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**Holding a Gun to Your Head: Marketplace Monopoly-  
How Pizza Franchisors Play the Game**

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## Foreword

Franchising is a major industry in the United States and the rest of the world. It has been projected that half of all domestic retail sales in the year 2000 may pass through franchised businesses.

The underlying structure for all franchising arrangements is the franchise agreement, a contract between the franchisor and the franchisee. While some research has focused on particular components of the franchise agreement, very little research compares the complete franchise agreement for an entire industry or its dominant franchisors. The objective of this study is to carefully examine the consistency of the Uniform Franchise Offering Circulars (UFOCs) and Franchise Agreements for the top eight players in the heavily franchised ready to eat pizza industry.

The motivation for this research comes from trends we see in three areas. First, there appears to be trend toward more litigation in franchising. Previous research (Wadsworth and Jones 1996) showed forty percent of franchisees are, or have been, involved in a legal dispute with their franchisor. While there are many reasons for this increased litigation, a few common reasons should be highlighted. The issue of encroachment has been a major cause of many legal disputes over the last decade. Suits involving encroachment charges against franchise systems include among others: General Motors, Burger King, McDonalds, Sheraton Hotels, Manhattan Bagel, Carvel and Subway. Suits involving the issue of ownership transfer are also not uncommon. A jury awarded \$14.9 million to a Little Caesars' franchisee because the franchisor violated the franchise agreement with respect to the transfer of franchise locations to another buyer. This increase in litigation, in turn, has caused the second trend, more actual and proposed legislation.

Many states and provinces have or are considering franchise legislation as a result of the difficulties their constituents have with their respective franchise systems. Ontario's Franchise Disclosure Act of 1998 (similar to Alberta's) aims to help franchise investors make more informed purchase decisions and force franchisors to accept a duty of fair dealing. The Asian American Hotels Owners Association is leading a movement within the lodging industry toward fairer franchise agreements (*Hotel & Motel Management*, June 1998). Former hotel franchise chairman Robert Nozar revealed in an interview (*Hotel & Motel Management*, November 1998) that [franchise contracts] contain as many rights and as few responsibilities as possible for franchisors, while just the opposite is true for franchisees. A major focus of this symposium is the national legislation (HR 4841) introduced in the 105<sup>th</sup> Congress late last year, that will likely be re-introduced this year. The goal of much of this legislation is to provide a somewhat level playing field in the franchising industry.

The third trend is seemingly negative publicity. Since the mid-1990's there has been a decided increase in television and print media stories about franchisee issues and concerns. These stories are perceived as "negative" by some and merely "realistic" by

others. Regardless, the spotlight of media scrutiny impacts franchise systems, their franchisees, the consuming public, and the franchise industry as a whole.

A potential cause of these three trends is the increasingly one-sided nature of franchise agreements. In the public domain, very little is known about the breadth and quality of franchise agreements within an industry. Some franchise consultants may know quite a bit about the franchise agreements of a particular industry, but they have not shared their knowledge with the public. Franchisors may well have knowledge about the franchise agreements of their closest competitors, but the extent to which the information is used to craft their own agreements is not in the public domain.

Knowledge about the UFOCs and franchise agreements in an industry is important to many franchise stakeholder groups. Franchisees need to understand the relative content of franchise agreements to help them make informed franchise purchase decisions. Franchisors need to understand the relative content of franchise agreements to determine and adjust the "competitiveness or attractiveness" of their franchise offerings among potential franchisees. Researchers need to understand the relative content of franchise agreements to potentially explain differences in franchise system performance or other industry or system outcomes. Policy makers need to understand the relative content of franchise agreements to make policy recommendations that are likely to improve the franchising industry.

This paper intends to shed some light in these issues within one segment of franchising, the ready-to-eat pizza industry. Through this analysis, we will uncover common practices within one large sector of the food market. The conclusions drawn by this research will surely have serious implications for all those involved.

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May 1999

## **Appendix**

The authors have compiled a detailed and voluminous Appendix to this report which summarizes, in a tabular format, the provisions of the UFOCs of the top eight pizza franchisors. This Appendix can be obtained by contacting the authors of the American Franchisee Association (AFA).

## Introduction

The requirements for the preparation of a Uniform Franchise Offering Circular include the following statement on the cover page:

Information comparing franchisors is available. Call the state administrators listed in Exhibit \_\_\_\_\_ or your public library for sources of information.<sup>1</sup>

Our experience is that this is empty advice. Public libraries do not contain UFOCs and state administrators in registration states often do make materials available but are obliged to impose substantial copying fees. FRANDATA, the source of generous assistance to this report, is in the business of selling copies of UFOCs. In short, a prospective franchisee of any pizza chain is not really in a position to easily obtain information about other franchisors; comparison shopping for a pizza franchise or any other franchise is simply not practical. This study is intended to fill that vacuum and to provide a model for analysis in other heavily franchised industries so that the goal of facilitating meaningful comparison of franchisors can be realized.

Before analyzing the specific findings of this comparative study, it is useful to provide a context for their assessment. If we ask what is important to the prospective franchisee, the answer is the same elements that are important to any business owner: the opportunity to build the business that will provide a source of income and in which the franchisee will be able to build equity. The ability to build a business is dependent largely on the ability to attract customers, which, in turn, is dependent largely on brand name recognition, and it is this that draws many to the franchise format. Particularly in a highly developed industry, such as fast food in general and pizza specifically, competing against the big eight is a high risk proposition. The maxim "if you can't beat 'em, join 'em" is apt in the world of fast food pizza and leads many entrepreneurs to the doorstep of one of the big eight.

The entrepreneur, now the prospective franchisee, enters the franchising process with its other objectives still in mind: to build, preserve, and eventually realize equity and to maintain a level of autonomy that will enable this to happen. This paper will assess the extent to which attainment of a successful business in which the franchisee is building equity is possible if the franchisee contracts with one of the top eight pizza franchisors.

## Industry Overview

We have chosen to investigate the pizza industry for three principal reasons.

First, the pizza industry is a large sector of the food service industry, accounting for 10% of all food service revenue.

According to *Pizza Facts* published by the National Association of the Pizza Operators, the ready to eat pizza industry racks up \$32 Billion in annual sales. There are more than 61,000 pizzerias in the U.S. and the rate of growth of pizzerias outpaces that of restaurants generally. Pizzerias represent 17% of all restaurants.

Pizza has become a staple of the American diet. As a nation, we eat 100 acres of pizza a day or 350 slices per second; this works out to 3 billion pizzas per year. Pizza sales have risen an average of 3.6% per year over the last five years according to *Fortune Magazine* (November 1998) and in the last year alone rose an average of 7.5% (*Nations Restaurant News*, June 22, 1998).

Second, the top eight pizza chains, as identified by *Nations Restaurant News*, have an impressive and dominant share of the total market for ready to eat pizza. Data used to select the franchise systems for this research were chosen based on market share data reported in the June 22, 1998 edition of *Nations Restaurant News*. Sales for the largest eight chains in the most recent reporting year are almost \$10.8 billion. Their sales and market share rank are shown on the table below:

Rank	Chain	Sales (000,000)
1	Pizza Hut	\$4,927
2	Domino's	2,300
3	Little Caesars	1,425
4	Papa John's	619
5	Sbarro	400
6	Round Table	385
7	Chuck E. Cheese's	293
8	Godfather's	266
<b>Total Sales</b>		<b>\$10,798.7</b>

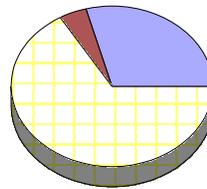
While over the last three years there have been no changes in the membership of the top eight, there have been some shifts in market share as illustrated by the following:

Chain	1998	1997	1996
Pizza Hut	43.52	46.64	50.05
Domino's	22.97	21.77	19.83
Little Caesar's	12.73	13.25	13.69
Papa John's	8.03	5.86	4.33
Sbarro	3.91	3.79	3.73
Round Table	3.62	3.64	3.53
Chuck E. Cheese	2.71	2.54	2.38
Godfather's	2.51	2.51	2.46
Totals	100.0	100.0	100.0

Based on the foregoing, it is clear that the top eight pizza chains control over one third of the entire market for ready to eat pizzas. Pizza Hut alone sells more than 15% of all of the ready to eat pizzas sold in the U.S. The largest four firms control fully 29.4% of the national pizza market; the top eight collectively control 33.7%. See the following chart:

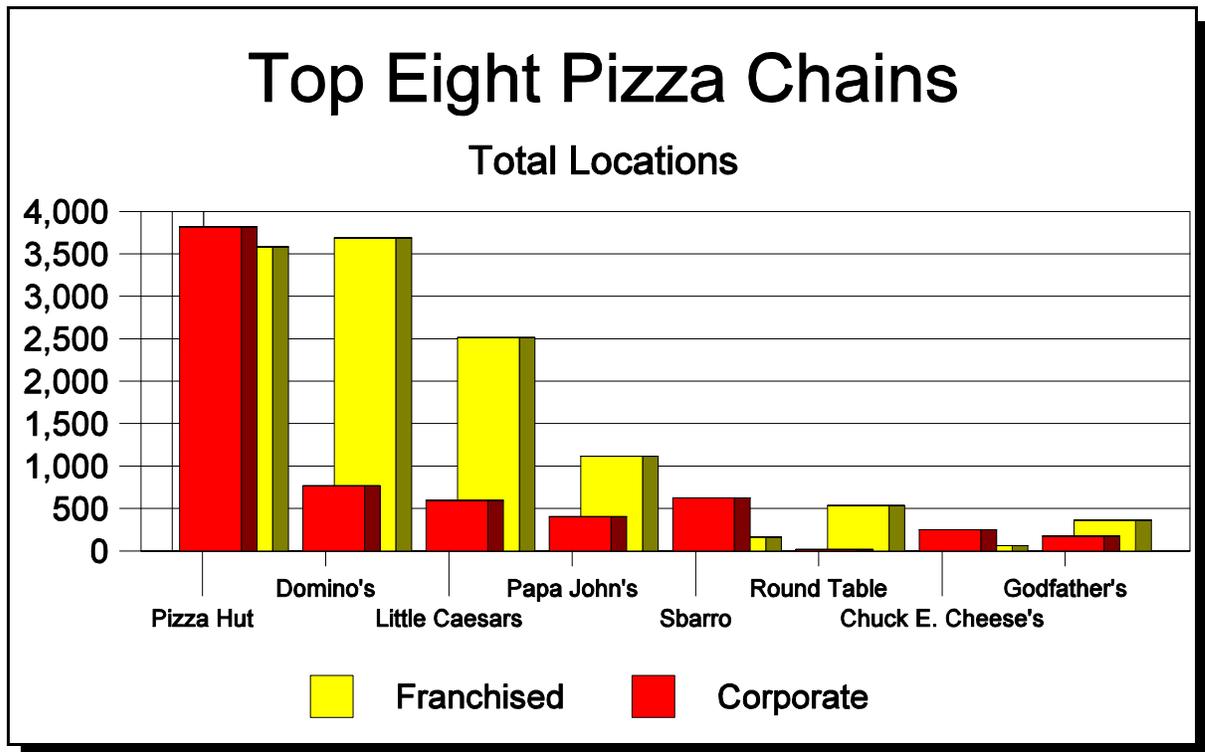
## Top Eight Pizza Chains

### Share of Total Ready to Eat Market



- Top Four Chains
- Next Four
- The Rest of the Market

Third, according to their UFOCs as reviewed for this report, the top eight pizza chains which operate almost 19,000 locations, are heavily franchised.

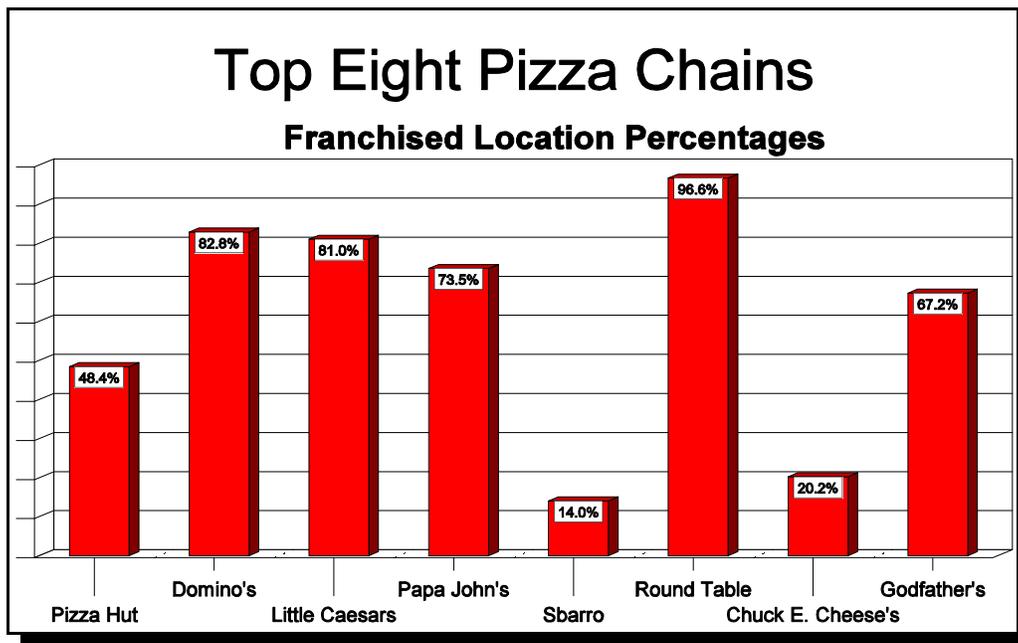


The total number of locations, with franchised and corporate locations separated, is shown above.

Among the top four chains, Pizza Hut is alone in having marginally more corporate than franchised stores. Yet Pizza Hut is still a heavily franchised system with more than 3,500 franchised stores, accounting for 48.4% of the system. While Pizza Hut has 107 fewer franchised locations than Domino's, it has more than 50% more franchised locations than Papa John's, Sbarro, Round Table, Chuck E. Cheese's and Godfather's combined. Round Table has the highest percentage of franchised locations (96.6%) with Domino's,

Little Caesars and Papa John's at 82.8%, 81% and 73.5%, respectively. Sbarro E. Cheese's has the lowest at percentage of franchised locations (14%); Chuck E. Cheese's is 20.2% franchised.<sup>2</sup>

Among the top eight chains, an average of 64.4% of all locations are franchised, representing about 12,000 locations or approximately 20% of all pizzerias in the United States. If we assume without data that franchised locations have gross sales which are roughly equivalent to corporate stores in their system, franchised locations in the top eight pizza chains generate revenue of approximately \$6.5 Billion per year.



### Is This a Monopoly?

The purposes of this report do not extend to the determination of whether the remarkable consistency in franchise agreement provisions among the top eight pizza chains amounts to an illegal monopoly or an attempted monopolization conspiracy in restraint of trade within the meaning of section 2 the Sherman Antitrust Act.

However, one of the elements of a monopolization claim is the existence of monopoly power in the relevant market.<sup>3</sup> In most antitrust cases, the parties will argue over the definition of the relevant market, with the plaintiff seeking the narrowest definition and the defendant the broadest.

We believe that even if one defines the relevant market as the total market for ready to eat pizza, the top eight chains, with 33.7% of that market, have sufficient

power to control the barriers to entry into that market by a prospective franchisee. In an antitrust case concerning the Sugarbush ski area decided in the U.S. District Court for the District of Vermont late in 1997, the court found that the defendants' control of 30% of the property management market and 35% of the rental market business could create the "dangerous probability of monopoly power".<sup>4</sup> The market share of the top eight is almost precisely the average of the 30% and 35% shares examined by the court.

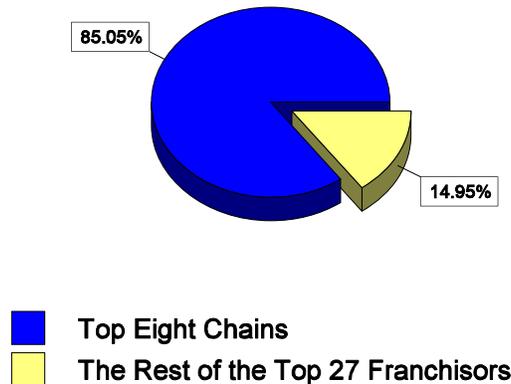
Moreover, it is safe to assume that the top eight pizza chains control a far larger share of the franchise portion of the ready to eat pizza market.

Note that Sbarro, Round Table, Chuck E. Cheese's and Godfather's, ranked at the 5<sup>th</sup>, 6<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> spots in the market share ranking, have a combined total of 1,126 locations, only slightly more than the total of all of Papa John's franchised locations (1,116) in the 4<sup>th</sup> spot.

