of the Franchise Agreement labeled "Indemnification."

11. **Public and Private Offering Prospectus Review Fee.** For each proposed offering, you must pay to us a non-refundable document review fee of \$5,000 or such greater amount as may be required to reimburse us for our reasonable costs and expenses associated with reviewing the proposed offering materials, including legal and accounting fees.



12. **Management Consulting Fee.** You may retain us to provide management consulting services for special projects or assistance based upon availability of our personnel at the minimum rate of \$200 and a maximum rate of \$400 per person per day plus reimbursement of all reasonable travel, lodging, meal and other expenses incurred by us in connection with the rendering of such services. We reserve the right to make reasonable adjustments from time to time to such daily rate at our discretion. These consulting fees are non-refundable and must be paid to us in advance.

13. **Financial Statements.** You will be required to provide us annually, within four months of the end of your fiscal year, with financial statements of the previous fiscal year certified by an officer of the Franchisee. Upon our request, you must also provide us with monthly financial statements. The cost of preparation of these financial statements will be borne by you.

14. **Costs of Major Alterations.** Once every 5 to 7 years, you will be required to make such major alterations to the restaurant as we may require, and at your own expense.

15. **Manuals Replacement Fee.** If a Manual is lost, stolen or destroyed, you will be required to pay us a non-refundable replacement fee of \$1,000 for each volume of the replacement Manuals.

16. **Renewal Fee.** You must pay a non-refundable renewal fee upon the expiration of the initial term or any renewal term of the Franchise Agreement in order to renew the Franchise Agreement. The renewal fee is 10% of the then current Initial Franchise Fee.

#### UNIFORMITY

The expenses in this ITEM are uniform for persons currently offered a Franchise.

#### PAYMENT SCHEDULE

All required weekly payments must be submitted to us by each Monday at 5:00 p.m. for the previous week, with the ACH withdrawal from your account completed by each Wednesday. All required monthly payments must be submitted to us by the 10th day of each month. All other amounts owed to us are due as specified above. If no time is specified, these payments are due upon receipt of our invoice.

#### ADVERTISING COOPERATIVES

Advertising cooperatives have not been established at this time. Once formed, company-owned units will have the same voting power as franchise units.

### ITEM 7 - INITIAL INVESTMENT

The following is our best estimate of your initial investment to construct and open one Zero's Subs Franchise. The estimate presented covers the period before the opening of your Zero's Subs Franchise and for the initial phase of your Zero's Subs Franchise estimated to be 3 months. They do not provide for your cash requirements to cover operating losses after the initial phase or personal living expenses. You must have additional sums available, whether in cash or through unsecured credit lines, or have other assets that you may liquidate, or that you may borrow against, to cover your personal living expenses and any operating losses after the initial phase of your Zero's Subs Franchise. We urge you to retain the services of an experienced accountant or financial advisor in order to develop a business plan and financial projections for your Zero's Subs Franchise.

Your actual investment will vary depending upon local conditions peculiar to your geographic area or market, for example, real estate demand, availability, and occupancy rates. Additional variables that will impact your initial investment may be: size of your facility; age of the structure; length of your lease or other instrument granting you the right of occupancy to the Premises; if your space is to be built out by the developer with no initial out-of-pocket cost to you; lease arrangements; location in the market; whether you are converting existing Premises and

whether in the same business; costs of demolishing existing leasehold improvements; construction costs; other variable expenses and whether you currently hold a lease of an acceptable location. We anticipate that most Zero's Subs Franchisees will be located in major shopping malls or major in-line strip malls or shopping centers rather than freestanding buildings. We do not expect you to purchase real estate or construct the building containing your Zero's Subs Franchise although this may be done. Your initial investment will also vary considerably depending upon the method and amount of financing that you use. The table below does not reflect an amount for investment in real estate, since it is assumed that you will lease the premises of the Franchised Business. The Initial Franchise Fee and other items are shown in full, although they may be financed or leased by third parties.

The following chart contains a summary of your initial investment. Unless otherwise indicated, payments are generally not refundable.

#### YOUR ESTIMATED INITIAL INVESTMENT

TYPE	AMOUNT	METHOD	WHEN DUE	TO WHOM
Initial Franchise Fee <sup>1</sup>	\$20,000	Lump Sum	At signing of Franchise Agreement	Us
Leasehold Improvements <sup>2</sup>	\$15,800 to \$44,640	As arranged	As incurred	Suppliers
Equipment <sup>3</sup>	\$64,880 to \$85,660	As arranged	As incurred	Vendors
Building Permits <sup>4</sup>	\$2,000	Lump Sum	As incurred	Governmental Authorities
Lease & Utility Deposits <sup>5</sup>	\$ 4,000	As arranged	As incurred	Landlord
Insurance <sup>6</sup>	\$2,000	Lump Sum	Before beginning business	Insurance Agent or Company
Food/Paper Inventory <sup>7</sup>	\$4,000	As arranged	As incurred	Supplier
Additional Funds – 3 months <sup>8</sup>	\$ 10,000	As arranged	As incurred	Third Parties
<b>ESTIMATED TOTAL</b>	<b>\$122,680 to \$172,300</b>			

#### Notes

1. **Initial Franchise Fee.** As described in ITEM 5, the Initial Franchise Fee that you will pay is \$20,000. This fee is payable in a lump sum upon signing of the Franchise Agreement. The entire Initial Franchise Fee is deemed fully earned upon receipt by us and is non-refundable.

2. **Leasehold Improvements.** These amounts are our best estimates for finish-out costs. The amounts indicated for construction and improvements of the premises are based on construction of locations in Virginia Beach, Virginia. Labor and material costs may vary significantly in accordance with local variations in wage rates, labor efficiency, union restrictions and availability, and price of materials. Finish-out costs are based on leasing unfinished space that consists of walls; plumbing; concrete slab; lighting; heat, ventilation and air conditioning ("HVAC"); and electricity.

3. **Equipment, Supplies and Signage.** We require that you purchase certain basic supplies from us or suppliers that we designate (and to maintain a sufficient supply of basic supplies) in accordance with our confidential standard operating procedures and the Manuals. Such supplies must be appropriately identified as associated with the Franchised Business. We have established relationships with national vendors who will provide you with standard equipment packages.

4. **Building Permits.** You must obtain all required building permits to contract the improvements.

5. **Deposits.** You will generally be required to incur certain deposits with the landlord and local utilities, for example, electric, telephone, gas, water, etc. These will vary depending on the policies of the local utilities but are estimated to be \$4,000.

