

DATE OF ISSUANCE _____, 2014

Effective Date This franchise offering ~~was previously~~ is registered in California effective April 22, 2014 and in Washington, and ~~renewal is pending in those two states~~. The effective date in California and Washington will be the date of renewal effective June 13, 2014. In all other states where this franchise may be offered in accordance with applicable state law, the effective date is the date of issuance of this disclosure document.

must be customized for use and pre-loaded with certain applications and software. As such, the only approved supplier of cash register systems and components is Southern Oregon Business Equipment (28 South Peach St., Medford, OR 97501, 541-773-2142). We do not own any interest in these suppliers. See Item 11 for more information on the cash register system.

For certain perishable food supplies, including milk, and pastries not required to be purchased from Seattle Gourmet or BeBop Biscotti, you are required to purchase these from an approved local supplier in your area. We will tell you who this supplier is based on the location of your outlet. If we have not approved a specific supplier in your area, you may propose a local supplier by providing us with a written request, and we will evaluate whether or not to approve such local supplier. Approval is based on factors such as the ability of the supplier to provide supplies in accordance with current specifications and standards within a given time frame, under a specific warranty and with a minimum level of delivery service. We retain the sole discretion in determining whether or not a local supplier is approved. We will notify you of our decision within thirty days of receiving your request. If you do not hear from us in that time, you can assume that the request has been denied. We will not charge you to evaluate your request for an alternate supplier, equipment, or products.

It is estimated that required purchases will make up between 10.5% and 81.3% of the total cost of establishing your franchise. After opening your franchise, it is estimated that the required purchases will make up between 35% and 48% of the total cost of operating your franchise.

Although you are not required to purchase or lease real estate from us, you must obtain our approval for the location of your THB outlet or outlets. See Item 11 of this Disclosure Document. You must construct and equip your store in accordance with our then-current approved design, specifications, and standards. You also must use equipment, signage, fixtures, furnishings, products, ingredients, supplies, and advertising and sales promotion materials that meet our specifications and/or standards. We will notify you promptly, either by telephone, fax, e-mail, or regular mail, if we change our specifications and standards, or if we grant or revoke approval of a supplier.

Some of the required products that we sell, or require you to buy from approved suppliers, provide income to us, either in the form of direct revenue or by means of a rebate or allowance paid to us by the approved supplier. For the fiscal year ending December 31, 2012, we received revenue of \$805,116 from the sale of goods or services that you are required to purchase from us or our approved suppliers, representing about 67% of our total revenue of \$1,202,910. We also receive revenue from (i) rebates from approved suppliers and (ii) margin on direct sales to franchisees of between 3% and 31% of the cost of the goods.

There are currently no purchasing or distribution cooperatives required for our franchisees.

Except for the products that must be purchased from us, we negotiate purchase arrangements with suppliers (including price terms) for the benefit of franchisees. Also, in determining whether to revoke approval of a vendor, we will look to factors including, but not limited to, the price of the product(s) and the vendor's ability to distribute product(s) that meet our specifications and standards. However, with respect to all products and services for which our

you to upgrade your cash register to a networked cash register system capable of allowing us independent access to the system, and to enter into an ongoing contract for the maintenance, upgrading and repair of the system. You will not be required to spend more than \$7,000 to fulfill this obligation in any five-year period. See Sections 7.4 and 11.3 of the Franchise Agreement. The estimated cost of maintenance, updating, upgrading and support for the electronic cash register system ranges from \$595-795 per year depending on selected plan.

Although we do not currently have independent access to the data and information stored on the cash register system, there are no contractual limitations on our potential right of independent access to this data and information.

Item 12 **TERRITORY**

During the term of the Franchise Agreement, you will be granted an exclusive territory within a 1 mile radius of the location of your drive-thru. The location must be a site approved by us, as described in Item 11 above. Franchises and outlets owned by us that are already in existence within your territory may remain in your territory; we will notify you if there is a pre-existing franchised or affiliate-owned outlet within your proposed territory. You do not acquire the right to open additional drive-thrus within your exclusive territory. You do not acquire any option or right of first refusal to additional locations in your territory or contiguous territories. You may not relocate your drive-thru within your territory without our prior written consent, but we may consent to relocation based on our approval of the information provided on the site analysis form, which you must submit to us. There are no restrictions on your soliciting or accepting orders from outside your territory. There are no restrictions on your advertising outside of your territory, except that you may only use advertising materials that have been approved by us. We or another franchisee may solicit, advertise, or accept orders from within your territory without any obligation to compensate you.

Within your territory, we will not operate a company-owned outlet or grant a franchise for the operation of a competing business, unless the company-owned outlet or franchise was already located within your territory when you signed the Franchise Agreement. However, we may sell THB-branded merchandise by mail order, Internet web site, or other networked means, including sales to persons physically located within your territory. Continuation of your territorial exclusivity does not depend on the achievement of a particular volume of sales, market penetration, or any other contingency. Your territory may not be altered except by mutual written agreement between you and us.

If you become an Area Developer, your exclusive territory will be defined as the development area specified by the Area Development Agreement, until the Area Development Agreement expires or terminates. You will have the right and obligation to open additional THB outlets within your development area during the term of the Area Development Agreement. You may not relocate your THB drive-thrus within your territory without our prior written consent. There are no restrictions on your soliciting or accepting orders from outside your territory. There are no restrictions on your advertising outside of your territory, except that you may only use advertising materials that have been approved by us. We or another franchisee may solicit, advertise, or accept orders from within your territory without any obligation to compensate you.

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