The January 1999 issue of *Entrepreneur Magazine* lists a total of 21 pizza franchisors in its annual qualitative ranking, two of which are Papa John's and Round Table.<sup>5</sup> The remaining 19 franchisors have a total of 2,352 units, of which 2,102 or 89.3% are franchised. By combining the franchised locations totals for those pizza franchisors listed in *Entrepreneur Magazine* not in the top eight with the statistics in the UFOCs for the top eight, we have a combined list of 27 franchisors with a total of 14,130 franchised units. The top eight pizza chains have 85% of the franchised units in that 27 franchisor universe. Note that the lowest ranking franchisor in the Entrepreneur Magazine listing has only 11 franchised units. Consider also that in the government's antitrust case against Microsoft, its 85-90% share of the operating system market is at issue.

# Top Eight Pizza Chains

## Share of Top 27 Franchised Ready to Eat Market



We can thus assume that the top eight pizza franchisors have a share of the total market for franchised ready to eat pizzerias that substantially exceeds 60%. Commentators have stated that a market share of between 50% and 70% will permit at least an inference of market power that will be sufficient to survive a Motion for Summary Judgment in a monopolization claim.<sup>6</sup>

Of course, an allegation of monopolization among the top eight pizza franchisors assumes that the franchisors standing in positions nine through twenty seven of the market share line up offer contract terms that differ substantially from those offered by the top eight. We have not investigated these other franchisors and do not know whether or not their franchise agreements are more fairly balanced or provide for any greater symmetry of rights and obligations.

For this reason and others, we do not now reach the ultimate question of antitrust exposure of the top eight chains. However, we can fairly draw the conclusion that their franchise agreement terms, both legal and financial, are sufficiently similar and in many aspects uniform that they function as a monopoly; Whether this is the result of a concerted effort or not, the top eight pizza franchisors constitute an impenetrable barrier to franchising with a nationally recognized brand on terms that are fundamentally fair, even handed, and commercially reasonable.

How often have we heard from franchisors, in both the legislative and litigation arenas the following response to franchisee claims and concerns about the franchise agreement he or she signed: “Nobody held a gun to your head, did they?”

This report and its more detailed and comprehensive Appendix demonstrate that the answer to that rhetorical question is: Yes!

If you are intent on entering the pizza business and you believe that the

franchised format will give you greater assurance of success (as franchisors claim) and that having one of the recognized brand names that the top franchisors offer is as valuable as they say it is, then you have no choice but to accept the terms offered on a *take it or leave it basis*.

Finally, we believe that our findings with respect to the pizza industry are emblematic of the state of franchise agreements generally. In the end, it does not matter whether you seek to sell pizza, hamburgers, eyeglasses or ice cream, the franchise relationship will be always be based on the same lopsided legal and financial relationship. Yes, franchisors are indeed “packing heat”.

**I. ASSESSING THE INVESTMENT: IN SEARCH OF FINANCIAL DATA**

**A. The Information Highway Is Not a Two-way Street**

**Earnings Claims Regarding Other Franchisees Included in the UFOC-See Item 19**

CHAIN	Pizza Hut	Domino’s	Little Caesars	Papa John’s	Sbarro	Round Table	Chuck E. Cheese’s	Godfather’s
DATA	No	No	No	No	No	Limited*	Limited*	No

\*Each provides top line sales figures only for franchisees; neither provides itemized data

**Earnings Data Collected By the Franchisor Pursuant to Compulsory Terms of the Agreement**

CHAIN	Pizza Hut	Domino’s	Little Caesars	Papa John’s	Sbarro	Round Table	Chuck E. Cheese’s	Godfather’s
DATA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

**Franchisee Failure to Provide Earnings Data An Event of Default Under the Franchise Agreement**

CHAIN	Pizza Hut	Domino’s	Little Caesars	Papa John’s	Sbarro	Round Table	Chuck E. Cheese’s	Godfather’s
DATA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

If a business lawyer failed to counsel a client against purchasing a business for which there had been no financial disclosure, that lawyer would probably be liable to the client for malpractice. In the context of the franchise industry, a 1996 book entitled *Merger & Acquisitions of Franchise Companies*, the authors include a due diligence check list of materials that should be obtained when considering the purchase of a franchise. These materials include five years of financial statements and tax returns of the franchisor.<sup>7</sup> Prospective franchisees should apply the same standards and seek five years of financial information on other franchisees within the system, but the information is not readily available to them.<sup>8</sup> Only in franchising is the absence of

meaningful financial performance data provided to the prospective buyer the norm.

Franchisees regularly enter into agreements without any documented earnings claims regarding other franchised businesses in the system. Franchisors are not obligated to provide prospective franchisees with any data concerning the sales or profitability of other franchised or corporate businesses in their systems, and an estimated 80% do not offer the information voluntarily even though most have access to it.<sup>9</sup> Given that each of the top eight pizza franchises reserves discretion to collect this data, the near uniformity of this lack of information strongly suggests that its absence is not an accident and raises questions about what the franchisors seek to hide.

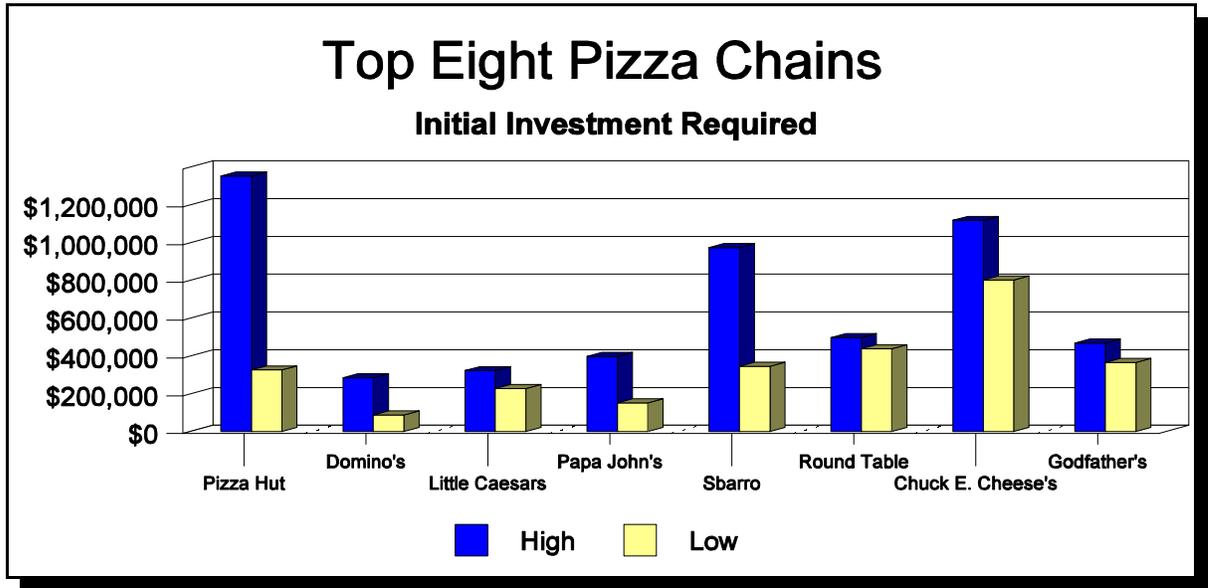
Even Round Table and Chuck E. Cheese's, the two franchisors within the top eight that offer any earnings claims in writing, provide only limited information. Round Table provides average sales figures for both franchised and corporate-owned restaurants and provides average costs for only corporate-owned businesses only. Chuck E. Cheese's also provides a statement of average operating results for corporate-owned business and then indicates the percentage of franchised businesses that exceeded each of four levels of revenues. In each case, no itemized data regarding franchised businesses was provided. Thus the prospective franchisee in any of the top eight pizza chains is required to take a leap of faith with respect to the most important information one can obtain when deciding whether or not to make an investment in a new business..

UFOCs are required to provide the names, addresses and phone numbers of all existing franchisees.<sup>10</sup> The franchisor is also required to disclose the name and last known home address and telephone number of every franchisee who has had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during the most recently completed fiscal year or who has not communicated with the franchisor within 10 weeks of the application date.<sup>11</sup> Thus, a prospective franchisee could conceivably contact individuals on those lists and, assuming the other franchisees were willing to share their financial circumstances, could collect data through this rather haphazard and unreliable route. However, even if the prospective franchisee is able to gather information, there is no guarantee of its accuracy or representativeness.

Notwithstanding the dearth of financial data, more and more franchise agreements are signed every year. Many believe that franchisors regularly provide verbal earnings claims to prospective franchisees and, further, that the numbers provided are, more often than not, inflated or manipulated to the point of being deceiving. If the information provided to franchisees verbally were accurate and positive, it is counterintuitive that franchisors do not take the opportunity to advertise the data in their UFOCs.

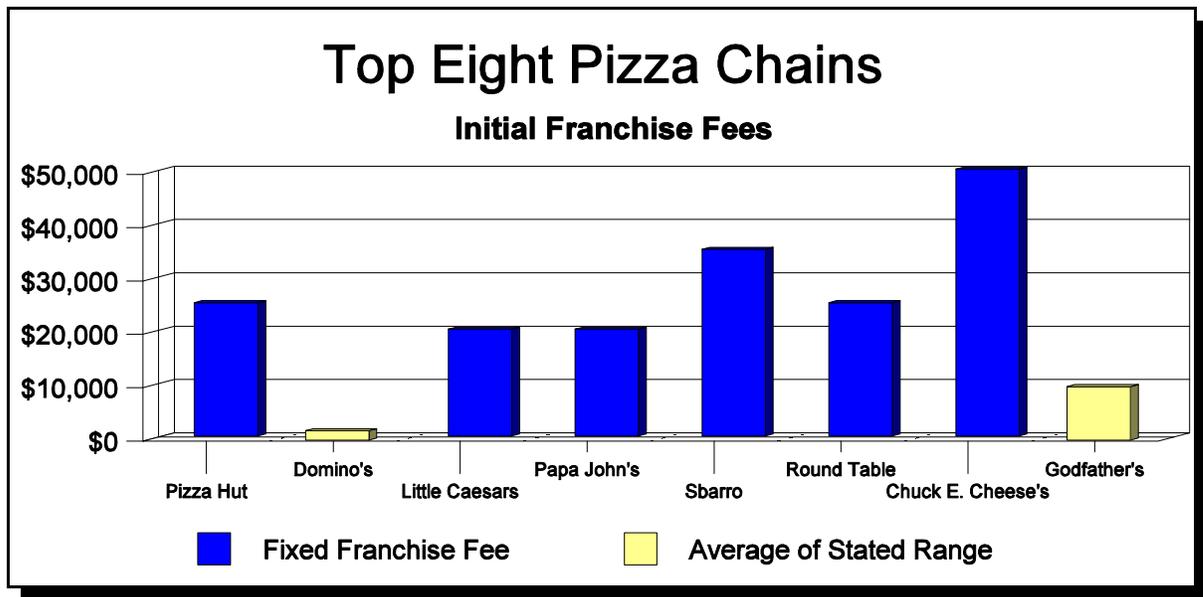
**B. Average Investment Data Provides Too Wide a Range to Help**

Even where financial data is required, the UFOCs of the leading eight pizza franchisors are so vague they provide little help in assessing the soundness of the investment.



### C. Payment Up Front, Please

The risk to the franchisee is increased further by unfavorable terms regarding payment and refund of the initial franchise fee.



The initial franchise fee is often mainly a sales expense, which may be why Domino's, with its requirement of management experience for prospective franchisees, has an unusually low franchise fee. Leaving Chuck E. Cheese's also aside as an operation at least as much, if not more, devoted to entertainment as pizza sales, the dollar amount franchise fees of the other six chains do not vary widely.

With the exception of Godfather's, the franchisor with the least market share (2.51%), each of the top eight states in their Offering Circulars that the initial fee is earned either upon signing the franchise agreement or upon approving the location; in either case, well before the franchised business opens its doors. For the top four franchisors, once the fee is earned it is non-refundable. The next three provide refunds only if a location cannot be found or construction cannot begin. Only Godfather's provides for a refund up and until it fulfills its obligations of initial assistance. Thus, each of the top five franchisors requires that the franchisee commit to the contract and risk forfeiture of the initial fee without the benefit of financial information and before any support is actually provided, requiring a tremendous leap of faith.

## II. WHAT THE FRANCHISEE GETS IN RETURN FOR THE INVESTMENT

### A. The Benefits of Brand Name Recognition

The single greatest advantage of entering into a relationship with a franchisor is brand name recognition. Permission to use the franchisor's trademarks and service marks (the Marks) transforms the franchisee's new business into one of a well-established chain of stores. A publicly identifiable trademark and trade name are generally regarded as "the essence of a franchise system."<sup>12</sup> Indeed, at least one court has stated that if the franchisor loses the rights to the Marks, the franchisee may be justified in withholding royalties and terminating the franchise agreement.<sup>13</sup> The franchisee, who pays for this privilege in the initial franchise fee and in ongoing royalty payments, certainly expects to see the Marks protected and promoted.

Yet paradoxically, all of the top eight franchisors reserve the sole discretion to decide how to address possible infringements on their trademarks and, with the exception of Pizza Hut, none guarantees that it will take any action at all. Moreover, six of the top eight specifically prohibit franchisees from taking any independent action in this regard; Round Table and Godfather's are silent on this issue. Where the franchisee is neither assured that the Marks will be protected, nor has any authority to take action on its own, the potential ramifications for the franchisee are significant.

#### Franchisor Required to Defend the Marks by Prosecuting Infringers?

CHAIN	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
DATA	Yes	No	No	No	No	N/A	No	N/A

#### Can Franchisee Defend the Marks by Pursuing Possible Infringers?

CHAIN	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
DATA	No	No	No	No	No	N/A	No	N/A

#### Franchisor Required to Indemnify Franchisee from a Claim that it is the Infringer?

CHAIN	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
DATA	Not Always	Not Always	Not Always	No	Not Always	No	No	Yes

It is also noteworthy that while the franchisee has no authority to pursue a possible infringement, it would be a violation of the franchise agreement if the franchisee failed to report the same to the franchisor. Moreover, where it is the franchisee who is accused of violating the trademark of a third party, seven of the eight

studied franchisors do not guarantee that the franchisee will be indemnified in the dispute: three state that the franchisor has no obligation to indemnify and four state that the decision to indemnify is within the discretion of the franchisor. This is the first of many examples cited demonstrating the asymmetry of rights and obligations under the franchise agreements offered by the eight pizza franchisors.

Consider the Sbarro franchisee in a small town where the chain is relatively unknown who wakes up to read in the paper that “Sbarra,” a pizza restaurant in the next town, has just been cited by the Board of Health for sanitary code violations. The franchisee turns the page to see a picture of Sbarra, which reveals that the interior design and layout, as well as what can be seen of the menu, are almost identical to Sbarro restaurants. The franchisee calls the franchisor to report the infringement, as is required of all top eight franchisees. Three months later, Sbarra has been cited several more times and the franchisee’s sales are down significantly due, in the franchisee’s opinion, to confusion between Sbarra and Sbarro and a perceived relationship between the two. The franchisee calls the franchisor to inquire as to progress in prosecuting this clear trademark infringement and is told that the franchisor sent Sbarra two letters demanding it change its name and appearance and, after receiving no response and no action on the part of Sbarra, the franchisor conducted a cost analysis and determined that pursuing the infringement claim any further would not be in the franchisor’s interests. Under the sample franchise agreement of Sbarro and six of the other top eight companies, the franchisee has no recourse; it is granted neither the right to pursue the claim itself nor the ability to compel the franchisor to do so. Even under Pizza Hut’s sample agreement, it is arguable that it’s reasonable efforts requirement would, at this point, be fulfilled.

This example is intentionally extreme in order to illustrate a point: what is in the franchisee’s interest often is not in the franchisor’s interest. Thus, when discretion lies solely in the hands of the franchisor, the franchisee is at risk.

The related issue of franchisor discretion to add to, discontinue, or change its trademarks at will is discussed below. (Section II (C) (1), *infra*, p. 22).

## **B. The Franchisor’s Obligation to Provide Support and Assistance**

### **1. Item 11: Franchisor’s Obligations**

A second advantage of becoming a franchisee is the promise of training and support available through the franchisor which, through years of experience has developed a prescribed format and method of doing business with a track record of success. But how much of this does the franchisee actually get? A review of the top eight pizza franchises shows that very little is promised in a legally binding fashion under current agreements.

The key is the extent to which the franchisors’ promises are qualified by

discretionary clauses. Implicit in the words “in the franchisor’s sole discretion” is the possibility that the franchisor will exercise its discretion to do little or nothing at all.