6. **Insurance.** As discussed in ITEM 8 and ARTICLE 11 of the Franchise Agreement, we require that you carry certain specified insurance. The method and timing of payments is a matter to be resolved between you and your insurer. Because the selection of the carrier, size of the Premises, location of the Premises, value of the leasehold improvements, amount of inventory, amount of wages and other related conditions vary considerably, it is difficult to estimate the ultimate cost to any given franchisee. Therefore, we, in light of the availability of insurance industry estimates, the total cost with the caution that you should obtain quotes from carriers of choice before proceeding. Our best estimate is \$2,000 per year for insurance coverage.

7. **Inventory.** You are required to purchase an initial inventory of certain retail items including paper products, commodities and food products and uniforms from an approved source, or us and maintain an adequate supply of inventory as stated in the Manuals.

8. **Additional Funds - 3 months.** Expenditures payable out of additional funds are intended to cover such items as operating losses, additional insurance, security deposits, miscellaneous additional pre-opening costs, salaries, additional legal and accounting fees, and payments to any governmental agency that are necessary to open the Franchised Business for approximately three months. In addition, you should be prepared to have cash available to pay your personal living expenses during the first 6 to 12 months of operation. The necessary amount of additional funds varies considerably with each franchisee.

#### **BASIS FOR ESTIMATE**

We relied on our principals' experiences of 38 years in the restaurant business to compile these estimates. You should review these figures carefully with a business advisor before making any decisions to purchase a Zero's Subs Franchise.

#### **FINANCING**

As described in ITEM 10, neither we nor our agents offer any financing arrangements to you.

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

#### **PURCHASES FROM US OR OUR DESIGNEE**

We require you to purchase or lease the following goods, services, supplies, fixtures, equipment, inventory or real estate for the establishment of your Zero's Subs Franchise from us or a Designee.

#### **LEASE OF PREMISES**

We must approve of any lease of the Premises. You must deliver a copy of the signed lease to us within 15 days of its signing. You must agree not to sign or agree to any modification of the lease or sublease that would adversely affect our rights without our written approval. The Landlord, you, your Landlord and we must sign our form of Option for Assignment of Lease set forth as Attachment B the Franchise Agreement.

#### **PURCHASES ACCORDING TO OUR SPECIFICATIONS**

In order to maintain the uniformly high standards and reputation of the System, you will be required to purchase or lease certain items either from us or the approved suppliers that meet our specifications. These specifications may include minimum standards for quality, quantity, delivery, performance, design, appearance, durability, style, warranties, price range and other related restrictions. All meat, special spice, design and build-out

standards, signage, uniforms, displays, and inventory must be purchased from our approved supplier or us. You may obtain other products, including food, beverage, ingredients (other than the special spice), paper goods and standard equipment from any source that meets our specifications and approval. We consider these specifications to be of critical importance to the success of the System. The Manuals sets forth these specifications in further detail.

If you propose to purchase or lease any items not previously approved in writing by us, but which you believe meet our quality control specifications, you must first notify us. We may require, among other things, submission of sufficient samples, specifications, photographs, drawings, and other related information to determine whether such items meet our specifications.

We apply the following general criteria, among other things, in considering whether the supplier will be designated as an approved supplier:

1. Ability to produce the products, services, supplies or equipment and meet our standards and specifications for quality and uniformity;
2. Production and delivery capabilities and ability to meet supply commitments;
3. Integrity of ownership (to assure that its association with us would not be inconsistent with our image or damage our goodwill);
4. Financial stability; and
5. The negotiation of a mutually satisfactory license to protect our intellectual property.

We will advise you within a reasonable time whether the proposed supplier meets our specifications and our approval will not be unreasonably withheld. You will be notified in writing of our approval or disapproval and of revocation of approved suppliers. Suppliers must maintain our standards in accordance with our written specifications and any modifications thereto. Failure to correct a deviation from the System's specifications will result in termination of status as an approved supplier.

#### **STANDARD BUILDING PLANS AND SPECIFICATIONS AND/OR STANDARD RECOMMENDED FLOOR PLAN**

We will loan to you a sample set of standard building plans and specifications and/or standard recommended floor plan. You must employ a qualified licensed architect or engineer to prepare a site plan and adopt the standard building plans and specifications to the specific site and/or adapt the recommended floor plan to the Premises.

#### **DESIGN SPECIFICATIONS**

We will loan to you specifications of our requirements for design, decoration, layout, equipment, furniture, fixtures and signs for your Zero's Subs Franchise. These items may be purchased from any approved supplier.

#### **SPECIFICATIONS FOR ZERO'S SUBS UNIFORMS**

We will loan to you specifications for Zero's Subs uniforms for your employees that you must purchase directly from our approved suppliers.

#### **INSURANCE**

You must obtain and maintain insurance, at your expense, as we require, in addition to any other insurance that may be required by applicable law, your landlord, lender or otherwise. The policies must be written by an insurance company reasonably satisfactory to us with a Best rating of "B" or better, and include the risks, amount of coverage and deductibles as stated in the Manuals and ARTICLE 11 of the Franchise Agreement.

### ADVERTISING

You must submit to us, for our approval, all materials to be used for Local Advertising, unless they have been approved before or they consist only of materials we provided. All materials containing Proprietary Marks must comply with the specifications stated in the Manual and in accordance with Section 10.1 of the Franchise Agreement.

### BEVERAGES

We have entered into an agreement with Pepsi-Cola Company under which we and all of our franchisees must purchase Pepsi-Cola and Lipton postmix products for use in preparing fountain beverage products to be sold in the Zero's Subs Restaurants.

### APPROVED SUPPLIES AND SUPPLIERS

You must purchase or lease equipment, supplies, inventory, advertising materials, and other products and services used for the operation of your Zero's Subs Franchise only from authorized manufacturers, contractors and other suppliers who demonstrate, to our continuing reasonable satisfaction: (i) the ability to meet our reasonable standards and specifications for the items; (ii) possess adequate quality controls and capacity to supply your needs promptly and reliably; and (iii) have been approved in writing by us and not later disapproved. We may approve a single supplier for any brand and may approve a supplier only as to certain brand or brands. In approving suppliers for the System, we may take into consideration the price and quality of the products or services and the reliability of the supplier and other factors. We may concentrate purchases with 1 or more suppliers to obtain the lowest prices and/or the best advertising support and/or services for any group of Zero's Subs Franchisees or Company Units within the Chain. Approval of a supplier may be conditioned on requirements for the frequency of delivery, standards of service, including prompt attention to complaints, and concentration of purchases, as stated above, and may be temporary, pending our additional evaluation of the supplier. If we later disapprove a supplier, we will notify you in writing of the disapproval. You must cease purchasing from that supplier within a reasonable time after your receipt of our notice of disapproval.

