

Faramarz Fred Yadegar has been one of our Directors and has served as our Vice President and General Manager of Accounting and Employee Training since 1996

Director, Chief Financial Officer, Secretary and General Manager of Purchasing, Employee Training and Vendor Relations: John Elisha

John Elisha has been one of our Directors and has served as our Chief Financial Officer, Secretary and General Manager of Purchasing, Employee Training and Vendor Relations since 1996.

### ITEM 3 LITIGATION

#### PENDING-CONCLUDED LITIGATION

Claim of Bijan and Rozita Moghanian

*Bijan Moghanian, an individual and Rozita Moghanian, an individual vs Bijan Yadegar, an individual and High Rise Goodies Restaurant Group, Inc - (Los Angeles Superior Court, Case No. SC115998, filed February 17, 2012). The Moghanians, who were franchisees in Lancaster, California, claimed breach of contract, fraud, negligent misrepresentation and franchise law violations against us and our president. We cross-claimed for a judicial declaration of our right to terminate the franchise. On May 4, 2012, without admissions by either side, the parties entered into a Settlement Agreement providing for payment to the Moghanians of a five figure amount, termination of all agreements, the Moghanians' agreement not to compete based on the restrictive covenant in the franchise agreement, indemnity in our favor for matters prior to termination, indemnity in the Moghanians' favor for matters after termination, mutual non-disparagement and the Moghanians to vacate and turn the restaurant premises over to us. Bijan and Rozita Moghanian, our franchisees in Lancaster, California filed a complaint against us and our President and CEO Bijan Yadegar, alleging claims for breach of contract, fraud, negligent misrepresentation and violation of Corporations Code Section 31201 (Purchase of Franchise Based on Reliance on Material Misrepresentation). We deny all claims and intend to vigorously defend. On March 26, 2012 we cross-claimed against the Moghanians, seeking a judicial declaration allowing us to terminate the Moghanian's franchise due to non-curable and/or uncured breaches by them, of the franchise agreement and harm to our trademarks and system. We also demurred to the Moghanian complaint. Hearing on the demurrer is scheduled for June 7, 2012 and a Case Management Conference is scheduled for June 6, 2012.*

Neither we, nor any person disclosed in Item 2 of the Franchise Disclosure Document is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling such persons from membership in such association or exchange.

### ITEM 4. BANKRUPTCY

No bankruptcies are required to be disclosed in this Item.

**ITEM 5. INITIAL FEES**

You pay us an initial fee of \$50,000. If you purchase from us or one of our affiliates an existing restaurant that has less than 10 years left on its lease, then the franchise fee is \$5,000 times the number of years left on the lease term. If you enter into a Contract Management Franchise, which is for a location that we arranged with a building owner or landlord, then the franchise fee is \$25,000. You pay the initial fee when you sign the Franchise Agreement. ~~This fee is negotiable. If we are satisfied your circumstances justify it, we will consider lowering the initial fee. However, we may decline to negotiate. You should therefore not rely on receiving a lower initial franchise fee. Factors we consider in assessing whether to reduce the initial franchise fee include existing competition, the quality of the location you select, your ability to pay, family relationship and other factors.~~

We may grant you a franchise for an existing restaurant operated by us or an affiliate of ours, or that you buy from another franchisee. If you buy an existing restaurant, your purchase price is determined by negotiation based mainly on market value of the business. The price typically is paid on a mutually agreed closing date.

Other initial fees you pay us are a security deposit and first month's rent if you lease or sublease from us. If we construct the improvements for your restaurant, you must also pay us an agreed amount for the construction work.

We refund the initial fee less \$10,000 if we elect to terminate the Franchise Agreement because you don't have a signed lease for your restaurant within 90 days after signing the Franchise Agreement or you don't complete our initial training. There are no refunds under other circumstances. We or one of our affiliates may also have the right to retain ten percent (10%) of the purchase price under the Contract for Sale of Assets if the escrow fails to close because of your default under that agreement. The deposit you make under the Contract for Sale of Assets will usually equal fifty percent (50%) of the purchase price for the assets, although it may be less in some circumstances. If before loan or lease assignment approval or for any reason except termination of training by us, you start and do not complete the training program, you forfeit ten percent (10%) of the purchase price paid to us. Under the Contract for Sale of Assets, we may designate ourselves as escrow and hold the money deposited pending completion of the sale. Therefore it is not a traditional "escrow." If we do so, we can place the amount received from you in our bank account and commingle your deposit with our other funds.

See Item 10 for financing we offer if you purchase an existing restaurant from us or our affiliates.

**ITEM 6. OTHER FEES**

Type of Fee	Amount	Due Date	Remarks
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Type of Fee	Amount	Due Date	Remarks
Royalty	6% of Gross Receipts or a specified minimum amount, whichever is greater	Wednesday of each week	Gross Receipts is defined broadly to include all revenue from the franchised restaurant (See footnote 1)  <del>This fee is negotiable. If we are satisfied your circumstances justify it, we will consider lowering the royalty payable to us. However, we may decline to negotiate. You should therefore not rely on receiving a reduction in royalty fee. Factors we consider include existing competition, the quality of the location you select, your ability to pay, family relationship and other factors.</del>
Advertising Fund (Pat Fund)	2% of Gross Receipts  Currently, until further notice, we are deferring collection of Pat Fund fees. We may re-institute the fee on written notice to you.	Wednesday of each week	We specify the percentage, up to 2%. Gross Receipts is defined broadly to include all revenue from the franchised restaurant (See footnotes 1 and 2)
Additional Training	Standard rates for additional training are currently \$500 per day	Before start of additional training	Additional training requested by you, or required by us for refresher training after you start operating (See footnote 3)
Operations Manual	\$2,500	Immediately on demand	If your loaned copy of the Operations Manual is lost or destroyed, you pay us \$2,500 for another copy
Proprietary Goods and Services	Unknown	30 days	We will invoice you for any proprietary products we sell to you
Third party payments	Amounts owed to third parties	Varies	You must keep your trade accounts current and try to resolve any disputes. If you don't, then we can pay the amounts claimed. If we do this, then you must repay us what we paid.
Approval of suppliers	\$250	Immediately on demand	You must pay us a fee of \$250 each time you ask us to approve a supplier.
Insurance	Amount of Insurance Premium plus \$1,000 administrative fee annually	Immediately on demand	We can require you to participate in an insurance policy we buy. If we buy, you must also pay us an administrative fee. If you do not get or keep required insurance, we can get it for you. If we do this, you must pay for it, or pay us back, at our choice.

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