With few exceptions, all of the services, support, and training promised by the top eight pizza franchisors is provided only to the extent and in the nature that the Franchisor, in its sole discretion, deems appropriate. Also noteworthy is the extent to which the franchisors’ obligations focus on setting forth means of ensuring that the franchisee is in compliance, rather than on providing value to the franchisee.

Using Little Caesars as an example, the UFOC sets out nine obligations of the franchisor; for seven of which the extent to, and manner in, which the obligation will be performed is in Little Caesars’ sole discretion. With respect to training, for example, Little Caesars will “provide such required and optional training programs as it, in its sole discretion, deems appropriate, at the time(s) and location(s) selected by it.” The only obligations which Little Caesars binds itself to are (a) to provide the franchisee with plans and specifications for construction of the restaurant and (b) that it will loan to the franchisee a copy of its operating and other manuals which may be unilaterally revised by Little Caesars at any time.

Domino’s promises even less; it provides only five franchisor obligations, three of which are discretionary, two without any limit on the franchisor’s discretion. The tasks it promises to perform are granting the franchisee an exclusive territory, delivery of the franchise agreement, not unreasonably withholding location approval, providing assistance as it deems necessary, and requiring attendance at trainings that the franchisor may or may not provide.

Although Godfather’s provides marginally more, its obligations remain largely discretionary and enforcement-focused. It promises to designate an exclusive territory; provide specifications for equipment, fixtures, and the like; assist in implementing procedures required by the franchisor; send a corporate employee to visit the franchisee’s business with reasonable frequency; provide an initial training; approve a site, within an undefined time frame to be determined in the franchisor’s sole discretion; and loan a copy of its manual, it may amend at will. In addition, assistance with site selection and architectural plans will be provided, or not provided, in the sole discretion of the franchisor.

## **2. The Operations Manual - Pandora’s Box**

The top eight pizza franchisors are in line with the prevalent use of operations manuals to put the details into the blanket discretion the franchisor. These manuals prescribe the obligations of the franchisee from the moment the key is turned in the lock on the front door until the process is reversed at closing time.

The top eight pizza franchisors each use operations manuals as a means to implement their broad discretion and reserve to themselves the right to change the manuals at any time without notice to, or input from, the franchisee. Because the manual is incorporated into the franchise agreement, the unbridled right to change the manual is tantamount to the right to unilaterally amend the franchise agreement with the franchisee required to assume all of the costs involved.

### **The Use of Operations Manuals**

<b>CHAIN</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
Manuals incorporated	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Franchisor may amend	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Limits to Ability Amend	Can't require +\$10K remodeling more than once every 5 yrs.	Cannot alter fundamental status and rights of franchisee	None stated	None stated	Cannot alter fundamental status and rights of franchisee	None stated	None stated	None stated

Only three of the top eight limit the extent to which amendments to the manuals can be made and, interestingly, with Pizza Hut and Domino's being two of the three, the provision of such protection is counterintuitive.

### **C. Profitability**

A franchisee's profitability will be affected greatly by three factors that do not exist in non-franchised businesses: the ability of, and extent to which, the franchise agreement allows for unlimited calls on the franchisee's capital, whether royalty payments are based on gross or net revenue, and territorial rights. Capital investments come up in a number of areas in franchise agreements, including conformance to trademark changes, refurbishment and redesign, menu and format changes and additions or subtractions of cooking and administrative equipment. In each of these cases, a franchisee may be required to comply with any change directed by the franchisor. A failure to do so, in most cases, is an event of default for which the franchise agreement can be terminated.

## 1. Unlimited Calls on the Franchisee's Capital

Restrictions on suppliers appears at first glance to vary significantly among the UFOCs; only Sbarro states that it has an exclusive supplier for food and paper products and three state that a "variety" of suppliers are approved. However, every UFOC reserves for the franchisor the right to restrict approved suppliers<sup>14</sup>, including the right to discontinue an existing suppliers' approved status. In addition, while all of the franchisors provide a process by which franchisees can request approval of new suppliers, the process for doing so may include costs to the franchisee in the case of six of the franchisors and, with the exception of two franchisors, no time frame for addressing requests is provided. As a result, the right to request approval of alternate suppliers may be a hollow promise. As two cases cited below demonstrate, this is not an insignificant restriction.

In a 1997 decision involving Domino's<sup>15</sup>, the Third Circuit upheld the dismissal of the franchisees' antitrust claims against the franchisor as the sole supplier of pizza ingredients and supplies. The Court relied heavily on the fact that Domino's total control over the sources of supply was disclosed in the UFOC.

With respect to Little Caesars' practices, in 1997 the Federal District Court in Detroit certified as a class action a claim by a group of franchisees that the franchisor's designation of its wholly owned subsidiary as the sole supplier of food and paper supplies violates antitrust laws.<sup>16</sup> The franchisees alleged that by imposing itself as the sole supplier, the franchisor can dictate prices and, as a result, the franchisees pay more for their food products and supplies than they would if the national food distributors clamoring to do so were allowed to bid for their massive business. On March 31, 1998, the Magistrate Judge recommended that the franchisor's Motion for Summary Judgment be allowed.<sup>17</sup> The lesson of these cases is that the ability of the franchisor to create contracts that allow them to use the franchisees as a captive distribution network and thereby be immune from price competition, is likely to be upheld by the courts on narrow contract principles.

For five of the six franchisors that provide relevant data, the percentage of total purchases that will be subject to restricted suppliers is no less than 80 percent. Thus, the fact that franchisees are severely restricted in their ability to shop for and negotiate the best price on these supplies could substantially affect the profitability of the business. The uncertainty of the franchisee's options makes it difficult to assess the viability of the business.

The franchisor's discretion to make unlimited draws on the franchisee's capital is not reserved to supply sources. It comes up repeatedly throughout the franchise agreement, including requirements regarding menu content, refurbishment, equipment, and trademark compliance. For each these categories, if there is no limit to the franchisor's discretion to order changes in the system, the franchisee is exposed to the

possibility of enormous capital expenditures.

### **Franchisor Can Change the Marks at Will**

<b>CHAIN</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
DATA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Each of the top eight pizza franchisors has reserved the right to change the Marks and the trade name purchased by the franchisee and, thus, have reserved the right to take away the essence of the system without any obligation to justify the decision.

Moreover, the costs of changes to the Marks can be substantial. Thus, if Domino's were to create a company mascot, "Dominic the domino man," to compete with Little Caesars' pizza man, it could require that all franchisees change all signage, paper products, advertising, delivery car detailing, and the like to include the image of Dominic. All at potentially tremendous cost to the franchisee. In the case of five of the top eight pizza franchisors, all of these costs are borne by the franchisee. In the case of Domino's, Sbarro, and Godfather's, the franchise agreement states that tangible costs, such as those associated with changing signage will be borne by the franchisor. Nonetheless, those agreements still leave open the question of intangible costs, such as lost sales during the transitional period, while customers may be confused or lose interest. Without explicit language assuring reimbursement for these costs, the franchisee must assume that the loss will sit squarely on its shoulders.

### **The Franchise Agreement Guarantees that Franchisor Will Pay Franchisee's Associated Costs**

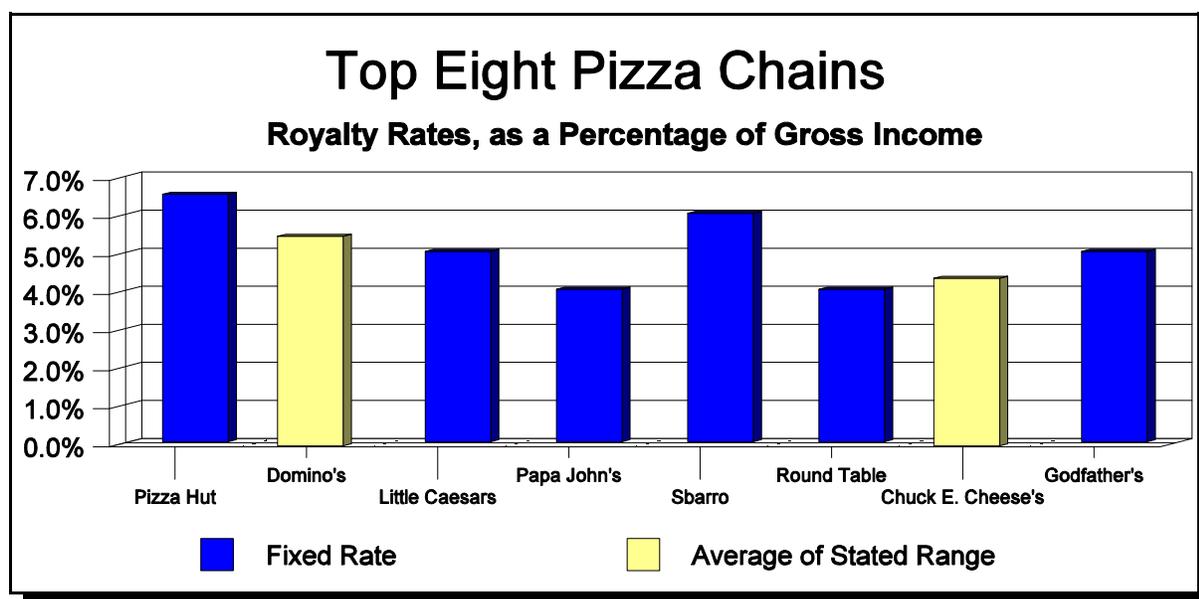
<b>CHAIN</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
DATA	No	Will pay tangible costs	No	No	Will pay tangible costs	No	No	Will pay tangible costs

Refurbishment is a third area in which franchisor discretion can be costly for the franchisee and is addressed within the context of renewal (Section III (A), pg. 25). Of the six franchisors that grant renewal rights, all may condition renewal on refurbishment of the franchisee's location. Moreover, seven of the eight may require the franchisee to refurbish during the life of the Agreement; Pizza Hut, the sole exception, may require the Marks. With respect to menu items, all eight reserve the right to require the franchisee to make unlimited changes, although Round Table provides for arbitration if the franchisee believes the required changes are unreasonably burdensome.

## 2. Royalty Payments: Will the Franchisor Drive Down Prices in Order to Drive Up Sales?

A second potential pitfall for the unwary prospective franchisee is the prevalent use of gross rather than net revenue to determine royalties. In order to appreciate the impact this difference can have on the profitability of the franchisee's business, this issue must be analyzed in the context of promotional schemes that dominate franchise businesses and, in particular, the fast food industry. Promotional activities often include inducement pricing, such as "buy two, get the third one free" specials. As is intended, these deals typically result in increased sales; however, they also result in increased costs and reduced profit margins per sale, due to the discounted pricing. Thus, the resulting rise in gross revenue may not bring with it a corresponding rise in net revenue. Nonetheless, the franchisee must pay royalties based on the increased gross revenues, even where actual profits have not risen.

Each of the top eight pizza franchises bases royalty payments on gross revenue. Thus, here again, prospective franchisees must bear in mind that what is good for the franchisor may not be good for the franchisee.



### 3. Territorial Rights

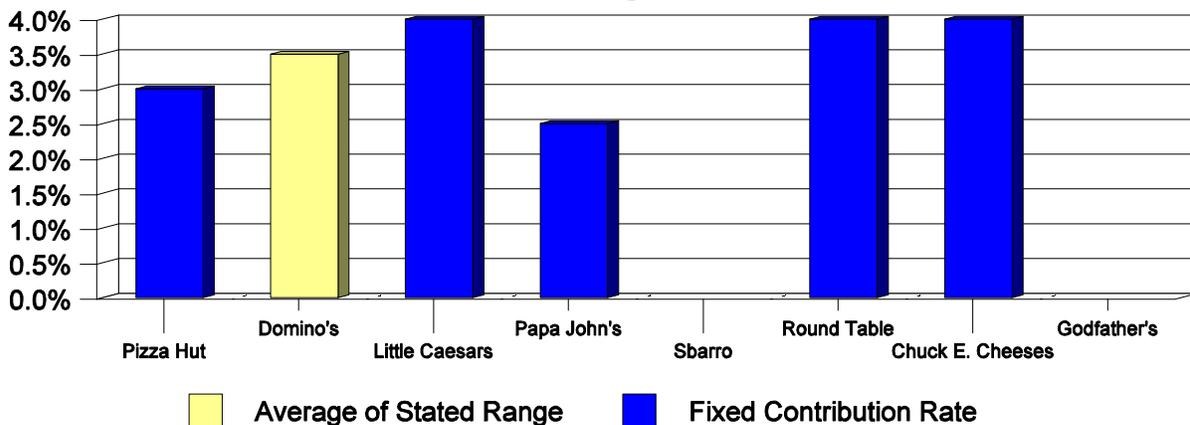
The third major issue impacting franchise profitability today is territorial rights. Franchisees want to know, “Will the franchisor guarantee that an identical restaurant will not open across the street? Can the franchisee be assured of exclusivity in its immediate geographical area?” With respect to the first question, the answer for each of the top eight pizza franchisors, except Domino’s and Little Caesars, is “Yes.” The answer to the latter question is not as promising. Unless the geographical area is no more than one and a half square miles, the answer to the latter question is uniformly “No.” Although six of the top eight pizza franchisor’s offer a protected territory, the radius is small, and the breadth of the protection is limited. For those that grant territorial rights, the franchisee is protected against the possibility of an alike restaurant being opened in its territory, but none of the top eight limits competitive advertising within the franchisee’s territory and, more significant, only one prohibits competition by affiliates. (See Section III (B) (2) *infra*. Pg. 29) for a chart setting forth the specific data regarding the territorial rights offered by each franchisor.)

### 4. Advertising Rights and Restrictions

Finally, an additional issue that has been the basis of recent litigation is the allocation of system-wide advertising monies. National advertising funds managed by the franchisor or an affiliate and contributed to by franchisees on a compulsory basis are common in franchise systems and exist in six of the eight top pizza franchisors.

## Top Eight Pizza Chains

**National Advertising Contribution Rates**



Optimally, a franchisee would like to invest advertising money where it will have the greatest impact and, by pooling the resources of many, advertising funds can be a very effective tool and a benefit of working with a national chain. Notwithstanding the benefits for the group as a whole, for some franchisees these benefits may not be realized and, if that is the case, the franchisee's money would be better spent on local advertising. The problem, from the perspective of the franchisee, is that there is no choice in the matter and no control; it is this imbalance of rights and responsibilities between the contributing franchisee and the controlling franchisor that has been the source of litigation.

Recent litigation in California<sup>18</sup> suggests that, regardless of the imbalance of bargaining power between franchisees and franchisors, the unilateral decision-making power of the franchisor with respect to advertising funds will be upheld by the courts.<sup>19</sup>

### **III. EQUITY**

A major distinction between licensees and franchisees is that while the former leases the right to operate a business, the latter is the owner of the business, as reflected in the frequently-required signs stating, "This business is independently owned and operated," or words to that effect. A benefit of ownership, for which the franchisee makes a considerable financial investment, is the ability to perpetuate the business while building its equity and the opportunity to realize that equity through the transfer or sale of the business. Any restriction placed on the Franchisee with respect to his ability to perpetuate the business or to sell it for good consideration interferes with the franchisee's ownership interest in the business. A review of the renewal, termination/expiration, and transfer terms of the top eight pizza franchisor's UFOCs, which are set forth under Item 17, reveals that while their agreements are sold as franchises, they read more like, and provide benefits more in keeping with, licenses.

#### **A. Term and Renewal**

Under any contract, both parties want the ability to terminate the agreement if the relationship becomes in some way undesirable and to perpetuate it if all is going well. This general rule applies to franchise agreements, except that the franchisee's interest in protecting its right to perpetuate the relationship is magnified, due to the level of its investment in the franchised business. The optimal scenario, from the perspective of a franchisee, is an Agreement containing an "evergreen" clause with respect to renewal. Evergreen clauses offer true renewal opportunities: the franchisee maintains the right to renew its original contract indefinitely, as long as it fulfills its obligations during any given term.

Evergreen clauses are, in fact, rare. What is more commonly found are clauses that provide an opportunity more akin to a right of first refusal, notwithstanding that the opportunity is typically and misleadingly labeled a "renewal" right. Such clauses grant the franchisee the right to continue its franchise relationship, assuming it is in

compliance with the then-existing franchise agreement, but do not guarantee the terms under which the relationship will continue.

A renewal clause that requires that the franchisee sign the then-current franchise agreement as a pre-condition to “renewal,” is an example of a right of first refusal; it grants the opportunity to continue the franchise relationship beyond the initial term, but states that a new contract will govern the relationship during the new term. The difference between a true right of renewal and a right of first refusal is profound, and is of critical importance to the franchisee. The former allows the franchisee to plan for the future with the security of knowing that the business can be perpetuated on known terms; whereas, the latter provides absolutely no security with respect to perpetuation because, at the end of any term, the terms of the new agreement offered may be prohibitively one-sided and leave no room for the franchisee to earn a profit. Worse yet, some franchise agreements do not guarantee renewal beyond a predetermined number of years.