### APPROVAL OF NEW SUPPLIERS

If you propose to purchase or lease any equipment, supplies, inventory, advertising materials, or other products or services from an unapproved supplier, you must submit to us a written request for approval, or request the supplier to do so itself. We have the right to require, as a condition of its approval, that its representatives are permitted to inspect the supplier's facilities, and that samples from the supplier be delivered, at our option, either to us or to an independent, certified laboratory we designate for testing. We will not be liable for damage to any sample that may result from the testing process. You will pay a charge not to exceed the reasonable cost of the inspection and the actual cost of the testing. We may also require as a condition to its approval, that the supplier present satisfactory evidence of insurance, for example, product liability insurance, protecting us and our Franchisees from all claims from the use of the item within the System. We will give approval or disapproval in writing and delivered to you by regular mail within 10 days after all testing and the above conditions have been completed. We reserve the right, at our option, to reinspect the facilities and products of any approved supplier and continue to sample the products at the supplier's expense and to revoke approval upon the supplier's failure to continue to meet our standards and specifications. You will receive notification of approval or disapproval of a supplier within 7 days after we have investigated and inspected the supplier. Our criteria for supplier approval are available to you.

Except as described in this ITEM, there are no other requirements for you to purchase or lease in accordance with specifications or from approved suppliers.

### REVENUE FROM APPROVED SUPPLIES AND SUPPLIERS

We negotiate discounted prices for products with suppliers. We derive revenues as a result of your purchases. This income is derived from rebates paid by certain suppliers based on your purchases. We do not

receive revenues as a result of the leases in accordance with our standards or specifications. You authorize us to act as your sole agent to enter into contracts with parties offering promotion, discount or other programs. All Rebates will be paid to us and used to help grow the company. By signing the Franchise Agreement, you assign all of your right, title and interest in all Rebates to us, and authorize us to furnish any proof of purchase evidence as may be required in accordance with the contracts. Rebates received by us from our Company-Units may also be contributed to the Marketing Fund.

Our total revenues from all operations during 2005 were \$767,542. Of this amount, \$229,445 was derived from the products and services that the franchisees are required to purchase from us or our Designees. This amount represents 29.89% of our total revenues for 2005. This information is derived from our financial statements attached as Exhibit E.

We do not provide any other material benefits to franchisees for use of designated or approved sources.

#### MAGNITUDE OF REQUIRED PURCHASES OR LEASES

We estimate that your purchases from required or approved sources will be less than 10% of your total initial investment and less than 20% of your ongoing expenses in the operation of the Franchised Business. These amounts may vary.

#### PURCHASING OR DISTRIBUTION COOPERATIVES

There are currently no purchasing or distribution cooperatives that you are required to join or in which you may participate.

We do not discriminate among our Franchisees based upon a particular Franchisee's use of a particular approved supplier.

### ITEM 9 - FRANCHISEE'S OBLIGATIONS

THIS TABLE LISTS YOUR PRINCIPAL OBLIGATIONS UNDER THE FRANCHISE AGREEMENT. IT WILL HELP YOU FIND MORE DETAILED INFORMATION ABOUT YOUR OBLIGATIONS IN THIS AGREEMENT AND IN OTHER ITEMS OF THIS FRANCHISE OFFERING CIRCULAR.

Obligation	Section in Franchise Agreement	ITEM in Offering Circular
a. Site selection and acquisition/lease	Section 5.2 and Attachment A	11
b. Pre-opening purchases/leases	Section 5.3	7 and 8
c. Site development and other pre-opening requirements	Section 5.4.	7 and 11
d. Initial and ongoing training	Sections 5.5. and 5.7	11
e. Opening	Section 5.4	11
f. Fees	ARTICLE 4	5 and 6
g. Compliance with standards and policies/operating manual	ARTICLE 7	11
h. Trademarks and proprietary information	ARTICLES 6, 7 and 8	13 and 14
i. Restrictions on products/services offered	Sections 5.13 and 5.14	16
j. Warranty and customer service requirements	None	None
k. Territorial development and sales quotas	None	12

l. Ongoing product/service purchases	Section 5.14 and 5.15	8
m. Maintenance, appearance and remodeling requirements	Section 5.9	None
n. Insurance	ARTICLE 11	None
o. Advertising	ARTICLE 10	6 and 11
p. Indemnification	Section 16.3	6
q. Owner's participation/management/staffing	Section 5.6	11 and 15
r. Records and reports	ARTICLE 9	17
s. Inspections and audits	Sections 3.2 and 9.4	6 and 11
t. Transfer	ARTICLE 12	6 and 17
u. Renewal	Section 2.2.	6 and 17
v. Post-termination obligations	ARTICLE 14	17
w. Non-competition covenants	Sections 15.2 and 15.3	17
x. Dispute resolution	Sections 16.11 and 16.12	17

#### ITEM 10 - FINANCING

We do not offer direct or indirect financing, nor do we guarantee your note, lease or obligation.

#### ITEM 11 - FRANCHISOR'S OBLIGATIONS

**EXCEPT AS DISCLOSED BELOW, WE NEED NOT PROVIDE ANY ASSISTANCE TO YOU.**

##### MANDATORY OBLIGATIONS BEFORE OPENING OF THE FRANCHISE

After the Franchise Agreement is signed and before opening your Franchised Business, we will provide you with the following assistance and services if you are not in default under your Franchise Agreement:

1. Grant you the right to use the trademark "Zero's Mr. Submarine<sup>®</sup>" in connection with your Franchised Business and within your Exclusive Territory. [Subsection 3(a) of the Franchise Agreement].
2. Designate an Exclusive Territory for the Franchised Business. [Subsection 3.1(b) of the Franchise Agreement].
3. Provide location research and site selection assistance including real estate and demographic analysis, as we deem advisable, subject to the availability of personnel. [Subsection 3.1(c) of the Franchise Agreement and Attachment A].
4. Assist in negotiation of the lease or property purchase for the franchise. [Subsection 3.1(d) of the Franchise Agreement].
5. Loan to you a single copy of our confidential Manuals, which include specifications for equipment, supplies, inventory, management and operation of the Franchised Business and which guidelines and specifications must be adopted by you. The Manuals are confidential and remain our property. We may modify the manuals from time to time, but these modifications will not alter your status and rights under the Franchise Agreement. [Subsection 3.1(e) of the Franchise Agreement].
6. Provide typical floor plans and site build-out specifications for the construction of the Franchised Business. [Subsection 3.1(f) of the Franchise Agreement].

