

## **ITEM 5**

### **INITIAL FEES**

#### **Letter of Understanding/Earnest Money Deposit**

We will send you a Letter of Understanding (Exhibit A) outlining the specific terms of a proposed Development Agreement. If you accept the terms offered in the Letter of Understanding, you must sign the Letter of Understanding and return it to us along with a \$10,000 earnest money deposit. When you sign the Development Agreement, we will credit the earnest money deposit toward your payment of the Development Fee. The earnest money deposit is fully earned when paid and is non-refundable. If you do not enter into a Development Agreement, you forfeit the entire earnest money deposit. However, if we unilaterally elect not to franchise the proposed territory prior to the execution of a signed Development Agreement, we will refund the \$10,000 earnest money deposit to you.

#### **Development Fee**

When you sign a Development Agreement (Exhibit B), you must pay us a Development Fee, which is negotiated based on the number of Restaurants you must develop under the Development Schedule. We determine the Development Schedule before we offer you the Development Agreement. The Development Fee will be an amount equal to \$50,000 multiplied by the number of stores to be opened under the Development Schedule. We reserve the right to negotiate the Development Fee structure, which may include partial credits against the franchise or other fees, in certain limited circumstances, at our discretion. We will credit the earnest money deposit paid with the Letter of Understanding to the Development Fee. The Development Fee is fully earned when paid and is non-refundable.

Again, we may offer development incentives or non-uniform fees to selected developers to accelerate development or to compensate for unfavorable economic conditions, or for any other business purpose, at our discretion. We may also offer you an incentive linked to your Development Agreement in conjunction with your re-imaging commitments.

#### **Franchise Fee**

When you sign a Franchise Agreement (Exhibit C), you must pay us the Initial Franchise Fee in the amount of \$50,000. The Initial Franchise fee is fully earned when paid and is not refundable. Initial Franchise Fees are not necessarily uniformly imposed as we may offer reductions as a development incentive to selected developers to accelerate development or to compensate for unfavorable economic conditions.

#### **Kitchen Equipment, Décor and Furniture**

Before beginning operations, you must purchase (or prepay us if you want Fridays to be your purchasing agent) kitchen equipment, furniture and related furnishings, and décor to use in the Restaurant. You may, but are not required to, retain our purchasing department as your agent to purchase some or all of these items. If you do, you must sign the appropriate form of Purchasing Agreement. Attached as Exhibits D and D-1 to this Disclosure Document are the two forms of Purchasing Agreements. For all orders totaling \$10,000 or more, the Furniture, Fixtures, Equipment and Décor Purchasing Agreement will be utilized and for orders totaling less than \$10,000, the ProForma Purchase Agreement will be utilized. In most circumstances, we require you to prepay us or provide a letter of credit. The letter of credit must be drawn on a lending institution satisfactory to us and must be in a form acceptable to us. Alternatively, you may be

asked to prepay us for the kitchen equipment and furniture. However, we reserve the right in our discretion not to require a prepayment or a letter of credit to order kitchen equipment and furniture.

Kitchen equipment, furniture and décor requirements for each Restaurant are substantially the same, although there may be differences based on the size of the Restaurant facility, menu requirements and other factors. The configuration of the Restaurant and local environmental or other standards may also dictate some differences.

If we act as your agent for purchasing kitchen equipment or furniture, you will be charged 8% of the purchase price for our purchasing services. If you purchase your kitchen equipment or furniture directly from the suppliers, you will be charged 4% of the purchase price for our purchasing services. The cost of a kitchen equipment package averages approximately \$378,000, but may vary depending on the size of the unit, excluding the respective purchasing fee referenced above. The costs will vary substantially based upon the location, prototype and circumstances. The cost of a furniture package averages approximately \$81,139 depending on the size of the unit. The cost of a décor package averages approximately \$15,649 but may vary depending on the size of the unit. You shall be responsible for the installation of the décor by an installer approved by Fridays. For the year ending December 30, 2013, the purchasing fees for our kitchen equipment packages and furniture packages averaged \$32,000. Because of individual differences, we quote no general range for the furniture packages we provide our franchisees.

Fridays' credit and/or guarantee is not available for your purchases or leases and you must prepay for most kitchen equipment, furniture and décor before it is shipped to you. However, in certain instances, you will be invoiced and can pay within 30 days after invoicing. Unpaid invoices will accrue interest at our current lending rate. We generally issue an invoice after each shipment. Alternatively, if you have given us a letter of credit issued by your lender for the full amount of purchase for kitchen equipment and décor, we may draw on the letter of credit periodically as shipments are made. Payments for kitchen equipment, furniture and décor are not refundable.

### **Computer Systems**

Before beginning operations, you must purchase and prepay for the computer systems to be used in the Restaurant. We act as your agent for purchasing computer systems. You must sign the appropriate form of Purchasing Agreement attached as Exhibit D to this Disclosure Document. In some circumstances, we may accept a letter of credit. The letter of credit must be drawn on a lending institution satisfactory to us and must be in a form acceptable to us.

Computer hardware and software requirements for each Restaurant are largely the same, although there may be slight differences based on the size of the Restaurant and other factors. The configuration of the Restaurant and local environmental or other standards may also dictate some differences.

Charges related to the computer systems include hardware and software purchase, hardware and software configuration, project management, equipment installation, training and related travel expenses. The estimated cost for each system is \$83,500, however, pricing will vary for different prototype configurations. All of the computer hardware, software and services purchased through us does not contain any markups, however, we reserve the right to charge a markup in the future.

In certain instances, you may be invoiced and can pay within 30 days of invoice date. Unpaid invoices will accrue interest at our current lending rate. We generally issue an invoice after each shipment. Alternatively, if you have given us a letter of credit issued by your lender for the full amount of purchase for computer systems hardware and software, we may draw on the letter of credit periodically as shipments are made. Payments for computer systems hardware and software packages are not refundable.

### **New Store Opening Team Fee**

All costs and expenses for Franchisor to provide its own employees for a New Store Opening (“NSO”) team are paid by franchisee if you do not or cannot provide sufficient number of your own employees to participate on the NSO Team. In accordance with our current NSO Policy, we will determine the number of people required for the NSO team. Typically, a team has 10 to 14 members. The cost estimate for Franchisor to provide its employees for an NSO team is estimated to be from \$75,000 to \$120,000.

### **New Franchisee Training and Interview Costs**

Except for the cost of instructors and facilities for training, you must pay all training related costs. You must also pay the costs of making available to us your prospective managers whom we decide to interview. Currently, we estimate this amount to be between \$80,000 to \$150,000.

### **Inventory**

You will be responsible for the cost of purchasing all consumable inventory items from Fridays approved suppliers such as food, liquor, cleaning supplies and paper goods, by way of example but not all inclusive, which must be available on the opening day. The range for the cost estimate for these items is \$50,000 - \$90,000. You must promptly replenish these items as consumed. See also Item 8.