Looking at the top three pizza franchises with this major distinction in mind, the terms offered by the top three are functionally the same; either renewal is limited (or, in the case of Pizza Hut, not provided) or it is conditioned on signing a new agreement.

**Fixed Sunset on the Guaranteed Life of the Franchise/number of years**

CHAIN	Pizza Hut	Domino’s	Little Caesars	Papa John’s	Sbarro	Round Table	Chuck E. Cheese’s	Godfather’s
DATA	Yes	Yes	Yes	No	Yes	No	Yes	No
Years	20	n/a	20	n/a	10	30	25	n/a

Another significant issue is the requirement that the franchisee release the franchisor of all claims as a condition of renewal. With the exception of Domino’s and Godfather’s, each of the franchisors that provides for a renewal period conditions that right on the signing of such a release. Requiring that the franchisee release all claims is tantamount to creating an artificial statute of limitations on claims against the franchisor, but worse. Whereas a statute of limitations restricts the time frame in which a claim can be raised, the release requirement places an expiration date on the resolution of the claim. Conceivably then, as the renewal date approaches, the franchisor has an incentive to drag out any dispute regarding its obligations with the knowledge that a franchisee might cede the point or compromise considerably when faced with the decision between losing the dispute and losing the opportunity to renew the right to perpetuate the business. It is noteworthy that, in yet another example of asymmetry of rights, with the exception of Round Table, a franchisee does not have the potential to engage in similar tactics with respect to disputes over its obligations because there is no requirement that the franchisor sign a release. Moreover, failure to resolve the dispute may result in attempted termination.

### Hoops to Jump Through on Renewal

CHAIN	Domino's	Little Caesars	Papa John's	Round Table	Chuck E. Cheese's	Godfather's
Sign then current form of agreement	Yes	Yes	Yes	No	Yes	No
Release Franchisor	No	Yes	Yes	Yes	Yes	Not stated
Franchisee is Released	No	No	No	Yes	No	Not stated
Refurbish	Yes	Yes	Yes	Yes	Yes	Not stated

#### B. Termination and Expiration - The Death Penalty

With the franchisee's future uncertain, it is important to consider carefully what is at stake when a franchise relationship ends, either through termination or through expiration. In fact, the franchisee's entire interest in the business is at stake. In a recent article on this issue found in the Franchise Law Journal of the American Bar Association, the author analogizes the franchise agreement to a prenuptial, stating: "The franchise prenuptial agreement generally does not give the franchise any rights whatsoever upon divorce, except that the franchisee is presumably entitled to make a living in a noncompeting business that does not violate the contractual restrictive covenant. As with most prenuptial agreements, assuming that the contract has been validly entered into and is enforceable, the franchisee has little recourse. Is that fair?"<sup>20</sup>

In most instances, at the time of "divorce," the franchised business has developed significant value, much of which is based on the goodwill of the business developed through the efforts and investment of the franchisee. The issue of who really owns that goodwill is the source of many disputes between franchisors and franchisees, especially when the two go their separate ways. In the case of the top eight franchisors, all but Godfather's have carefully drafted their franchise agreements in order to minimize these disputes and to resolve them solely in the franchisor's interest.

There are several means by which a franchisor can appropriate the goodwill of a franchised business. The most common method is by reserving for itself control of the channels through which goodwill is realized: customer lists, telephone numbers, and the location itself. For example, if you can't get in touch with your customer base and your competitor can, chances are a substantial portion of those customers will be lured away by promotional activities. Similarly, if your customers think they're calling you, but reach another pizza restaurant, many will be content to place an order without the additional effort of investigating your business's new telephone number. Finally, and potentially most damaging, if your customers pull into your old location and find not you, but another restaurant selling pizza, most will opt for what is immediately available rather than travel further to find your new location.

## **1. Get Out! Franchisors Reserve Right to Take Over**

The most effective way for a franchisor to ensure the goodwill of the franchised business continues to inure to its benefit post-termination/expiration is to take over the franchised business, and all but Pizza Hut and Godfather's reserve the right to do just that, if they so choose. If the franchisor decides to exercise its right to purchase the business, the franchisee will be compensated, although in each case the price is likely to reflect less than the full value of the business. Domino's, Little Caesars, Sbarro, Round Table and Chuck E. Cheese's affect this result by buying the business piecemeal, without any stated acknowledgment of added value of each piece when viewed as a whole. The franchisors simply reserve the right to purchase the equipment, supplies, signage and the like and the right to occupy the premises, thereby effectively taking over the business without ever addressing or compensating the franchisee for its intangible sources of additional value, such as goodwill. Round Table explicitly states that it will not compensate the franchisee for any goodwill associated with the restaurant.

Thus, while the franchisee may get back a small portion of its initial investment, it has little chance of realizing any of the added value accrued in the business over the course of its life. Moreover, in the event that the franchisor chooses not to exercise its right to purchase the assets (as defined by the franchisor) of the business, five of the top six franchisors also require that the franchisee relinquish all rights to the business's phone number and all are either silent with respect to or specifically claim ownership of customer lists. Silence with respect to this issue does not provide any protection to the privacy of customer lists. In most cases, these lists will be accessible or capable of reconstruction through all of the monthly accounting and other documentation that is required of franchisees.

Although Pizza Hut does not reserve a right to purchase the assets of the business, it does reserve the right to an assignment of the phone number. More significantly, its non-compete clause, as set forth below, is so broad that it is likely to foreclose any opportunity for the franchisee to continue its business. Godfather's presents an exception to the norm among the top eight; it neither reserves the right to purchase the assets of the business, nor does it claim ownership of the customer list or seek an assignment of the lease or telephone number.

## **2. And Stay Out! Non-compete Clauses Pair with Take Over Transfer**

In addition to reserving the right to take over the franchisee's location, seven of the eight franchisors also require that the franchisee have no involvement with any competing food business within a prescribed radius of the franchisee's restaurant or any other franchised restaurant for a period of time ranging from one to five years. Round Table, the one exception, has no non-compete clause in its sample agreement. For the remaining seven, even if the franchisor does not seek to take over the business, the

franchisee cannot continue at the same location, and its available alternative options are severely limited.

The non-compete clauses of the top seven franchisors also present an additional example of the disparity of rights and responsibilities of the franchisee and franchisor. The stay away provisions, found in the non-compete covenants of an agreement, are designed to prevent the franchisee from competing with the franchisor, much like territorial covenants are designed to protect franchisees during the life of the agreement. Noteworthy, though, is the discrepancy between the level of protection given to the franchisee and that reserved by the franchisor.

**Good for the Goose, Not Good for the Gander**

NAME OF FRANCHISOR	TERRITORIAL RIGHTS DURING AGREEMENT		NON-COMPETE OBLIGATIONS UPON TERMINATION	
	Radius of Protection	Breadth of Protection	Radius of Protection	Breadth of Protection
<b>Pizza Hut</b>	1/3 mile	System restaurants only, no limit on other PHI concepts or affiliates	25 miles or same county of a System restaurant, 10 miles of affiliates	No involvement in any competing business for two years
<b>Domino's</b>	No guarantee	Will not open System Store w/in 1 mile if in compliance	10 miles of franchisee's restaurant	No involvement in any competing business for one year
<b>Little Caesars</b>	1 mile, possibly less	System restaurants only, no limit on affiliates	Designated Area of the franchisee / Designated Area of any franchisee	No involvement in any competing business for two years / No involvement in any competing business for one year
<b>Papa John's</b>	1.5	System restaurants only, no limit on affiliates	10 miles of franchisee's restaurant or any System Restaurant	No involvement in any competing business for two years
<b>Sbarro</b>	None	N/A	5 miles of franchisee's restaurant or any System restaurant	No involvement in any competing business for one year
<b>Round Table</b>	1 mile	Any pizza restaurant, except in malls	0	N/A
<b>Chuck E. Cheese's</b>	not specified	System restaurants only, no limit on affiliates	25 miles of franchisee's restaurant	No involvement in any competing business for one year
<b>Godfather's</b>	usually 0.5, possibly more	System restaurants or other channels of distribution	3 miles of franchisee's restaurant or any System restaurant	No involvement in any competing business for two years

### C. Transfer

Integral to the value of any asset is the owner's ability to transfer it at will. Transferability of franchised businesses is complicated by the existence of an ongoing contract pertaining to it and the impact that a transfer might have on the parties to that agreement. For example, If the franchisee transfers an interest in the business to a less experienced third-party, sales might drop, resulting in lower royalty payments to the franchisor. Because of the franchisor's interest in knowing and controlling the individuals or entities with which it contracts, franchise agreements often contain substantial restrictions on the franchisee's right to transfer, each of which acts as a break on the franchisee's ability to realize the equity of the franchised business. With the exception of Godfather's, which has few restrictions on transfers, the top eight pizza franchisors' agreements use a variety of restrictions to protect their interests, including the franchisors' approval of the transferee, the franchisee's full compliance with the agreement at the time of transfer, transfer fees, and rights of first refusal. In each case, the end result is multiple obstacles and delays impeding and, potentially, eliminating the franchisees ability to realize its investment.

**Hoops to Jump Through on a Sale of the Franchisee's Business**

<b>CHAIN</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
Buyer signs then current agreement	No	Yes	Yes	Yes	Yes	No	No	No
Seller releases Franchisor	Yes	No	Yes	Yes	Yes	Yes	Yes	No
Time limit for providing consent to transfer	No	No	No	No	No	No	No	No
Franchisor must act reasonably	No	No	Yes	Yes	Yes	Yes	No	Yes
Franchisor can match the offer	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

The top seven pizza franchisors each reserve the right to approve or disapprove any proposed transfer and do not provide any time frame within in which decisions will be made. This presents a potentially serious impediment to the franchisees' ability to realize their investments, particularly in the case of Pizza Hut, Domino's, and Chuck E. Cheese's, which do not even guarantee that the franchisor will act reasonably. In either

case, the time that the Franchisor may take in making its determination may result in the loss of the opportunity.

The franchisor's reservation of a right of first refusal presents an additional delay in the sale process and again places the franchisee at risk of losing its sale. Regardless of the length of time the franchisor has to consider its options, any delay in the sale of the business could result in a lost sale if the prospective buyer tires of waiting or finds a more readily available deal. Moreover, in each case, what constitutes an equivalent offer is left undefined and unaddressed. For a franchisee looking to realize his or her investment, this could mean the difference between receiving cash for the business and receiving a note payable several years in the future.

In addition to protecting their rights under the franchise agreement, more and more franchisors are using transfer as an opportunity to alter the terms of the underlying franchise agreement, in order to increase their rights. The franchisor creates this opportunity by requiring that the transferee sign a then-current franchise agreement rather than merely assuming the franchisee's obligations under the existing contract. Domino's, Little Caesars, Papa John's, and Sbarro all require that a buyer sign the then-current agreement. It is interesting to note that the industry leader, Pizza Hut does not require that a new contract be signed; however, this is consistent with their simplified approach of negotiating for only one, time-fixed term rather than providing for a shorter initial term and then one or more renewal periods. Nonetheless, Domino's, Little Caesars, Papa John's and Sbarro make up more than half the franchised business within the top eight pizza franchise systems and for each of those businesses, the new contract clause means that the franchisee cannot sell what it owns (i.e. a business run under known terms), but can only sell something potentially less valuable (i.e. a business to be run under uncertain terms, to be determined at the time of sale and likely to be less favorable than those under the existing agreement). The time honored principle expressed in the Latin, *Nemo dat quod non habet* (You cannot sell what you do not own), has been turned on its head. Only in franchising is it true that you cannot sell what you do own. This encumbrance on transfer rights is potentially devastating for a franchisee.

It is noteworthy that while each of the top eight's franchise agreements does much to protect and increase the franchisor's interests, it does nothing to protect the franchisee. In each case, there is absolutely no restriction on the franchisor's right to transfer its obligations under the contract, regardless of the transferee's ability to fulfill those obligations and regardless of the resulting impact of the franchisee.

#### IV. DISPUTE RESOLUTION

##### A. Legal Fees: Who Pays the Lawyers?

###### Does the Losing Party Pay Attorneys' Fees?

CHAIN	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
Franchisee pays if Franchisor wins	Yes	Yes	Yes	Yes	Yes	Yes	Not stated	Not stated
Franchisor pays if Franchisee wins	Yes	No	No	No	No	Yes	Not stated	Not stated

A contract is of little meaning if it cannot be enforced, and yet enforcement can be quite costly. The top six pizza franchisors have insulated themselves from this issue by explicitly stating in the franchise agreement that any costs incurred by the franchisor in enforcing the agreement will be borne by the franchisee. However, the same is not true with respect to costs incurred by the franchisee. Only two of those six make clear that the payment of attorneys fees by the losing party is reciprocal. The asymmetry of rights under Domino's, Little Caesars, Papa John's and Sbarro is aggravated by the resources each party can bring to bear. Without the promise of attorneys fees upon successful enforcement of its rights, it may not be practicable for the franchisee to sue. Moreover, it is noteworthy that the four franchisors that clearly do not provide for attorneys fees where the franchisee is the prevailing party make up significantly more than 50% of the franchised businesses within the top eight franchisors.

##### B. Venue Clauses: Pack Your Bags

###### All Litigation in the Franchisor's Home Town

CHAIN	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
DATA	Yes	No	Yes	Yes	Yes	Yes	Yes	No

Here is what the New Jersey Supreme Court had to say in 1996 about forum selection clauses in franchise agreements which require all litigation to be conducted in the home state of the franchisor:

At the contract stage, the franchisor typically submits a standard contract and, depending on the potential value and profitability of the franchise, a franchisee may elect not to test the negotiability of terms of the contract to avoid the risk of antagonizing the franchisor and losing the franchise. In that setting, a franchisor has little to lose by including a forum-selection

clause in its standard agreement. Although such a clause directly benefits the franchisor by requiring suit to be filed in a geographically convenient state of choice where it can be defended by the franchisor's regular litigation counsel, the indirect benefit to franchisors is to make litigation more costly and cumbersome for economically weaker franchisees that often lack the sophistication and resources to litigate effectively a long distance from home.<sup>21</sup>

Venue clauses are deemed so highly prejudicial to the franchisee that the UFOC Guidelines require that they be listed as a separate Risk Factor at the front of the UFOC.<sup>22</sup> The top eight pizza chains uniformly insert these clauses in their franchise agreement as a means to gain the maximum leverage possible in the event of litigation. If you want to avoid these kinds of clauses, you have nowhere to go. Complete comparison shopping among the top eight will prove fruitless.

## **CONCLUSION**

The study on which this paper is based involved the review of hundreds of pages of material setting forth the details of the franchise opportunities each of the top eight pizza franchises has to offer.

What emerged out of the examination of these documents was that, for all the many details that differentiate the agreement offered by one franchisor from that offered by another, three themes exist throughout each sample contract and among them all that characterize the nature of the agreements being offered: unbridled discretion in the hands of the franchisor, unlimited calls on the franchisee's capital, and asymmetry of the rights and obligations of the two parties.

As noted above, the majority of the franchisors' purported obligations are couched in terms of what the franchisor deems, in its sole discretion, to be appropriate to provide. So, in fact, the franchisee is promised very little. Nonetheless, the ongoing investment that may be required of the franchisee is limitless. All eight franchisors reserve the right to restrict suppliers, potentially creating captive customers in its franchisees. All reserve the right to change their Marks. In the case of five of the top eight, all costs for new signage, paper products, advertising and the like, incident to any change will be borne by the franchisee. Moreover, none of the top eight compensates its franchisees for intangible costs, such as lost revenue due to customer confusion over the Marks. In addition, seven of the top eight can require refurbishment during the life of the agreement and five of the six that provide for renewal clauses reserve the right to require refurbishment if the restaurant as a condition of renewal, as well.

Finally, the issue of asymmetry in rights and obligations comes up throughout the agreements reviewed in connection with this paper. Examples include the franchisor's unrestricted right to assign its interest in the agreement compared to the franchisee's

heavily restricted right; the franchisor's right of first refusal with respect to sale of the franchised business compared to the absence of a right of first refusal for franchisees on the purchase of new restaurants the franchisor intends to open; the unilateral right of the franchisor to litigate any matter arising out of the contract in a designated location of its choice and under a designated law of its choice; the requirement that the franchisee indemnify the franchisor for all claims of negligence against the franchisee without any reciprocal obligation on the part of the franchisor; and the right of the franchisor alone to claim attorneys fees and costs in connection with disputes between the two parties.