7. Provide you and a General Manager with a mandatory initial training program related to the operation and management of your Franchised Business. (As noted in ITEM 6, there is no additional charge payable to us for the initial training program. However, you are responsible for all costs of travel, lodging and meals while training takes place). [Subsection 3.1(g) of the Franchise Agreement].
8. Make available to you a Supplemental Training Program, which provides on-site assistance both before and during the initial 2 weeks of operation of your Franchised Business. (As noted in ITEM 6, the Supplemental Training Program is available for an additional fee of \$150 per day). [Subsection 3.1(h) of the Franchise Agreement].

Except as otherwise stated above, these obligations of ours will be satisfied at initial training, or within 30 days after initial training.

**DISCRETIONARY OBLIGATIONS BEFORE OPENING OF THE FRANCHISE**

None

**MANDATORY OBLIGATIONS AFTER BEGINNING OPERATIONS**

The obligations we will perform during the operation of your Franchised Business are as follows if you are not in default under your Franchise Agreement:

1. Provide such general advisory assistance and field support deemed by us to be helpful to you in the ongoing operation, advertising and promotion of the Franchised Business. [Subsection 3.2(a) of the Franchise Agreement]
2. Continue efforts to establish and maintain high standards of quality, cleanliness, safety, customer satisfaction and service. [Subsection 3.2(b) of the Franchise Agreement]
3. Provide you with updates, revisions and amendments to the Manuals. [Subsection 3.2(c) of the Franchise Agreement]
4. Subject to the availability of our staff, provide management consulting services for special projects or assistance upon a mutually acceptable arrangement pertaining to fees and expenses. [Subsection 3.2(d) of the Franchise Agreement]
5. Administer a National Advertising Fund, if we establish a Fund. [Subsection 3.2(e) of the Franchise Agreement]
6. Coordinate and conduct periodic training programs for its network of franchisees, as we deem necessary and in our sole discretion. [Subsection 3.2(f) of the Franchise Agreement]
7. On a periodic basis, conduct, as we deem advisable, inspections of the Franchised Business and its operations and evaluate the methods and staff employed by the Franchised Business. [Subsection 3.2(g) of the Franchise Agreement]
8. Make available to you an On-Site Training Program of 80 hours which provides on-site assistance both before and during the initial 2 weeks of operation of your Franchised Business at the location of the Franchised Business. [Subsection 3.2(h) of the Franchise Agreement]

**DISCRETIONARY OBLIGATIONS AFTER BEGINNING OPERATIONS**

None



**ADVERTISING****LOCAL ADVERTISING**

Independent of any National Advertising Fund contributions, you will be required to make annual expenditures of at least 2% of your Gross Sales on local marketing and promotion. This local marketing and promotion will be conducted by you either individually or in conjunction with other franchisees and must comply with the policies and procedures we establish for prior approval of all proposed marketing and promotion campaigns and materials. Upon your request and our written approval, you are permitted to use your own advertising material. You are required to submit to us a report, on a form we prescribe, that demonstrates that you have fulfilled the minimum requirement for local marketing and promotion. These local marketing and promotion requirements and fees exist independently of a National Advertising Fund. [Section 10.3 of the Franchise Agreement.]

**NATIONAL ADVERTISING FUND**

We have established and maintain a National Advertising Fund (the "Fund"). You will pay to us a continuing, non-refundable, weekly contribution of up to 2% of your Gross Sales for the preceding week for advertising, marketing and promotional programs. We have established a direct debit program (see Attachment E to Franchise Agreement). The advertising sums paid by you will be maintained in an account separate from our monies. Upon your request, we will annually account for advertising funds expended, including a reasonable allocation for our overhead expenses incurred in connection with administration and management. It is understood and agreed that we will allocate advertising funds, as we deem appropriate. The allocation of the advertising fees will be applied to the DMA for a territory in which you are located. Production costs may or may not be allocated to this fund by the Ad Council. [Subsection 10.2(a) of the Franchise Agreement.]

The Fund is administered entirely by us, and we have the right to allocate advertising funds to specific regions and apportion expenditures as we see fit. Some of the factors considered by us in making allocations include advertising benefits from other markets, competitive pressure and estimated market capabilities, and specific local market opportunities. You will not necessarily receive a significant direct benefit from the allocation of advertising funds and we are not required to spend any amount on advertising in the area where your Franchised Business is located. [Subsection 10.2(b) of the Franchise Agreement.]

If all of the advertising fees are not spent in the fiscal year in which they accrue, they will remain in the Fund for use during the following year. However, advertising funds may not be used for the solicitation of other franchisees. [Subsection 10.2(c) of the Franchise Agreement.] (See also ITEMS 6, 8, and 9 of this Franchise Offering Circular).

For the fiscal year ending December 31, 2005 the Fund had an opening balance of \$-7,969, receipts of \$170,211, made the following expenditures and had a closing balance of \$ -1,593:

Production	\$ 0	-0%
Media Placement	\$ 154,804	91%
Administrative Expenses	\$ 17,000	10%
Prospective Franchisee Solicitation	\$ -0-	-0%
Balance as of December 31, 2005	\$ (1,593)	(1)%
<b>TOTAL</b>	<b>\$ 170,211</b>	<b>100%</b>

We also have the right to change, dissolve or merge any Cooperative

#### **ELECTRONIC MEDIA**

There are no restrictions on our use of electronic media, including the Internet.

#### **MISCELLANEOUS**

Company Units are required to contribute to the Marketing Fund and any Cooperative on the same basis as franchisees. [Subsection 10.2(d) of the Franchise Agreement.]

We do not receive payment for providing goods or services to the Fund.

Any monies not spent by either the Marketing Fund or any National Cooperative Advertising Fund in any particular year are carried over to fund advertising expenses in the next year.

There may be additional advertising requirements contained in your Premises lease. The extent of these advertising requirements may be subject to negotiation; consequently, the extent of any advertising obligation, if any, may be unknown to us.

See ITEMS 6, 8 and 9 for additional information on the Zero's Subs advertising programs.

#### **OTHER ADVERTISING FUNDS**

There are no other advertising funds.

#### **COMPUTER AND CASH REGISTER REQUIREMENTS**

There are currently no computer software and hardware requirements, nor point of sale requirements. There are no upgrade requirements. We are not contractually required to provide to you ongoing maintenance, repairs, upgrades or updates, although we may do so. We may request to approve the purchase of any register.

We reserve the right to poll (via modem) the franchisees' computer systems in order to compile sales data, consumer trends, food and labor costs, and other such financial and marketing information, as we may deem appropriate. We may distribute this data on a confidential basis to our franchisees.