These observations lead inexorably to the conclusion that a national standard governing the franchise relationship is necessary as a means of leveling the playing field on which franchisors and franchisees contract.

A generation ago, the Congress realized the gasoline station owners and automobile dealers were being victimized by a gross concentration of power in the oil companies and auto manufacturers. The Petroleum Marketing Practices Act and The Auto Dealers Day in Court Act were thus born. The top eight pizza franchisor have attained similarly pervasive and unilateral control over franchise terms and conditions, with unheard of bargaining and negotiation power.

The most-often heard response to these arguments, on behalf of franchisors, is that no one is holding a gun to the franchisees' heads. In other words, franchisees could protect themselves by simply choosing not to contract with franchisors that offer unfavorable terms and, therefore, regulation is not needed. Implicit in this argument is the assumption that the marketplace will produce alternative and more favorable terms.

What the totality of the findings in this paper demonstrate is that, in fact, few alternatives exist. The only real choice franchisees have is whether or not to play the game at all. If a franchisee wants to open a pizza store that will be recognized by the general public, it must contract with one of the top eight franchisors and, among those eight there is little meaningful variation in the terms of the franchisee agreements offered.

## Eric H. Karp

Eric H. Karp is a partner in the Boston law firm of Witmer, Karp, Warner & Thuotte LLP where he specializes in franchise law, representing franchisees and numerous national and regional franchisee associations.

Mr. Karp has represented franchisees throughout the country in a myriad of franchise issues including purchases, relocations, remodels, transfers, defaults and terminations and lease issues. He is an Affiliate Member and a Director of the American Franchise Association (AFA). Mr. Karp also served as Chair of the AFA Model Responsible Franchise Practices Act Committee.

In June 1994, Mr. Karp testified before the U.S. House Small Business Committee on "Self Regulation of Franchising: The IFA Code of Ethics."

An elected delegate to the 1995 White House Conference on Small Business, Mr. Karp has twice testified before the Joint Committee on Commerce and Labor of the Massachusetts Legislature on franchise issues.

Since 1997 Mr. Karp has served on the Advisory Committee of the Franchise and Business Opportunities Committee of the North American Securities Administrators Association. He has also been a regular guest lecturer at Babson College on franchise issues and is a member of its Franchise Institute.

Mr. Karp has been interviewed by numerous media, including New England Cable News, The Wall Street Journal, USA Today, The Boston Globe, State House News Service, CCH Business Franchise Guide, Continental Franchise Review, Optometric Management, Vision Monday, Success Magazine, Smart Money Magazine, Franchise Times, Income Opportunities Magazine and Entrepreneur Magazine. He has also been contributor to Leader's Franchising Business & Law Alert.

Mr. Karp is a graduate of Boston University (B.A. Political Science 1974) and Boston University School of Law (J.D. 1977). He can be reached at 617-248-0550 or by e-mail at [wkwt@28state.com](mailto:wkwt@28state.com).

### **Laura W. Gal**

Laura W. Gal is an associate with the Boston law firm of Witmer, Karp, Warner & Thuotte LLP, where she works in franchise and family law.

Ms. Gal represents both individual franchisees and franchisee associations. Her work has included conducting line-by-line reviews of contracts, including summaries of the potential impacts of each section, and involvement in litigation arising out of attempted franchise termination, including defending against injunctions.

Ms. Gal is a graduate of Dartmouth College (B.A. English 1991) and George Washington University (J.D. with honors 1995), where she was a member of the George Washington University Journal of International Law and Economics. She can be reached at 617-248-0550 or by e-mail at [wkwt@28state.com](mailto:wkwt@28state.com).

### **Frank Wadsworth**

Dr. Frank Wadsworth has been an Assistant Professor of Marketing at Indiana University Southeast since 1995. Dr. Wadsworth earned his Ph.D. in Business from the University of Wisconsin-Madison. He holds M.S. degrees from the University of Wisconsin-Madison and Michigan State University. Dr. Wadsworth conducts consulting work for franchisees and is the Associate Executive Director for a franchising research center. His research interests include among others: franchisee satisfaction, franchise system performance, survey response incentives and identifying important product/service characteristics to consumers.

## Sources

Each of the eight franchise systems was contacted and asked to provide a 1998 Uniform Franchise Offering Circular (UFOC) for this study. These requests were made in successive letters to each of the eight franchisors in March, June and November of 1998.

The only franchisor to comply with our request for a copy of its most recent UFOC was Papa John's International, Inc. While we are no less grateful for this lone and disturbingly unique cooperation, we can only speculate that Papa John's was properly anxious to demonstrate its impressive rise in market share over the last three years. Papa John's market share almost doubled from 1996 to 1998 (4.33% to 8.03%), according to *Nations Restaurant News*.<sup>23</sup>

Little Caesars Enterprises, Inc., by separate letters from their General Counsel and outside attorneys, advised the authors, in writing, of their refusal to cooperate with this study; the remaining six franchisors neither acknowledged nor responded to any of our multiple requests.

We gratefully acknowledge assistance from the following sources.

The UFOC for Pizza Hut was provided by Dale E. Cantone, Assistant Attorney General for the State Of Maryland.

The UFOCs for Domino's, Sbarro and Godfather's were provided by Jeffrey Kolton of FRANDATA.

The UFOC for Little Caesars was provided by a franchisee of that system who insisted an anonymity.

The UFOC for Round Table was provided by AFA Affiliate Member Peter A. Singler, Jr., Esq. of Sebastopol, California, a franchisee in that system and counsel to its franchisee association.

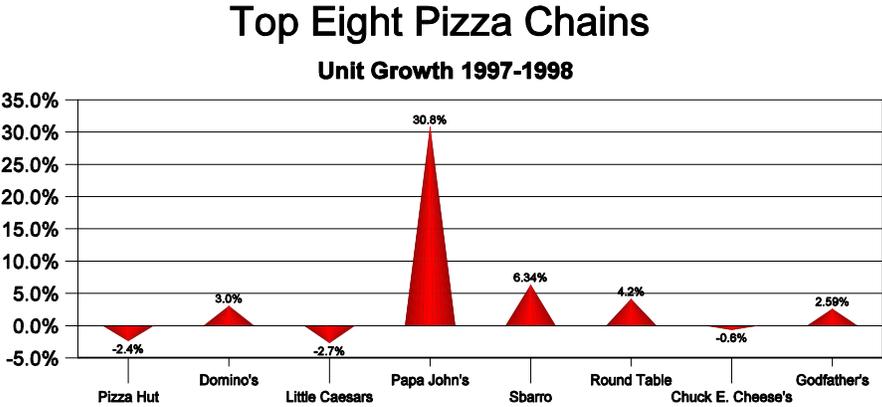
The UFOC for Chuck E. Cheese's was provided courtesy of Martin Cordell of the Washington State Department of Financial Institutions, Securities Division.

## End Notes

1. See CCH Business Franchise Guide ¶ 5752.
2. In the case of Sbarro, the number of franchised locations includes both franchised and licensed locations as disclosed in Item 20 of the UFOC.
3. See McDavid and Steuer, The Revival of Franchise Antitrust Claims, American Bar Association Forum on Franchising, October, 1998.
4. See Zschaler v. Claniel Enterprises, Inc., 958 F.Supp. 929 (D.Vt. 1997)
5. The authors have used three sources for statistics concerning the number of locations of the top 27 pizza franchisors: (a) the June 22, 1998 edition of Nations Restaurant News, (b) the January 1999 edition of Entrepreneur Magazine, and (c) the UFOC's of the top eight pizza chains as described in Appendix A to this report. There are non-material discrepancies and variations between the sources, likely based on the reporting periods. For example, Nations Restaurant News lists Round Table as having 603 franchised locations; Entrepreneur Magazine states that Round Table has 524 franchised locations, and the UFOC for Round Table states that it has 535 franchised locations.
6. Id. at 942; McDavid and Steuer, *supra* at 31.
7. Leonard D. Vines, Editor, Merger and Acquisitions of Franchise Companies, American Bar Association Forum on Franchising, 1996. See Appendix A, Section XIII.
8. A California Superior Court recently stated the following on the subject of earnings claims: "The amount of possible profit, sales projections, break even amounts and the like are of compelling importance to prospective franchisees. They need to know if this venture is going to be profitable." People of the State of California v. Speedee Oil Change Systems, Inc., CCH ¶ 11548, Superior Court. Los Angeles County, 1997.
9. See Robert E. Bond, Franchising: The Bottom Line, Source Book International, 1995.
10. See CCH Business Franchise Guide ¶5772. The franchisor may limit its disclosure to all franchisee outlets in the state, but if these franchisee outlets total fewer than 100, the franchisor must disclose franchisee outlets from all contiguous states and then the next closest state(s) until at least 100 franchisee outlets are listed.
11. Id.
12. See Susser v. Carvel, 206 F.Supp.636 (S.D.N.Y. 1962), *aff'd*, 332 F.2d 505 (2<sup>nd</sup> Cir. 1964).

13. In Re Convenient Food Mart, Inc., CCH Business Franchise Guide ¶9599 (U.S.D.C. N.D. Ill 1990).
14. Indeed, the franchisors in both Dominos' and Little Caesars have been involved in litigation over their refusal to approve alternate suppliers. The litigation in the Domino's system has been finally concluded in favor of the franchisor. Queen City Pizza, Inc. v. Domino's Pizza, Inc., 124 F.3d 430, rehearing denied, 129 F.3d 724 (3d Cir. 1997). The Little Caesars litigation is ongoing. 14. Little Caesar Enterprises, Inc. v. Smith, CCH Bus. Franchise Guide ¶ 11,164 (E.D. Mich. 1997).
15. Queen City Pizza, Inc. v. Domino's Pizza, Inc., 124 F.3d 430, rehearing denied, 129 F.3d 724 (3d Cir. 1997).
16. Little Caesar Enterprises, Inc. v. Smith, Bus. Franchise Guide (CCH) ¶ 11,164 (E.D. Mich. 1997).
17. Little Caesar Enterprises, Inc. v. Smith, No. 93-CV-40520-FL (E.D. Mich. March 31,1998)
17. America's Favorite Chicken Co. V. Cajun Enterprises, Inc., CCH ¶11,297 (U.S. Ct.App., CA 1997).
19. For more than two years, the Franchise Advisory Committee of the Franchise and Business Opportunities Committee of NASAA have been hammering out a proposal to make Earnings Claims under Item 19 of the UFOC mandatory. The rationale for this effort is that the vast majority of franchisors do not present financial performance information in the UFOC but that such information is often presented outside the UFOC in violation of the law. While this effort has been widely reported on in franchise trade publications, the nature of the proposal has not been made public and the members of the Advisory Committee are subject to a confidentiality agreement. Mr. Karp is a member of the Advisory Committee.
20. Schackmann and Barker, The FTC Act and the Franchise Disclosure Rule in Nieman v. Dryclean U.S.A. Franchise Company, Franchise Law Journal of the American Bar Association, Vol 18, Number 3, Winter 1999
21. Kubis & Perszyk Associates, Inc. v. Sun Microsystems, Inc., CCH Business Franchise Guide ¶ 10,980 (July 23, 1996).
22. See CCH Business Franchise Guide ¶5752.

23. Indeed, if one looks at comparative unit growth over the last year, Papa's John's advances appear even more noteworthy:



## IDENTIFICATION OF FRANCHISORS<sup>1</sup>

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
<b>Corporate Name</b>	Pizza Hut, Inc.	Domino's Pizza, Inc. <sup>2</sup>	Little Caesar Enterprises, Inc.	Papa John's International, Inc.	Sbarro, Inc.	The Round Table Franchise Corporation	CEC Entertainment, Inc.	Godfather's Pizza, Inc.
<b>Address</b>	9111 East Douglas, Wichita, KS 67207	30 Frank Lloyd Wright Drive, Ann Arbor, MI 48106-0997	Fox Office Center 2211 Woodward Avenue, Detroit, MI 48201	P.O. Box 99900 11492 Bluegrass Pkway., Suite 175 Louisville, KY 40269-0900	401 Broadhollow Rd. Melville, NY 11747	2175 North California Blvd. Suite 400, Walnut Creek, CA 94956	4441 West Airport Freeway, Irving, TX 75062	9140 West Dodge Road, Omaha, NB 68114
<b>Phone</b>	316-681-9000	734-930-3030	313-983-6000	502-266-5200	516-715-4100	925-274-1700	972 258-8507	402-391-1452
<b>UFOC Date</b>	April 1, 1998	May 1, 1998	September 23, 1998	May 6, 1998	December, 1998	October 5, 1998	July 10, 1998	June 25, 1998
<b>Market Share Rank<sup>3</sup></b>	1	2	3	4	5	6	7	8

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<sup>1</sup> All Data set forth in this study is based on information found in the Uniform Franchise Offering Circular of each Franchisor primarily, in the Disclosure Section.

<sup>3</sup> Nation's Restaurant News 6/22/98

**RISK FACTORS<sup>4</sup>**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro<sup>5</sup></b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Venue Clause</b>	Yes	No	Yes	Yes	No	Yes	Yes	No
<b>Venue</b>	Wichita, KS	None	Detroit, MI	None	None	Contra Costa County, CA	Dallas County, TX	None
<b>Choice of Law</b>	Kansas	None	Michigan	Kentucky	None stated	California	Texas	Nebraska
<b>Other</b>	None	No exclusive area ----- Additional disclosures specific to MD and MI	None	Franchisee may arbitrate with Franchisor in Kentucky only	No exclusive area	None	None	None

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<sup>4</sup> The source of information in this table is exclusively the Risk Factors on the Cover Page of the UFOC

<sup>5</sup> Although the risk factors for Sbarro do not include a designated venue nor state that New York law will govern the contract, Item 17 of its Offering Circular and the sample franchise agreement contained in the Circular state that all claims must be brought in Suffolk County, New York and that New York law governs the agreement.

**ITEM 1  
THE FRANCHISOR**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's<sup>6</sup></b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Incorporated</b>	1967	1963	1962	1991	1977	1962 <sup>7</sup>	1980 <sup>8</sup>	1985
<b>Parent</b>	TRICON-Global Restaurants, Inc.	None	None	Publicly held	None	None	None	None
<b>Started to offer franchises</b>	1959	1967	1962	1986 (through predecessor)	1977	1962	1978 (through predecessor)	1974 (through predecessor)
<b>Affiliated Branded Systems</b>	*Pizza Hut, Ltd. *KFC *Taco Bell	None	*America's Pizza Cafe *Italiano's *Parlors *Family Inn *Caesarland *Family Fun Canters	None	*Boulder Creek Steaks & Saloons *Bice/Med Grill (Italian) *Umberto-New Hyde Park (Pizza)	None	Monterey's Tex-Mex Restaurants (12.5% interest)	None

<sup>6</sup> Where information pertaining to more than one format is offered in the UFOC, this study provides information on Domino's Pizza Stores only.

<sup>7</sup> Immediate predecessor of the franchisor

<sup>8</sup> Under different name

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Other Affiliates</b>	PFS-authorized distributor to franchisees	Domino's Pizza Distribution-authorized distributor to franchisees	Blue Line Distributing	*PJ Food Service *J-Town Restaurant Supply Company *Printing and Promotions, Inc. *Risk Services *Capital Del.	None	None	None	GPI Productions
<b>Formats</b>	*Red Roof *Delivery *Delivery/Carry-out	*Domino's *Pizza Pizzaz	*Pizza Station *Pizza Station Express *Carry-out/Delivery *Walmart	*Papa John's *Hometown *Special Site	*Sbarro *Sbarro the Italian Eatery *Cafe Sbarro *Sbarro the Best Italian Choice	*Round Table *Delivery/Carry Out (New in 1998)	*Chuck E. Cheese's *Chuck E. Cheese's restaurants *Chuck E. Cheese's Pizza Time Theatre	Godfather's Pizza

**ITEM 2  
BUSINESS EXPERIENCE**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Interbrand Migration</b>	None	None	<p><b>H. Agadi,</b> COO Formerly: VP, Field Operations: Domino's (1991-96) <b>G. Ralko,</b> VP, Int'l Formerly: Dir. Int'l Dev." Domino's (1990-1995)</p>	<p><b>W. Oney,</b> COO Formerly: VP, Field Operations &amp; Sr. V.P.: Domino's (1989-92) <b>L. Roberts,</b> V.P. U.S. Franchise Sales Formerly: KFC Market Manager (1983-1993) <b>H. J. P. Marquez Sr.</b> Dir. International Formerly: Operational Dir., V.P. Latin America (1991-1994) <b>P. L. Sanders,</b> Dir. International Op. Dev. Formerly: KFC Sr. Manager Ops. Home Delivery and Concept Dev.</p>	None	<p><b>J. McCourt,</b> VP Finance, Sr. VP Corp. Dev. Formerly: Field Finance Director: Pizza Hut (1992-96) <b>B. Dixon,</b> VP Management. Formerly: Director Business Marketing: Pizza Hut (1978-1985)</p>	None	None

**ITEM 3  
LITIGATION**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Total Number of Cases</b>	4	22	23	7	5	13	6	0
<b>Pending Cases</b>	0	<p><b>11/97:</b> Milimin Assoc., Inc. and Landcorp. v. Midland Enterprises, Inc., Midland Enterprises I, Inc., Bellmore, Inc., Domino's Pizza, Inc., and Ammon Jali.</p> <p><b>4/97:</b> G.G.G. Pizza, Inc. v. Domino's Pizza, Inc., and T.S.M. Leasing Corp.</p> <p><b>5/91:</b> Joe Nubbs, Inc. et al. v. Domino's Pizza Inc.</p> <p><b>1/96:</b> Magic Valley Pizza, Inc. v.</p>	<p><b>9/93:</b> Little Caesar Enterprises, Inc. v. Gary Smith et al.</p> <p><b>9/93:</b> Gary G. Smith, et al. v. Little Caesar Enterprises, Inc. Little Caesars International, Inc., Blue Line Distributing, Inc. and Little Caesar National Advertising Program, Inc. (Consolidated with above case)</p> <p><b>10/96:</b> Little Caesar Enterprises, Inc. v. Gary G. Smith Linda M.</p>	<p><b>9/95:</b> A.L. Park, Sidney C. Nicholson, IRA, et al. v. Taco Cabana, Inc. et al.</p> <p><b>3/96:</b> C. Management Properties IV, Inc. v. Papa John's International, Inc. and John H. Schnatter</p>	0	<p><b>1/94:</b> Round Table Franchise Corporation v. Mark S. Harvey, Robert Harris, Jeffrey Singler, Cynthia Singler, and Does 1-10</p>	0	0

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
<p><b>Pending Cases</b> <i>(Cont'd)</i></p>		<p>Domino's Pizza, Inc.</p> <p><b>6/95:</b> Queen City Pizza, Inc., et al. v. Domino's Pizza, Inc.</p> <p><b>6/92:</b> Domino's Pizza, Inc. v. Christopher Bolo and Peregrine Enterprises, Inc.</p> <p><b>10/90:</b> David Gausden and Peter Marenty v. Domino's Pizza, Inc., Domino's Pizza International, Inc and Domino's Pizza of Canada, Inc.</p>	<p>Smith, Brian T. Smith and Smith Family Foods, Inc.</p> <p><b>8/95:</b> Anthony R. Alvarez, Estella Alvarez and Renaissant Development Company v. Little Caesar Enterprises, Inc. and Rafael Ubiles, Jr.</p> <p><b>10/95:</b> Michael Andrzejek, et al. v. Little Caesar Enterprises, Inc., Michael Ilitch, Marian Ilitch, and David Deal</p> <p><b>7/95:</b> Kevin R. Cook and K. Cook Enterprises, Inc. v. Little Caesar Enterprises, Inc.</p> <p><b>6/95:</b> Little</p>					

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
<p>Pending Cases (Cont'd)</p>			<p>Caesar Enterprises, Inc. and the Little Caesar National Advertising Program, Inc. v. OPPCO, LLC</p> <p><b>6/97:</b> Little Caesars Enterprises, Inc. and Little Caesars National Advertising Program v. Walls Michigan Food Service, Inc., Charles E. Walls, Sr., Catherine Walls, Charles E. Walls, Jr., Alice Walls, Calvin Walls and Julia Walls</p> <p><b>6/95:</b> Little Caesar Enterprises, Inc. and the Little Caesar National Advertising</p>					

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
<p>Pending Cases (Cont'd)</p>			<p>Program, Inc. v. OPPCO, LLC  <b>9/96:</b> Little Caesar Enterprises, Inc., The Little Caesar National Advertising Program and MLC Financial Corporation v. Ivan R. Dimoneff, et al.</p> <p><b>12/97:</b> Little Caesar Enterprises Inc. and Little Caesar National Advertising Program, Inc. v. Good Times Concepts, Ltd., Gerald R. Tack and Kathryn M. Tack</p> <p><b>11/97:</b> Good Times Concepts, Ltd., Gerald R. Tack and Kathryn M.</p>					

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
<b>Pending Cases</b> <i>(Cont'd)</i>			Tack v. Little Caesar Enterprises, Inc., Harsha v. Agadi, Michael J. Scruggs and Gerald M. Pasternak					
<b>Resolved Cases</b>	<b>7/86:</b> Pizza Management Inc. v. PHI	<b>2/97:</b> Domino's Pizza Inc. v. James R. Anderson and Winged Pizza, Inc.  <b>3/97:</b> 1st Set Pizza, Inc. et al. v. Domino's Pizza Inc.  <b>7/92:</b> Beehive Pizza, Inc. v. Domino's Pizza, Inc.  <b>11/86:</b> Lawson & Bly, Inc. v. Domino's Pizza Inc., John F. Dotson, Steve Besley and Does 1-100, inclusive	<b>7/96:</b> Little Caesar Enterprises, Inc. and the Little Caesar National Advertising Program, Inc. v. Michael Stovanoff and Stovanoff & Sons, Inc.  <b>3/97:</b> Walls Michigan Food Service, Inc. v. Little Caesar Enterprises, Inc.  <b>6/97:</b> Little Caesars Enterprises, Inc. and Little Caesars National Advertising	<b>8/88:</b> Arrive Inc. v. Schnatter-Ehringer, Inc., John Schnatter et al.  <b>11/89:</b> Arrive, Inc. v. Papa John's International, Inc.  <b>11/90:</b> J&J Yaden, Inc. v. Papa John's International, Inc.  <b>12/90:</b> Papa John's International, Inc. v. J&J Yaden, Inc. et al.	<b>7/92:</b> Newark Opera House Condominium Partnership v. Sbarro, Inc. v. G. William Bailey  <b>10/91:</b> PennRest Corporation and John Panizza v. Sbarro, Inc., et al.  <b>1/89:</b> Sbarro, Inc. v. Frank Schaffer, Robert Schaffer, James Schaffer and Thomas Schaffer  <b>7/93:</b> Joseph Lautoto, Clement	<b>11/95:</b> Razvan, Inc. v. Round Table Franchise Corporation and Does 1-100  <b>7/96:</b> Round Table Owners Association v. Round Table Franchise Corporation  <b>7/86:</b> The Round Table Franchise Corporation, Round Table Capital Corporation v. BWC Enterprises, Inc., Evers Enterprises, Inc.,	0	<b>5/87:</b> Godfather's Pizza, Inc. v. Bay City Pizza, Inc., Northern States Pizza, Inc., Godfather's-Appleton, Inc., Godfather's Pizza - DePere, Inc. and Charles S. Clemans

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
<p><b>Resolved Cases</b> <i>(Cont'd)</i></p>		<p><b>5/89:</b> Southern Pizza, Inc. v. Domino's Pizza, Inc.</p> <p><b>4/89:</b> Phillipp P. Hassa v. Domino's Pizza, Inc., Domino's Pizza Distribution Corporation and Domino's Pizza International, Inc.</p> <p><b>11/89:</b> DKH Pizza Company, Inc., Kenneth W. Harrelson and Barbara D. Harrelson v. TSM Leasing, Inc., Domino's Pizza, Inc. and Clark-Finn Pizza, Inc.</p> <p><b>11/86:</b> Anwar Chaudri v. Domino's Pizza Inc.</p>	<p>Program v. Walls Michigan Food Service, Inc., Charles E. Walls, Sr., Catherine Walls, Charles E. Walls, Jr., Alicia Walls, Calvin Walls and Julia Walls</p> <p><b>3/95:</b> James D. Minidis, et al. v. Little Caesars Enterprises, Inc. et al.</p> <p><b>4/98:</b> Little Caesar Enterprises, Inc. and Little Caesar National Advertising Program, Inc. v. Humam Shihadeh, Aida Shihadeh Partners and Muaiad Shidadeh</p>	<p><b>6/92:</b> Rally's Inc. v. Papa John's International, Inc. et al.</p>	<p>Lautato, Steven Rosenthal and Lageroza, Inc. v. Sbarro, Inc.</p>	<p>William S. Shenouda, Raymond J. Evers, Bruce Monzulla, Frank Estrada, Does 1-100 inclusive</p> <p><b>4/87:</b> J. Michael Nolan v. The Round Table Franchise Corporation and Does 1-30</p> <p><b>5/87:</b> William R. Larson v. Richard A. Dumke, Scott O. Bergren, Norman E. Dean, Frederick L. Doar, Paul J. Miller, Robert C. Scheidemann, Charles A. McPhee, Jr., Anne W. Barron, George P. Kailis, Round Table Pizza, Inc., Hills</p>		

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
<p><b>Resolved Cases</b> <i>(Cont'd)</i></p>		<p><b>1/92:</b> Domino's Pizza Inc. v. M.L. Kauth, Inc., Kauth Pizza Enterprises, Inc., Jayco Enterprises, Inc., EBA, Inc., South Pizza, Inc., Michael Kauth, David Holmes and Daniel Kauth</p> <p><b>3/92:</b> Hard Knox, Inc. Liquidating Trust v. Pizza Systems, Inc., Ronald R. Roderick and Domino's Pizza, Inc.</p> <p><b>4/92:</b> Goldner Corporation IV and Allan R. Goldner v. Domino's Pizza, Inc., Wade Oney, J. Robert</p>	<p><b>5/98:</b> Shihadeh Partners v. Little Caesars Enterprises, Inc., et al.</p> <p><b>11/93:</b> Jim Cuzzolina v. Little Caesar Enterprises, Inc. Little Caesar Enterprises, Inc. and Little Caesar National Advertising Program, Inc. v. Jim Cuzzolina</p> <p><b>5/96:</b> Little Caesar Enterprises, Inc. and the Little Caesars National Advertising Program, Inc. v. Raymond LaPoint, Irene LaPoint, United Pizza Services, Inc., et al.</p> <p><b>8/95:</b> Robert</p>			<p>Brothers Coffee, Inc. and Aussies Enterprises, Inc., d/b/a Bonza Tucker</p> <p><b>1/88:</b> Dennis Reynoldson v. Round Table Franchise Corporation, Jim McDonald, Craig McDonald, and Does 1-20</p> <p><b>3/88:</b> Margaret J. Nichols v. Round Table Franchise Corporation, H &amp; G Pizza Corporation, Sheldon Berz and Does 1-50</p> <p><b>5/88:</b> The Round Table Franchise Corporation v. J. Michael Nolan and Eleanor Nolan</p>		

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
<b>Resolved Cases (Cont'd)</b>		<p>Gates and Francisca Fernandez</p> <p><b>4/92:</b> Knead the Dough, Inc., Cary Waters, Richard Arlin Waters and Richard Arlen Waters v. Pizza Systems, Inc. d/b/a The Pizza Bakery, Ron Roderick, Domino's Pizza, Inc. and Does 1-50</p> <p><b>10/92:</b> Domino's Pizza, Inc. v. David L. Pritchard and Twin Cities Pizza, Inc.</p>	<p>Rosinski, individually and as dba San Diego West Little Caesar Enterprises, Inc., et al.</p> <p><b>4/95:</b> Shajr Enterprises Corporations, Rahim et al. v. Little Caesar Enterprises, Inc.</p> <p><b>6/93:</b> Dorothy Roe et al. v. Little Caesar Enterprises, Inc.; Blue Line Distributing Company, Inc.; and Oven Builders, Inc.</p>			<p><b>5/89:</b> Proceeding before the American Arbitration Association, re: Sandra Reynoldson</p> <p><b>5/90:</b> Thomas H. Watterson and Watterson Operating Corp. v. Round Table Pizza, et al.</p> <p><b>4/91:</b> JRW Management, Inc. v. Round Table Franchise Corporation et al.</p>		
<b>Cases Unrelated to Franchise Disputes</b>	<p><b>11/95:</b> Angelo Mongiello's Children, LLC v. PHI</p> <p><b>7/94:</b> Pizza Hut (India) Pvt. Ltd.</p>	The UFOC refers the reader to a footnote that does not exist	<b>9/97:</b> New Line Productions, Inc., et al. v. Little Caesar Enterprises, Inc.	0	<b>6/97:</b> Kenneth Hoffman and Gloria Curtis on behalf of themselves and all others similarly	<b>1/95:</b> In re Interactive Network, Inc. Securities Litigation	<b>3/89:</b> Stevenson Hotel and Restaurant Equipment Company, Inc. v. ShowBiz Pizza Time, Inc.	0

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
<p style="text-align: center;"><b>Cases Unrelated to Franchise Disputes (Cont'd)</b></p>	<p>v. PHI</p> <p><b>9/94:</b> PHI v. Pizza Hut (India) Pvt. Ltd.</p>				<p>situated v. Sbarro, Inc.</p>		<p>and Integra - A Hotel and Restaurant Company</p> <p><b>4/93:</b> Hermitage Hotel, Ltd. et al. v. The Hallwood Group, Inc.</p> <p><b>6/93:</b> Nitti v. Richard M. Frank, et al.</p> <p><b>12/91:</b> Louis G. Reese et al. v. The Hallwood Group Inc., et al.</p> <p><b>12/91:</b> European American Re-Insurance Corporation v. The Hallwood Group Uncopyrighted et al.</p> <p><b>6/93:</b> Nitti v. Richard M.</p>	

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
							Frank, et al.	

**ITEM 4  
BANKRUPTCY**

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
<b>Proceedings</b>	None	None	None	L. Roberts, V.P. U. S. Franchise Sales filed Ch. 7 3/27/89	None	None	Chapter 11 filed by predecessor	None
<b>Status</b>	Not applicable	Not applicable	Not applicable	Discharge entered 9/5/89	Not applicable	Not applicable	Plan approved 4/30/85	Not applicable
<b>Outcome</b>	Not applicable	Not applicable	Not applicable	Mr. Roberts subsequently voluntarily re-assumed all discharged debts and obligations	Not applicable	Not applicable	Franchisor acquired assets of the predecessor and assumed 100 Franchise Agreements	Not applicable

**ITEM 5  
INITIAL FRANCHISE FEE**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars<sup>1</sup></b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Franchise Fee</b>	\$25,000	\$0-3,250	\$20,000	\$20,000	\$45,000	\$25,000	\$50,000	\$0-20,000
<b>Exceptions to Franchise Fee</b>	Development Incentive Program- existing Franchisees opening a new System Restaurant and participating in this program pay \$15,000 for new Sys. Res.	No initial fee if Franchisee is opening first single Store and has completed all training programs/ classes or if first store is constructed under an area of development, or if Franchisee signs an Area or Development Agreement; reduced Initial Fee if constructing additional Store in development area or if refranchising a closed store	None	No fee for Select Special Site Restaurants	*Franchise fee may offset development fee; international fee may be negotiable	\$12,500 for existing Franchisee	\$12,500 for subsequent locations under Development Agreement	All cases depend on the number of units involved and the financial condition of each Franchisee

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars<sup>2</sup></b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Franchisee Fee Earned</b>	Upon payment	Upon payment	When location is approved	Upon payment	Upon payment	Not stated	After construction of Franchise commences	Once Franchisor completes its obligation of initial assistance
<b>Payment Due</b>	When Location Franchise Agreement is signed	Silent as to time of payment, but language suggests at time Franchise Agreement is signed; exceptions for MN, WA, and IL	When site for the Store is submitted to Franchisor for approval or when Franchisee signs Agreement, whichever occurs first	When Franchise Agreement is signed	At the time of execution and delivery of the Franchise Agreement	50% due as a deposit upon application; 50% due when Franchise Agreement is signed	When Franchise Agreement is signed	Immediately after opening
<b>Refund of Franchise Fee</b>	No refund	No refund unless regulated by Illinois law	No refund	No refund	If Franchise Agreement is signed prior to location approval and no site within 9 months (Franchisor's costs deducted)	If Franchisor terminates Agreement because: - no suitable location found within 180 days; or - Franchisor's required changes to layout increases Franchisee's costs by 5% or costs exceed high cost	*80% before site approval *50% after site approval *0% after construction starts	Only if Franchisor does not fulfill obligation to provide initial assistance

TRADE NAME	Pizza Hut	Domino's	Little Caesars <sup>2</sup>	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
						average		
<b>Development Fee</b>	None	Franchisees opening first store must spend \$3000 on grand opening advertising	None	\$5,000; credited to Franchise Fee	\$10-20,000 per restaurant to be opened	\$25,000 first location; \$12,500 after that; credited to Franchise Fee	\$15,000; <u>not</u> credited to Franchise Fee	\$1,000; credited to Franchise