#### **OPERATIONS MANUALS**

We permit prospective franchisees to view the Manuals at company headquarters or elsewhere as arranged before signing the Franchise Agreement. To protect the confidentiality of the Manuals, we require that you sign a Confidentiality Agreement before reviewing the Manuals (See Exhibit B).

#### **SITE SELECTION METHODS**

In the Site Selection Addendum (Attachment A to the Franchise Agreement) and Section 5.2 of the Franchise Agreement, we grant you a Site Selection Area in which to select the site for your Franchised Business. We must approve your site. The criteria that we use to evaluate the site selected include visibility, traffic count, demographics, and local competition. We will approve or disapprove your proposed site within 10 days after receipt of all materials reasonably requested by us. If the Spectra analysis and demographics review are not favorable for a site, we will discourage you from selecting the site but the final decision is yours. You will have a period of 180 days after signing the Franchise Agreement to locate a site for the Franchised Business, to obtain our approval of the site and to sign the lease. We will be available from time to time, and at our sole discretion, to provide general site selection assistance to you. If you fail to find a suitable site we approve with this 180-day period, we may terminate your Franchise Agreement, refund to you the Initial Franchise Fee and neither party has any further obligation to the

other except for those matters which survive the termination of the Franchise Agreement including the obligation of confidentiality. The Franchisee must commence the operation of the Franchised Business within 120 days after signing the lease for the Franchised Business site.

#### **TIME BETWEEN SIGNING OF FRANCHISE AGREEMENT AND THE OPENING OF THE ZERO'S SUBS FRANCHISE**

The typical length of time between the signing of the Franchise Agreement and the opening of the Franchised Business is 5 months. Factors affecting this length of time usually include obtaining a satisfactory site, financing arrangements, local ordinance compliance questions, and delivery and installation of equipment.

#### **TRAINING**

We provide a mandatory initial training program for you and your general manager, which is to be completed at least 6 weeks before the expected completion and opening of the Franchisee's restaurant. The initial training program is conducted at a designated training facility, which is an operating Zero's restaurant, and our Administrative Offices located at 2859 Virginia Beach Blvd, Suite 105, Virginia Beach, Virginia 23452,

The initial training program provides instruction related to the operation of the Franchised Business for up to 2 persons. The Franchisee/General Manager will be required to complete a 2- week training program that includes kitchen procedural training, training in cost controls, general administration, marketing and operations, for a total of 80 training hours.

In addition to the initial training, we will provide you with opening assistance for up to 2 weeks during the initial operation of your Franchised Business.

For an additional fee of \$150/per day plus meals and travel costs, you may supplement these initial training programs with our Supplemental Training Program. Pursuant to the Supplemental Training Program, our field support training staff provides you up to 2 weeks of additional training at the location of your Franchised Business.

Initial Training will occur 2 to 4 weeks after the Franchise Agreement is signed or 4 to 6 weeks before the opening of your Franchised Business.

<b>Subject</b>	<b>Time Begun</b>	<b>Instructional Material</b>	<b>Hours of Classroom Training</b>	<b>Hours of On-the-Job Training</b>	<b>Instructor</b>
Accounting	Week 4	Operations Manual	8	15	Kathy Gatchell
Food	Weeks 1-3	Operations Manual	4	50	Kathy Gatchell
Equipment	Weeks 3-4	Equipment Manual	2	15	Kathy Gatchell
Management	Weeks 1-4	Operations Manual	13	39	Kathy Gatchell

The initial training program is mandatory. You must complete the training program to our satisfaction prior to the opening of the Franchised Business. All training occurs at our training facility, administrative offices, or at locations otherwise designated by us. Additional training programs and refresher courses may also be required.

### **EXPERIENCE OF INSTRUCTOR**

Kathy Gatchell is currently the Director of Training. Kathy is responsible for all aspects of training, including maintaining a national training staff. She has been a Zero's franchisee since 1997. Ms. Gatchell has been conducting the training program since January 2005. Kathy has also been responsible for running several Zero's Mr. Submarine franchises since 2002.

### **FRANCHISEE ATTENDANCE IN DISCRETIONARY TRAINING PROGRAM.**

For an additional fee of \$150/per day plus meal and travel expenses you may supplement the On-site Training Program by having our field support training staff provide additional training at your location after the Franchised Business opens. [Subsection 3.2(h) of the Franchise Agreement.]

## **ITEM 12 - TERRITORY**

### **EXCLUSIVE TERRITORY**

Provided you have fully complied with your obligations under the Franchise Agreement, we agree not to grant another franchise location or establish a company-owned Franchise Business within a 2-mile radius of the location of your Franchised Business, unless such location is within the geographic boundaries of an area with a population greater than one million persons ("Densely Populated Urban Area" or DPUA) in which case we agree not to grant another franchise location within a 1-mile radius of the Franchised Business (the "Exclusive Territory"). We reserve the right to establish company-owned units, or to license other franchisees to establish Franchised Businesses, at any site we deem appropriate outside of the Exclusive Territory. You may relocate your Franchised Business only with our prior written approval.

We do not operate or franchise the operation of, or have any presently formulated plans or policy to operate or franchise the operation of any Franchised Businesses providing products or services under different trade names or trademarks similar to, or competitive with those to be offered by you. However, the Franchise Agreement contains no limitations other than as stated above on our right to establish such other franchises or outlets.

You have no option to purchase an additional Franchise, no right of first refusal to purchase an additional Franchise and no right to acquire additional Franchises within the Exclusive Territory, any contiguous territory or any other territory.

### **NO MINIMUM PERFORMANCE STANDARD**

The exclusivity of your Protected Territory is not dependent upon the achievement of any certain sales volume or market penetration.

### **ALTERATION OF PROTECTED TERRITORY**

The Protected Territory may not be altered except by the mutual written agreement between you and us.

## **ITEM 13 - TRADEMARKS**

Subsection 3.1(a), Section 5.18 and ARTICLE 6 of the Franchise Agreement grant to you the right to use the Proprietary Property we designate only in the manner we authorize and permit and only for the operation of your Franchise.

### **REGISTRATIONS AND APPLICATIONS**

The following Proprietary Marks, that are licensed for your use under the Zero's Subs Franchise Agreement, are owned by us, as assignee of XS, Inc., and are registered on the Principal Register of the United States Patent and Trademark Office:

<u>Mark</u>	<u>International Class</u>	<u>Registration Date</u>	<u>Registration Number</u>
Zero's Mr. Submarine	42	April 23, 1974	982,670

The Proprietary Marks have been renewed. Section 8 affidavits have been filed and the Proprietary Marks are incontestable.