**ITEM 6  
OTHER FEES**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
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**ROYALTIES**

<b>Amount</b>	6.5%-7%	5.5% (Limited exceptions)	5% or \$300/month	4% Gross, less taxes	7%	4% or \$750/month	3.8% to 5%	5%
<b>Frequency</b>	Monthly	Weekly	Monthly	Monthly	Weekly	Monthly	Monthly	Weekly
<b>Payment</b>	Not specified	Mail or EFT	Not specified	Bank Debit	Not specified	Not specified <sup>9</sup>	Not specified	Not specified

**ADVERTISING**

<b>National</b>	3%	3%-4%	4%	Up to 2.5%	None	4%	.4%	None
<b>Coop</b>	1%	1-3%	0-3% combined with local	2-5%	2% combined with local (upon enactment of Program by Sbarro)	None	\$ 3%	Pro-rata share
<b>Local</b>	1%	Not specified <sup>10</sup>	See above	Up to 4%	See above	None	3-5 %	None

<sup>9</sup> Franchisees may be required to participate in automatic debit-credit transfer program

<sup>10</sup> The maximum aggregate Franchisee can be obligated to contribute to advertising is 8% of royalty sales

**OTHER FEES**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Renewal</b>	None	None	None	\$3,000	None	\$2,500	50% of then-current Franchise Fee	\$100
<b>Transfer</b>	\$2,500 plus \$250/unit	\$1,500	\$0-5,000	\$ 3,000	10% of then current Franchise Fee	\$7,500 or \$12,500 or Franchisor's costs	50% of then-current Franchise Fee	None
<b>Late Payment</b>	1.5%/month	1.5%/month	None	12%/year	None	19.98%/year	# 1.5%/month	None
<b>Relocation</b>	up to \$25,000	None	\$2,500	None	None	Franchisor's costs up to \$7,500	50% of then-current Franchise Fee	None
<b>Software</b>	*\$1,200-\$1,500 per year per unit for maintenance and support *PHI may increase	None	None	Up to 20% of vendor fees plus \$100/month but Franchisor may increase	None	None	None	None
<b>Audit Cost Threshold</b>	2%	2%	2%	5%	5%	3%	2%	5%
<b>Franchisee Sale of Securities</b>	None	None	\$10,000	None	None	None	Min \$10,000	None
<b>Accounting Services</b>	None	None	None	None	None	None	None	None

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Additional Fees</b>	*Training *Employee piracy *Unauthorized closure	*Training *Insurance *Costs of enforcing Agreement	*Training *Special marketing, management, and operational assistance *Maintenance of restaurant premises *Refurbishing	*Management *2,500 on-site installation and support	*Training *Insurance *Additional assistance *Start-up Advertising Fund	*Cost of acquiring property *Certification Re-examination Fee	*Training *Insurance *0.4% Entertainment Fund *\$50,000 or 4% Facility Upgrade *Additional on-site assistance *Animated Entertainment Installation *Performing Rights Societies *Media Fee 0.5% *Construction Extension Fee *Inspection and Testing Fee	*Architectural plans above \$7,500 *3% of gross for Service Compensation
<b>Indemnification</b>	Franchisor must be indemnified	Franchisor must be indemnified	Franchisor must be indemnified	Franchisor must be indemnified	Franchisor must be indemnified	Franchisor must be indemnified	Franchisor must be indemnified	Franchisor must be indemnified

**ITEM 7  
INITIAL INVESTMENT<sup>11</sup>**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Low Total</b>	\$326,000	\$98,650	\$227,300	\$152,000	\$244,000	\$421,500	\$801,000	\$366,000
<b>High Total</b>	\$1,362,000	\$346,150	\$322,750	\$428,600	\$788,000	\$493,500	\$1,118,000	\$469,600
<b>Equipment &amp; Signage</b>	\$47,000- \$166,000	\$46,000- \$113,000	\$145,000- \$170,000	\$55,000- \$115,000	\$70,000- \$200,000	\$160,000- \$175,000	\$220,000- \$315,000 <sup>12</sup>	\$92,500- \$112,500
<b>Leasehold Improvements</b>	\$213,000- \$1,077,000	\$25,000- \$125,000	\$20,000- \$50,000	\$20,000- \$100,000	\$75,000- \$450,000	\$158,000- \$187,000	<i>"Inestimable"</i>	\$150,000- \$180,000

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<sup>11</sup> Data listed here includes only the traditional or most prevalent format in the system

<sup>12</sup> Does not include \$450,000-\$550,000 for "Animated and Other Entertainment"

**ITEM 8  
RESTRICTIONS ON SOURCES OF SUPPLY**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Required Product Purchases</b>	All food supplies, ingredients, equipment and any other item used in construction and operation of a Franchise	All supplies, ingredients, and equipment	All food products, ingredients, equipment, software, signs, menu items, supplies and materials used or sold	All food products, packaging, advertising materials, supplies, ingredients, and equipment	All food and paper products	All food-related products, cooking materials, paper products, utensils, uniforms, etc. and possibly electronic cash machines/ computer systems	All equipment, supplies and other products and materials	Certain food products, supplies, paper product, equipment, etc., <u>not</u> including fresh produce
<b>Variety of Authorized Suppliers</b>	*Usually 3 eligible suppliers for each item *Affiliate is exclusive supplier of spice blends	*Limited number of supplies approved by Franchisor *Franchisor retains right to be exclusive supplier of certain products	Variety of suppliers approved by Franchisor	*Franchisor or affiliate is exclusive supplier of Information System, dough, spices, and certain other foods *Franchisor reserves right to further restrict suppliers	*One exclusive supplier for all food and paper products in U.S. *One recommended supplier for restaurant equipment	Designated suppliers for pizza dough, spice blends and food-related items	Variety of suppliers approved by Franchisor, no numbers given	Variety of suppliers approved by Franchisor

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Company Rationale</b>	Spice blends are trade secrets of PHI and are critical to uniformity of the taste of PHI products	To protect confidentiality of proprietary products, Franchisor may limit sources of supply	The format must be uniform throughout the System	To protect secret recipes, ensure high standards and product consistency	To ensure that Sbarro receives consistent, quality tomato products	The principal purpose of a franchise business is the ability to offer these trademarked items to the general public	None	Limited number of suppliers and distributors in order to maintain quality control
<b>Cost of Franchisors' Required Products</b>	Less than 1% of total purchases required to operate	Franchisor can provide Franchisee with 90% of start up purchases and 70-80% of ongoing purchases; no minimum required purchases stated	Less than 3% of total purchases required to establish and operate	5% to 12 % of total purchases to establish *10% to 20% to operate	No numbers given	Combined with below, up to 90% of total purchases to establish and operate	From the Franchisor and designated suppliers, combined, will represent 100% of purchases to establish and operate	At a maximum, 80% of total expenses to establish and operate
<b>Cost of Suppliers' Required Products</b>	30% of Franchisee's total expense	No numbers given	No numbers given	*70% to 85% of total purchases to establish *90% to 97% to operate	80%-100% of total purchase to establish and to operate	See above	See above	At a maximum, 80% of total expenses to establish and operate
<b>Percentage of Franchisors' Revenue from Product Sales</b>	3.7% (Sale of products and services for fees)	4.9% of total revenues	1.5%	No numbers given	No numbers given	No numbers given	Less than 2.0%	1.7% (from sale of marketing materials)

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Franchisors' Revenue from Outside Suppliers</b>	Franchisor does not directly derive revenue or discounts from suppliers	None stated	No direct revenue, except for marketing allowances and exhibit fees	In 1997, received \$2.6 million (of which some amount was paid to risk management and marketing)	In 1997, 1.63% of total revenues	3.6% (If greater than 3.8%, will allocate excess to Advertising Fund)	Franchisor does not seek to derive income from suppliers	In 1996, received rebates of up to 7% of purchases
<b>Insurance Obligations</b>	UFOC refers to §16 of Franchise Agreement, which requires Franchisee to obtain and maintain, at own expense, property insurance for full replacement value	Franchisee must maintain property, general liability, auto, and worker's compensation insurance and must name Franchisor and its designated subsidiaries and affiliates on all liability policies	Must conform to minimum standards for coverage and use approved insurers	Must use carriers with an "A" or better rating and comply with minimum standards	Franchisee must maintain "reasonable" level of coverage- \$1,000,000 minimum for general liability, 80% of replacement cost value minimum for property	Insurance company must be approved by Franchisor	Must obtain and maintain insurance from a "responsible carrier" acceptable to Franchisor and must submit proof to Franchisor	None

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Procedure to Purchase from Non-approved Suppliers</b>	<ul style="list-style-type: none"> <li>*Written request</li> <li>*Receive a reply within 45 days</li> <li>*Evaluation fees may be charged</li> </ul>	<ul style="list-style-type: none"> <li>*Request with samples</li> <li>*Receive a reply within 60 days</li> <li>*Evaluation fees may be charged</li> </ul>	<ul style="list-style-type: none"> <li>*Written request with evidence, as reasonably required</li> <li>*Receive a reply within 90 days, generally</li> <li>*Evaluation fees may be charged</li> <li>*Franchisor shall have right to inspect</li> </ul>	<ul style="list-style-type: none"> <li>*Written request with samples</li> <li>*Receive a reply within 45 days or reasonable time</li> <li>*Must make suppliers' facilities available for inspection</li> </ul>	<ul style="list-style-type: none"> <li>*Written request with samples</li> <li>*Silent as to timing of response</li> <li>*Evaluation fees may not be charged</li> </ul>	<ul style="list-style-type: none"> <li>*Written request</li> <li>*Receive reply within reasonable time</li> <li>*Submission of samples, specs, etc. if requested</li> <li>*Evaluation fees may be charged</li> </ul>	<ul style="list-style-type: none"> <li>*Written request</li> <li>*Receive reply within reasonable time</li> <li>*Evaluation and testing fees may be charged</li> <li>*Right to inspect facilities and to obtain samples</li> </ul>	<ul style="list-style-type: none"> <li>*Written request with samples</li> <li>*No time frame to receive a response</li> </ul>

**ITEM 9  
FRANCHISEE OBLIGATIONS<sup>13</sup>**

**BEFORE OPENING FRANCHISE BUSINESS**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Site selection, acquisition/ lease</b>	See Items 6,7 and 11 in this study	See Items 7 and 11 in this study	See Items 8, 10 and 11 in this study	See Items 7 and 11 in this study	See Item 5, 7 and 11 in this study	See Items 7 and 11 in this study	See Items 11 and 12 in this study	See Item 11 in this study
<b>Pre-opening Purchases/ Leases</b>	See Item 8 in this study	See Item 8 in this study	See Items 5,7,8 and 10 in this study	See Items 7, 8 and 11 in this study	See Item 8 in this study	See Items 7 and 8 in this study	See Items 7, 8, 11 and 12 in this study	See Item 7 in this study
<b>Site Development and other Pre-opening Requirements</b>	See Items 6, 7 and 11 in this study	See Items 6, 7 and 11 in this study	See Items 7,8 and 11 in this study	See Items 6, 7 and 11 in this study	See Items 6, 7 and 11 in this study	See Items 6, 7 and 11 in this study	See Items 5,6,7 and 11 in this study	See Item 11 in this study
<b>Initial and Ongoing Training</b>	See Item 11 in this study	See Item 11 in this study	See Item 11 in this study	See Items 7 and 11 in this study	See Item 11 in this study	See Item 11 in this study	See Items 6 and 11 in this study	See Item 11 in this study
<b>Opening</b>	See Item 11 in this study	See Item 11 in this study	See Item 11 in this study	See Item 11 in this study	See Item 11 in this study	See Item 11 in this study	See Item 11 in this study	See Item 7 in this study

<sup>13</sup> The following items are included in the UFOCs with the corresponding location within the Agreement

**ONGOING OBLIGATIONS**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Fees</b>	See Items 5,6, 7 and 8 in this study	See Items 5, 6 and 7 in this study	See Items 5 and 6 in this study	See Items 5, 6 and 7 in this study	See Items 5 and 6 in this study	See Items 5 and 6 in this study	See Items 5 and 6 in this study	See Items 5 and 6 in this study
<b>Compliance with Standards and Policies/ Operations Manual</b>	See Items 11 and 14 in this study	See Item 11 in this study	See Items 11 and 14 in this study	See Items 8 and 11 in this study	See Item 11 in this study	See Items 8 and 11 in this study	See Item 11 in this study	See Item 11 in this study
<b>Trademarks and Propriety Information</b>	See Items 8,13, 14 and 17 in this study	See Items 13 and 14 in this study	See Items 13 and 14 in this study	See Items 13 and 14 in this study	See Items 13 and 14 in this study	See Item 13 and 14 in this study	See Item 13 and 14 in this study	See Item 13 in this study
<b>Restrictions on Product/ Services Offered</b>	See Item 16 in this study	See Items 11 and 16 in this study	See Items 8 and 16 in this study	See Items 11 and 16 in this study	See Item 16 in this study	See Items 8 and 16 in this study	See Item 16 in this study	See Item 16 in this study
<b>Warranty and Customer Service Requirements</b>	See Items 11 and 14 in this study	None	None	None	See Item 11 in this study	See Item 11 in this study	None	None
<b>Territorial Development and Sales Quotas</b>	See Item 12 in this study	See Item 12 in this study	See Items 12 and 17 in this study	See Item 12 in this study	None	See Item 12 in this study	See Item 12 in this study	See Item 5 in this study
<b>On-going Product/Service Purchases</b>	See Item 8 in this study	See Item 8 in this study	See Item 8 in this study	See Item 8 in this study	See Item 8 in this study	See Items 8 and 16 in this study	See Item 8 in this study	See Item 8 in this study

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Maintenance, Appearance and Remodeling Requirements</b>	See Item 11 in this study	See Item 11 in this study	See Items 8 and 11 in this study	See Item 11 in this study	See Item 11 in this study	See Item 11 in this study	See Item 6 in this study	See Item 7 in this study
<b>Insurance</b>	See Item 6 and 7 in this study	See Items 7 and 8 in this study	See Item 7 in this study	See Items 7 and 8 in this study	See Items 6 and 8 in this study	See Items 7 and 8 in this study	See Items 6 and 8 in this study	See Item 7 in this study
<b>Advertising</b>	See Items 6 and 11 in this study	See Items 6, 7 and 11 in this study	See Items 6 and 11 in this study	See Item 6, 7, 8 and 11 in this study	See Items 7 and 11 in this study	See Items 6 and 11 in this study	See Items 6 and 11 in this study	See Item 7 in this study
<b>Indemnification</b>	Franchisee must indemnify PHI and it's affiliates <sup>14</sup>	See Item 6 in this study	See Item 6 in this study	See Item 6 in this study	See Item 6 in this study	See Item 6 in this study	See Item 6 in this study	See Item 13 in this study
<b>Owner's Participation/ Management/ Staffing</b>	See Items 11, 15 and 17 in this study	See Items 11 and 15 in this study	See Item 15 in this study	See Items 11 and 15 in this study	See Items 6 and 11 in this study	See Item 11 and 15 in this study	See Item 15 in this study	See Item 15 in this study
<b>Records/ Reports</b>	See Item 6 in this study	See Item 11 in this study	See Item 6 in this study	Unspecified; determined by operations manual	See Item 6 in this study	See Item 6 in this study	See Item 6 in this study	See Item 6 in this study
<b>Inspections/ Audits</b>	See Items 6 and 11 in this study	See Item 6 in this study	See Item 6 and 11 in this study	See Item 6 in this study	See Items 6 and 11 in this study	See Items 6 and 11 in this study	See Items 6, 8 and 11 in this study	See Item 6 in this study

<sup>14</sup> Indemnification is not addressed in the body of PHI's Circular, however reference is made to section 16.4 of the sample agreement.