The Proprietary Marks have not been registered in any state.

We have used the Proprietary Marks and have acquired common law rights in the Proprietary Marks as a result of this use. We intend to file an application with the United States Patent and Trademark Office for the trademark and design of "Zero's Subs"

#### **PROCEEDINGS**

There are no currently effective material determinations of the U.S. Patent and Trademark Office, Trademark Trial and Appeal Board, the Trademark Administrator of any state or any court. There are no currently pending infringement, opposition or cancellation proceedings. There is no currently pending material litigation involving the Proprietary Marks. There are no decided infringement, cancellation or opposition proceedings where we unsuccessfully fought to prevent registration of a trademark in order to protect the Proprietary Marks we sublicense.

#### **AGREEMENTS**

There are no agreements currently in effect that significantly limit our rights to use or license the use to franchisees of the Proprietary Marks and other Proprietary Property in any manner material to you.

#### **INFRINGEMENT USES**

There are no infringing uses or superior prior rights actually known to us that could materially affect your use of the Proprietary Marks. However, our registration of the Proprietary Marks does not prohibit others from using the Proprietary Marks or confusingly similar variations of the Proprietary Marks who may have established prior rights to the use of the Proprietary Marks, or confusingly similar variations of the Proprietary Marks, in the territories where neither we nor our Franchisees have operated or advertised under the Proprietary Marks and that are not within the natural zone of expansion for future Franchised or Company Units, provided others do so in good faith and without actual knowledge of our existence or our Franchisees' use of the Proprietary Marks. We would therefore be unable to prohibit the use of the Proprietary Marks by others who had prior use of the Proprietary Marks or confusingly similar variations of the Proprietary Marks at the time we first used them. If others establish prior rights to the Proprietary Marks in certain territories, we may be restricted in our ability to use the Proprietary Marks when expanding into those territories.

#### **YOUR RIGHTS AND OBLIGATIONS WITH RESPECT TO THE PROPRIETARY PROPERTY INCLUDING THE PROPRIETARY MARKS**

Your rights to use the Proprietary Marks are derived solely from your Franchise Agreement and are limited to the operation of your Franchised Business under your Franchise Agreement and all applicable standards, specifications, and operating procedures we require during the Term. Any unauthorized use of the Proprietary Property including the Proprietary Marks is a breach of your Franchise Agreement and an infringement of our rights in and to the Proprietary Marks. Your use of the Proprietary Property and any good will established by your use inures to our exclusive benefit. The Franchise Agreement does not confer any good will or other interest in the Proprietary Property to you, other than the right to operate a Zero's Subs Franchise in compliance with the Franchise Agreement. All provisions of the Franchise Agreement applicable to the Proprietary Marks apply to any other

trademarks, service marks, commercial symbols, designs, artwork, and logos that we may adopt, use, authorize and sublicense to you to use during the Term.

You must use the Proprietary Marks as the sole trade identification of your Franchise, and must identify your Franchise in the form we require as the independent owner of the Zero's Subs Franchise. You must use all Proprietary Marks and other commercial symbols that we may sublicense in full compliance with rules we enact. You are prohibited from using any Proprietary Marks (including any future commercial marks we license) in the sale of any unauthorized product or service or in any manner we have not explicitly authorized. You cannot use the Proprietary Marks as, or part of, your corporate or partnership name. You must follow our instructions in complying with any fictitious, trade or assumed name statutes for the Zero's Mr. Submarine trade name. You may not use the Proprietary Property as security for any obligation or indebtedness. Without our prior written approval, you will not use any Proprietary Mark as part of any e-mail address, Web Site, domain name or any other electronic media (including use with any prefix, suffix or other modifying words, term designs, or symbols), or in any other manner connected with a Web Site, advertisements on a Web Site, or other similar electronic media.

Upon any claim of infringement, unfair competition or other challenge to your right to use any Proprietary Property, or if you become aware of any use of or claims to any Proprietary Property by persons other than us or our Franchisees, you must notify us in writing within 7 days. You may not communicate with anyone except us and our counsel in any infringement, challenge or claim except under judicial process. We have sole discretion as to whether we take any action in any infringement, challenge or claim, and the sole right to control any litigation or other proceeding involving any infringement, challenge or claim of any Proprietary Property. You must sign all instruments and documents, render all assistance, and do all acts that our attorneys deem necessary or advisable in order to protect and maintain our interest in any litigation or proceeding involving the Proprietary Property or otherwise to protect and maintain our interests in the Proprietary Property.

#### **YOUR INDEMNIFICATION BY US**

We indemnify you against and will reimburse you for all damages that you are held liable in any proceeding involving your use of any Proprietary Property in accordance with the Franchise Agreement, provided that you: (a) have timely notified us of the claim; (b) have otherwise complied with the Franchise Agreement; and (c) allow us sole control of the defense and settlement of any claim.

#### **MODIFICATION**

If it becomes advisable at any time, and in our sole discretion, we may modify or discontinue the use of any name or mark and/or use one or more additional or substitute names or marks, and you will be responsible for the tangible costs (such as replacing signs and materials) associated therewith.

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

#### **PATENTS**

We do not own any rights in any patents material to the Zero's Subs Franchise.

#### **COPYRIGHTS**

We claim proprietary rights and common law copyrights in the confidential information contained in the Manuals (as described in ITEM 11). We also claim common law copyrights in our operational materials and in other proprietary materials specifically created by us in connection with our System, including the proprietary advertisements, printed materials and forms used in connection with the operation of a Franchised Business. The Manuals and other proprietary materials have not been registered with any copyright office. You must promptly inform us regarding any unauthorized use of this proprietary information. We are not obligated to take any action, but we will respond to this information, as we deem appropriate. We will not indemnify you for losses brought by a third party concerning your use of this information.

### CONFIDENTIAL INFORMATION

The Manuals and other copyrighted materials made available to you contain confidential and proprietary information and are our trade secrets. We possess and will develop and acquire certain confidential and proprietary information and trade secrets consisting of the following categories of information, methods, techniques, procedures and knowledge we or our Franchisees develop (the "Confidential Information") including: (1) our methods, techniques, tools, specifications, standards, policies, procedures, information, concepts, systems, and knowledge of the experience in our development, operation and franchising; (2) our marketing and promotional programs for Zero's Subs; (3) knowledge of specifications for and knowledge of suppliers of certain materials, equipment, furniture and fixtures for Zero's Subs restaurants; and (4) knowledge of our customer lists, operating results and financial performance.

We will disclose to you all parts of the Confidential Information as are required for the operation of the Franchise during initial training, in the Manuals, and in guidance and assistance furnished to you, and you may learn additional Confidential Information during the Term. You must agree to disclose the Confidential Information to your employees only to the extent reasonably necessary. You agree that, during and after the Term, you, your owners and employees will: (i) not use the Confidential Information in any other business or capacity, including any derivative or spin-off of the Zero's Subs concept; (ii) maintain the absolute secrecy and confidentiality of the Confidential Information during and after the Term; (iii) not make unauthorized copies of any portion of the Confidential Information disclosed or recorded in written or other tangible form; and (iv) adopt and implement all procedures that we prescribe to prevent unauthorized use or disclosure of, or access to, the Confidential Information.

All persons, whom you permit to have access to the Manuals or any other Confidential Information, must first sign our form of Confidentiality Agreement. Nothing contained in the Franchise Agreement will be construed to prohibit you from using the Confidential Information in the operation of your Franchise under your Franchise Agreement.

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

You and/or your General Manager, and Shift Supervisor must attend and complete, to our reasonable satisfaction, our mandatory initial training program at least 30 days before the opening of the Franchised Business. Any person employed as Franchisee's General Manager must attend and complete to our reasonable satisfaction this initial training program within 30 days of the General Manager's initial employment.

You or your General Manager must personally participate in the direct operation of the Franchised Business and the Franchised Business must be under the direct on-premises supervision of either you or your General Manager at all times. If the General Manager is not the owner-operator of the Franchised Business, then the Franchisee is encouraged, but is not required, to offer profit participation to the Franchisee's General Manager.

Also, you or your General Manager must devote your best efforts to the supervision and management of the Franchised Business during business hours. We believe that the success of the Franchised Business will depend upon your direct personal and continued efforts, supervision and attention.

If the Franchise Agreement is signed by 2 or more individuals or by a business entity, you agree to designate in writing an individual as the Manager upon signing this Agreement. We have the right to rely solely on instructions of the Manager concerning the operation of the Franchised Business until we receive a duly signed written notice changing the designated Manager. The Manager must devote his or her best full-time efforts to the management and operation of your Franchised Business.

You will not disclose any Confidential Information or provide access to the Manuals to an employee or agent until that person signs a nondisclosure agreement in a form prescribed us, acknowledging the confidential and proprietary nature of the Confidential Information and agreeing not to disclose such information during the course of employment or thereafter. We will be designated a third-party beneficiary of the nondisclosure agreements with the right to enforce its provisions independently of you.

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

The Franchise Agreement provides that you must offer, and may only offer, the products and services that we authorize in the Manuals, as it may be updated from time to time, or otherwise in writing. You are prohibited from offering or selling products and services not authorized by us. We reserve the right to change the types of authorized services and products. You are prohibited from soliciting other franchisees either directly or indirectly for any other business or investment activity. There are no limitations imposed by us on the persons or businesses to whom you may provide products and services, except such as are imposed by the nature of the System itself.

**ITEM 17 - RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION**

This table lists certain important provisions of the Franchise Agreement. You should read these provisions in the Franchise Agreement attached to this Franchise Offering Circular.

Provision	Section in Franchise Agreement	Summary
a. Term of the franchise	Section 2.1	The term of the Franchise Agreement is 15 years, unless sooner terminated
b. Renewal or extension of the term	Section 2.2	You may renew for an additional 15-year term. See Exhibit G to this FOC for certain state-specific requirements.
c. Requirements for you to renew or extend	Section 2.2	Give notice, pass inspection, sign new Franchise Agreement, retrain, sign general release, and pay 10% of the then current initial franchise fee
d. Termination by you	None	
e. Termination by us without cause	None	
f. Termination by us with cause	ARTICLE 13	We can only terminate you if you default
g. "Cause" defined – defaults which can be cured	Section 13.1	You have 30 days to cure: non-payment of fees, non-submission of reports, failure to complete training, and any other default not listed in Section XIII of the Franchise Agreement
h. "Cause" defined – defaults which cannot be cured	Section 13.1	Non-curable defaults: bankruptcy, conviction of felony, repeated defaults even if cured, abandonment, trademark misuse, unproved transfer, etc. See Exhibit G to this FOC for certain state-specific requirements.
i. Your obligations on termination/non-renewal	ARTICLE 14	Obligations include cessation of operations, complete de-identification, non-competition, adherence to covenants, execution of release and payment of amounts due
j. Assignment of contract by us	Section 12.1	No restriction on our right to assign
k. Conditions for our approval of transfer	Section 12.2	New franchisee qualifies and signs current agreement, transfer fee paid, training arranged, you sign release, etc.



l. Our right of first refusal to acquire your business	Section 12.5	We may match any bona fide offer for your business
m. Our option to purchase your business	Section 12.5	We reserve the right to purchase upon termination
n. Your death or disability	Section 12.6	We must approve transfer or estate must transfer business to our designee within 6 months
o. Non-competition covenants during the term of the franchise	Section 15.2	No involvement in competing business anywhere. See Exhibit G to this FOC for certain state-specific requirements.
p. Non-competition covenants after the franchise is terminated or expires	Section 15.3	No competing business for 2 years within 5 miles of the Exclusive Territory of any Franchised Business. See Exhibit G to this FOC for certain state-specific requirements.
q. Modification of the agreement	Section 16.1	Modification only upon written agreement of the parties
r. Integration/merger clause	Section 16.8	Only the terms of the Franchise Agreement and its attachments are binding (subject to state law). Any other promises may not be enforceable
s. Dispute resolution	Section 16.12	Arbitration. See Exhibit G to this FOC for certain state-specific requirements.
t. Choice of forum	Section 16.11	Any action or arbitration proceeding begun for the purpose of enforcing the Franchise Agreement will be filed in the courts and arbitration board where our principal business address is located at the time of the filing of the action (currently Virginia). See Exhibit G to this FOC for certain state-specific requirements.
u. Choice of law	Section 16.11	Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. Sections 1051 et seq.) or the United States Arbitration Act (9 U.S.C. Sections 1 et seq.), the Franchise Agreement is interpreted under the laws of Virginia. See Exhibit G to this FOC for certain state-specific requirements.

<sup>1</sup> **Reinstatements and Extensions.** If any termination or expiration of the Term would violate any applicable law, we may reinstate or extend the Term for the purpose of complying with the laws, for the duration we provide in written notice to you, without waiving any of our rights under, or otherwise modifying, the Zero's Subs Franchise Agreement.

<sup>2</sup> **Restrictions on Termination or Non-Renewal Under State Law.** These states have statutes that may supersede the Franchise Agreement in your relationship with Zero's Mr. Submarine including the areas of termination and renewal of your Franchise: ARKANSAS [Ark. Code Sections 4-72-210 to 4-72-210], CALIFORNIA [Bus. & Prof. Code Sections 20000-20043], CONNECTICUT [Gen. Stat. Section 42-133e et seq.], DELAWARE [Code Sections 2251 to 2556], HAWAII [Rev. Stat. Section 482E-6], ILLINOIS [Chapter 815 ILSC 705/19 AND 705/20], INDIANA [Stat. Sections 23-2.2.7 and 23-2.5-1], MICHIGAN [Stat. Section 19.854(27)],

MINNESOTA [Stat. Section 80C.14], MISSISSIPPI [Code Section 75-24-51 to 75-24-61], MISSOURI [Stat. Section 407.400 to 407.410], NEBRASKA [Rev. Stat. Section 87-401 to 87-410], NEW JERSEY [Stat. Section 56:10-1 to 56:10-12], RHODE ISLAND [Stat. Section 19-28.1-14], SOUTH DAKOTA [Codified Laws Section 37-5A-51], VIRGINIA [Code 13.1-564], WASHINGTON [Code Section 19.100.180], and WISCONSIN [Stat. Section 135.01 to 135.07]. These and other states may have court decisions that may supersede the Franchise Agreement in your relationship with Zero's Subs including the areas of termination and renewal of the Franchise.

<sup>3</sup> **Termination on Bankruptcy.** A provision in your Zero's Subs Franchise Agreement that terminates your Zero's Subs Franchise upon your bankruptcy may not be enforceable under Title 11, United States Code Section 101 *et seq.*

<sup>4</sup> **Restrictions on Our Post-Termination Rights.** These states have statutes that limit our ability to restrict your activity after the Zero's Subs Franchise Agreement has ended: California Business and Professions Code Section 16,600, Florida Statutes Section 542.335, Michigan Compiled Laws Section 445.772 *et seq.*, Montana Codes Section 30-14-201, North Dakota Century Code Section 9-08-06, Oklahoma Statutes Section 15-217-19, Washington Code Section 19.86.030. Other states have court decisions limiting our ability to restrict your activity after the Zero's Subs Franchise Agreement has ended.

#### **ITEM 18 - PUBLIC FIGURES**

We do not use any public figures to promote the Franchised Business.

#### **ITEM 19 - EARNINGS CLAIMS**

We do not furnish or authorize our salespersons to furnish any oral or written information concerning the actual or potential sales, costs, income or profits of your Zero's Subs Franchise. Actual results vary from Zero's Subs Franchise to Zero's Subs Franchise. We cannot estimate the results of any particular Zero's Subs Franchise.

We specifically instruct our sales personnel, agents, employees and officers that they are not permitted to make any claims or statements as to the earnings, sales or profits, or prospects or chances of success, nor are they authorized to represent or estimate dollar figures as to any Franchise Business or Company-Owned Unit.

#### **ITEM 20 - LIST OF OUTLETS**

[go to next page]

**FRANCHISED BUSINESS STATUS SUMMARY  
FOR FISCAL YEARS ENDING 2005/2004/2003**

State	Transfers	Canceled or Terminated	Not Renewed	Reacquired By Franchisor	Left The System Other	Total From Left Columns (2)	Fran
Arizona	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	
Florida	1/0/0	0/2/0	0/0/0	0/0/0	0/0/0	1/2/0	
North Carolina	0/0/1	0/3/3	0/0/0	0/0/0	0/0/0	0/3/4	
South Carolina	0/0/0	0/3/2	0/0/0	0/0/0	0/0/0	0/3/2	
Virginia	4/1/3	0/1/2	0/0/0	0/0/0	0/0/0	4/2/5	
Nevada	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	
<b>TOTAL</b>	<b>5/1/4</b>	<b>0/9/7</b>	<b>0/0/0</b>	<b>0/0/0</b>	<b>0/0/0</b>	<b>5/10/11</b>	

1) Note: All numbers are as of December 31 for each year

2) The numbers in the "Total" column may exceed the number of stores affected because several events may have affected the same store. For example, the same store may have had multiple owners.

**STATUS OF COMPANY OPERATED STORES  
FOR FISCAL YEARS ENDING 2005/2004/2003**

State	Stores Closed During Year	Stores Opened During Year	Total Stores Operating At Year End
Virginia	0/0/0	0/0/0	0/0/0
<b>TOTAL</b>	<b>0/0/0</b>	<b>0/0/0</b>	<b>0/0/0</b>

**PROJECTED OPENINGS  
AS OF JANUARY 1, 2006**

State	Franchise Agreements Signed But Store Not Open	Projected Franchised New Stores In The Next Fiscal Year	Projected Company Owned Openings In Next Fiscal Year
Arizona	0	0	0
California	6	9	0
Georgia	1	2	0
Florida	1	2	0
Illinois	0	0	0
Maryland	0	0	0
North Carolina	0	3	0
Ohio	0	0	0
Nevada	0	0	0
South Carolina	0	2	0
Virginia	1	6	0
<b>TOTAL</b>	<b>9</b>	<b>24</b>	<b>0</b>

Attached to this Franchise Offering Circular as Exhibit C is the List of Franchisees.

Exhibit C also lists any franchisees who have had an outlet terminated, canceled, not renewed or otherwise voluntarily or involuntarily ceased to do business under the Franchise Agreement during the last fiscal year or who have not communicated with us within 10 weeks of the application date.

**ITEM 21 - FINANCIAL STATEMENTS**

Attached as Exhibit E are our audited financial statement for the fiscal years ending December 31, 2005, December 31 2004, and December 31, 2003.

Our fiscal year ends December 31.

**ITEM 22 - CONTRACTS**

The following contracts, agreements and other relevant documents are attached as Exhibits to this Franchise Offering Circular:

A - Zero's Subs Franchise Agreement

A - Site Selection Addendum

B - Option for Assignment of Lease

C - Telephone Assignment Agreement  
D - Guaranty  
E - Authorization Agreement

B - Confidentiality Agreement

C - List of Franchisees

D - List of State Administrators And Agents for Service of Process

E - Financial Statements

F - Area Representative Information

G - State Specific Addenda

H - Franchisee Closing Questionnaire

I - Acknowledgement of Receipt

**ITEM 23 - RECEIPT**

In accordance with the Trade Regulation Rule of the Federal Trade Commission titled "Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures," an Acknowledgment of Receipt by the Prospective Franchisee is attached as Exhibit J.