**POST-TERMINATION/ EXPIRATION OBLIGATIONS**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Transfer</b>	See Item 17 in this study	See Item 17 in this study	See Item 17 in this study	See Item 17 in this study	See Item 17 in this study	See Item 17 in this study	See Items 6 and 17 in this study	See Item 17 in this study
<b>Renewal</b>	See Item 17 in this study	See Item 17 in this study	See Item 17 in this study	See Item 17 in this study	See Item 17 in this study	See Item 17 in this study	See Items 6 and 17 in this study	See Item 17 in this study
<b>Post-Termination Obligations</b>	See Items 8 and 17 in this study	See Item 17 in this study	See Item 17 in this study	See Item 17 in this study				
<b>Non-Competition Covenants</b>	See Item 17 in this study	See Item 17 in this study	See Item 17 in this study	See Item 17 in this study	See Item 17 in this study	See Item 17 in this study	See Items 12, 15 and 17 in this study	See Item 17 in this study
<b>Dispute Resolution</b>	See Item 17 in this study	See Item 17 in this study	See Item 17 in this study	See Item 17 in this study	See Item 17 in this study	See Items 6, 15 and 17 in this study	See Item 17 in this study	None

**ITEM 10  
FINANCING**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Financing Offered by the Franchisor</b>	None, except in few cases where a guaranty and/or comfort letter is needed by a lender	Limited internal financing programs; no guarantee of financing for any particular applicant	Programs offered with two different lenders (in Michigan and Nova Scotia)	None	None	None	None	Financing offered directly by Franchisor
<b>Requirements for Franchisor Financing</b>	When in best interests of the Franchisor and Franchisee	*Franchise must meet credit-worthiness standards *Be bulding a new store or reopening a closed store *Purchase all food, supplies and equipment from designated affiliates during life of loan	Franchisee must have at least \$125,000 in liquid assets and net worth of \$250,000	Not applicable	Not applicable	Not applicable	Not applicable	Meet creditworthiness standards

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Financing Offered by Franchisors' Affiliates</b>	Parent company may provide financing to purchase PH restaurants, "among other purposes"	None	None	Previous arrangement has been discontinued	None	None	None	None
<b>Amount</b>	For the "Program": \$2,500-\$500,000	Up to \$90,000 per Store	\$110,000 - \$150,000	Not applicable	Not applicable	No financing offered	Not applicable	Up to 100% of costs of equipment, etc.
<b>Down Payment</b>	Not specified	*Deposit and assign 10% of amount borrowed as security on loan *First priority security interest	None	Not applicable	Sbarro does not offer direct or indirect financing	Not applicable	Not applicable	None
<b>Term</b>	For the "Program": up to 12 years	5 years	Up to 72 months	Not applicable	Not applicable	Not applicable	Not applicable	1 to 5 years
<b>APR</b>	For the "Program": average rate at which parent company can borrow plus 2-2.75%	Based on 5-year treasury notes plus 550 basis points	Floating rate: Prime plus 1.5%	Not applicable	Not applicable	Not applicable	Not applicable	8% - 14%

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Monthly Payment</b>	For the "Program": set annually based and then-current interest rates	First two months interest only, then monthly principal and interest	Monthly principal and interest	Not applicable	Not applicable	Not applicable	Not applicable	Monthly principal and interest

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Prepay Penalty</b>	For the "Program": none, with proper notice (written notice one month prior)	Fee equal to principal balance of the note multiplied by premium (0.5% - 2.5%)	None	Not applicable	Not applicable	Not applicable	Not applicable	None
<b>Guarantors</b>	None	*For corporate Franchisee, controlling and other actively involved owners and their spouses must guarantee *For individual Franchisees, the spouse must guarantee	Borrower's owners	Not applicable	Not applicable	Not applicable	Not applicable	All shareholders of the Corporation

**ITEM 11  
FRANCHISOR OBLIGATIONS**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Pre-Opening Obligations</b>	<ul style="list-style-type: none"> <li>*Conduct Pre-Opening training</li> <li>*Lend a copy of Operating Manual</li> <li>*Grant Franchisee right to open a franchise at specified location and defined delivery area</li> <li>*Designate employee uniforms</li> <li>*Provide list of suppliers</li> </ul>	<ul style="list-style-type: none"> <li>*Conduct Pre-Opening training</li> <li>*Approve lease</li> <li>*Provide standards for food preparation, equipment, decor, and the like</li> <li>*Provide reasonable assistance and general guidance</li> </ul>	<ul style="list-style-type: none"> <li>*Conduct Pre-Opening training</li> <li>*Lend a copy of Manuals</li> <li>*Assist in selecting a site</li> <li>*Provide prototype plans for interior and exterior</li> <li>*Advice on marketing, management and operation</li> </ul>	<ul style="list-style-type: none"> <li>*Conduct Pre-Opening training</li> <li>*Lend a copy of Operating Manual</li> <li>*Approve location and layout plans</li> <li>*Designate or approve Grand Opening advertising</li> <li>*Provide specifications and standards</li> <li>*Deliver Franchise Agreement</li> </ul>	<ul style="list-style-type: none"> <li>*Conduct Pre-Opening training</li> <li>*Lend a copy of Operating Manual</li> <li>*Assist with site evaluation and selection process</li> <li>*Provide specifications for inventory, supplies, and decor</li> </ul>	<ul style="list-style-type: none"> <li>*Conduct Pre-Opening training</li> <li>*Lend a copy of Operating Manual</li> <li>*Approve location and layout plans</li> <li>*Provide on-site Pre-Opening assistance</li> <li>*Construct a 12 month business plan with Franchisee</li> </ul>	<ul style="list-style-type: none"> <li>*Conduct Pre-opening training</li> <li>*Approve location and layout plans</li> <li>*Provide on-site opening assistance</li> <li>*Provide on-site construction visit</li> <li>*Provide specifications for supplies, fixtures, and equipment</li> <li>*Obtain licenses for musical compositions</li> </ul>	<ul style="list-style-type: none"> <li>*Assist in selecting a site</li> <li>*Lend a copy of Operating Manual</li> <li>*Approve location and layout plans</li> <li>*Assist in implementing procedures of operation</li> <li>*Provide written specifications for all equipment, supplies, etc.</li> <li>*Designate Franchisee's exclusive territory</li> </ul>

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Continuing Obligations</b>	<ul style="list-style-type: none"> <li>*Provide general assistance, if requested</li> <li>*Advise on Marks-list additions/deletions</li> <li>*Advise of changes to Manual</li> <li>*May make periodic inspections</li> <li>*Contribute to Advertising Fund, if operating restaurants</li> <li>*May contribute to local advertising</li> <li>*Menu changes</li> <li>*Seek approval to hire former managers</li> <li>*Interpret standards, as necessary</li> <li>*May designate/delete Approved Products</li> </ul>	<ul style="list-style-type: none"> <li>*Offer additional training</li> <li>*Furnish operating assistance as Franchisor determines is necessary including food preparation methods and the establishment of general operating, inventory, accounting, bookkeeping and administrative procedures</li> <li>*Provide specifications for food, equipment, procedures, computer hardware and software, decorations, supplies and the like</li> <li>*Respond within a reasonable time to request</li> </ul>	<ul style="list-style-type: none"> <li>*Provide marketing, management and operating assistance</li> <li>*Offer on-going training</li> <li>*Conduct inspections and evaluations</li> <li>*Revise Operating Manual</li> </ul>	<ul style="list-style-type: none"> <li>*Offer on-going training as Franchisor deems necessary</li> <li>*Revise Operating Manual</li> <li>*Will not unreasonably withhold approval of transfer</li> <li>*Administer Marketing Fund</li> <li>*Communicate operational information</li> </ul>	<ul style="list-style-type: none"> <li>*Provide operational assistance</li> <li>*Provide instructional and other training materials</li> <li>*Advise Franchisee of operating problems</li> </ul>	<ul style="list-style-type: none"> <li>*Provide on-site assistance</li> <li>*Offer on-going training</li> <li>*Require certification examinations</li> <li>*Designate on-going inventory requirements</li> </ul>	<ul style="list-style-type: none"> <li>*Provide advisory assistance</li> <li>*Offer on-going training</li> <li>*Conduct evaluations of the franchised business and of products used</li> <li>*Provide a copy of operational policies</li> </ul>	<ul style="list-style-type: none"> <li>*Provide on-site periodic assistance</li> <li>*Provide written evaluations</li> </ul>
<b>Continuing</b>								

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
Obligations (Cont'd)		<p>to use previously unapproved sources</p> <p>*Advise Franchisee of operating problems disclosed by reports or inspections</p> <p>*Loan Franchisee one or more copies of operational bulletins or similar materials</p> <p>*Submit, upon request, annual statement of monies collected and spent by the Advertising Fund</p> <p>*Not unreasonably withhold approval to a proposed transfer, if all requirements are met</p>						

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
<b>Management Training Programs</b>	Franchisor will furnish training, but Franchisee must pay for travel, living expenses, etc.	*Franchisor will furnish required trainings, but Franchisee must pay travel and living expenses *Will not charge for additional training where attendance is required	*Franchisor will furnish required trainings, but Franchisee must pay travel and living expenses *Will not charge for additional training where attendance is required	*Franchisor will furnish initial training, but Franchisee must pay materials fee, cost, living expenses, etc. *Provide Opening Team to assist on-site for 5-6 days	Franchisor will furnish initial training, but Franchisee must pay living expenses	Franchisor will furnish training programs, but Franchisee must pay cost, living expenses, etc.	*Franchisor will furnish initial training for 2 employees *Franchisee must pay expenses for extra employees	*Franchisor will furnish initial training, but Franchisee must pay living expenses *Yearly owner's meeting
<b>Advertising</b>	*Must approve all advertising *Bookkeeping and administrative tasks, but PHI receives money from Advertising Fund for this service	*All advertising and promotion conducted by Franchisee on radio or television must be submitted for prior approval *Franchisor will formulate advertising and promotional programs to be paid for by Advertising Fund *Franchisee must honor any maximum pricing prescribed	*Approve all advertising *Contribute an amount to the advertising co-op *Allocate advertising co-op expenditures proposals *In-house marketing agency	*Approve all advertising *Administer Marketing Fund	Approve all advertising	*Approve all advertising within 10 days of submission *Administer Advertising Fund *Employ advertising agency	*Approve all advertising *Maintain association to administer Advertising Fund *Contribute to Advertising Fund	*Approve all advertising *In-house marketing agency

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Advertising (cont'd)</b>		*Franchisee may be required to participate in regional and local advertising coops. *The maximum aggregate Franchisee can be obligated to contribute to advertising is 8% of royalty sales.						
<b>Electronic and Computer Systems</b>	Provide Franchisee version of computer system and software	*Franchisee must use prescribed system *Prescribed system allows Franchisor remote access to Franchisee sales data	Right to designate point of sale and computer-related systems and accessories	Right to designate point of sale and computer-related systems and accessories	*Encourage use of IBM point of sale cash register *No contractual obligation to update or upgrade during term of franchise	Specify point-of-sale electronic cash register and computer systems	Designate computer hardware and software (that permits remote access by any Franchisor)	None

**ITEM 12  
TERRITORY**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Territory Boundaries</b>	500 yards for System Restaurants	No exclusive area, but Franchisor will not operate or grant Franchise within "area of primary responsibility," (usually .05 - 1 mile radius) provided Franchisee is in compliance with Agreement	Designated Market Area, generally 1 mile radius	Territory generally 1.5 mile radius, not affected by population changes or sales volume	No exclusive territory (except for Development Agreements)	1 mile radius, except no boundaries in parts of the West Coast, in areas where population exceeds 50,000 per square mile, or in shopping malls	Protected Territory bound by unspecified radius	Territory generally 0.5 mile radius
<b>Franchisee's Right of First Refusal Outside of Territory</b>	Not granted	Not granted	Not granted	Not granted	Not granted	Not granted	Not granted	Franchisor will consider granting such a privilege based on its perception of Franchisee's financial and operational ability

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Competition within Geographic Territory</b>	No prohibition on affiliates	No prohibition on affiliates	*No prohibition on affiliates *No prohibition on other restaurant concepts *No prohibition on same style restaurants in high population centers *No prohibition on distribution within territory	No prohibition on Franchisor, affiliates, or third parties	No prohibition on Franchisor, Franchisee, affiliates, or third parties	No prohibition on affiliates	No prohibition on affiliates	Franchisor must obtain written consent of Franchisee to operate other franchises similar to restaurants within Territory
<b>Restrictions on Advertising</b>	None	None	None	None	None	None	None	None
<b>Dispute Resolution</b>	*Committed to participate in Center for Public Resources' franchise alternative dispute procedures *Will mediate disputes specific to single Franchisee	None	None	None	None	Either party may submit dispute to arbitration with JAMS/ENDISPUTE	None	None

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Delivery Service Obligations</b>	Franchisee must provide adequate service to entire Delivery area	Parameters determined by Franchisor, except in areas where employees may be in physical danger	All Franchisees may deliver products without regard to customers, location or Territory	No delivery	No delivery	By separate Agreement	No delivery	Delivery area is typically an 8 minute drive from store
<b>Failure to Fulfill Delivery Service</b>	Delivery area redefined to include only areas in which Franchisee is in compliance	None	None	Not applicable	Not applicable	None	Not applicable	None

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
<b>Relocation Requirements</b>	*Permission must be granted by Franchisor *Possible transfer of initial fee *12 months to re-open	Franchisor will allow relocation to approved site if lease expires or terminates through no fault of Franchisee or if site is rendered unusable	*Written consent of Franchisor and \$2,500 fee *May not relocate outside of Market Area	Written consent of Franchisor, but new radius will not be applicable to the new site	Must obtain Franchisor's consent	Franchisee may re-locate within a one-mile radius if: *New location meets Franchisor's criteria *Relocation does not have adverse competitive impact *Franchisee and Franchisor sign general releases of all claims *Franchisee meets then-current standards for new Franchisees	*Obtain Franchisor's consent *May not relocate outside of protected Territory *Sign then-current Franchise Agreement *Pay relocation fee *Be in compliance with Franchise Agreement *Make provisions to remove all signage from old location	*Written consent of Franchisor *New site must be better than old site

**ITEM 13  
TRADEMARKS**

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
<b>List of Franchisor's Primary Trademarks (all are registered)</b>	*Pizza Hut (4) *Pizza Hut Logo (3) *Thick N' Chewy *Thin N' Crispy	*Domino's & Design *Domino's Pizza *Domino's Design Symbol *Combination	*Little Caesars *Fanciful Man Logo *Pizza Station *Crazy Bread *Pizza! Pizza! *Baby Caesar	*Papa John's (2) *Pizza Papa John's *Delivering the Perfect Pizza!(2) *Pizza Papa	*Sbarro Sbarro, *The Italian Eatery *Cafe Sbarro *Sbarro, The Best Italian Choice	*Round Table *King Arthur's Supreme *Shield Design (Three Flags) *Guinevere's Garden Delight	*Chuck E. Cheese's Pizza *Chuck E. Cheese (2) *Where a Kid Can Be a Kid *Helen Henny	*Godfather's Pizza

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
<p style="text-align: center;"><b>List of Franchisor's Primary Trademarks</b> <i>(all are registered)</i> <i>Cont'd</i></p>	<ul style="list-style-type: none"> <li>Building Design No. 1</li> <li>*Pizza Hut within Sign Design</li> <li>*Roof Design Big Topper</li> <li>*Personal Pan Pizza</li> <li>*Book It! (2)</li> <li>*Pizza Hut lined color red</li> <li>*Pizza Hut Delivery Design</li> <li>*Pizza Hut Delivery-Truck Design</li> <li>*Makin' It Great!</li> <li>*Pizza Hut logo with phone design</li> <li>*Makin' It Great for Kids!</li> <li>*Personal Pan Pizza Express and Design</li> </ul>	<ul style="list-style-type: none"> <li>Domino Design</li> <li>*Domino's Pizza Logo</li> <li>*Domino's Pizza Pizzazz</li> </ul>	<ul style="list-style-type: none"> <li>*Family Fun Pizzeria</li> <li>*Slice! Slice!</li> <li>*Mix or Match!</li> <li>*Pan! Pan!</li> <li>*Cheeser! Cheeser!</li> <li>*Always!Always!</li> <li>*Meatsa! Meatsa!</li> <li>*(LC)Pizza!</li> <li>Pizza! Crazy Kids</li> <li>*(LC) Italiano</li> <li>*Pepperoni! Pepperoni!</li> <li>*Two Great Pizzas! One Low Price</li> <li>*Pizza Station Express (LC)</li> <li>Specialty Pleasers</li> <li>*Specialty Pleasers</li> <li>*(LC) Express</li> <li>*(LC) Pizza Shop</li> <li>*Family Choice</li> <li>*Big! Big!</li> <li>*Pizza by the Foot</li> </ul>	<ul style="list-style-type: none"> <li>John's (3)</li> </ul>		<ul style="list-style-type: none"> <li>*Montague's All Meat Marvel</li> <li>*The RT Pizza Sandwich</li> <li>*An Honest Pizza</li> <li>*Daily Doubles</li> <li>*All Kinds of Wonderful</li> <li>*R.T. Rex</li> <li>*One of the Last Honest Pizzas</li> <li>*The Last Honest Pizza</li> </ul>	<ul style="list-style-type: none"> <li>(2)</li> </ul>	

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Trademark Applications Pending</b>	None	None	None	*Better Ingredients. Better Pizza. *Pizza Papa John's Better Ingredients. Better Pizza & Design *Perfect Original	None	Certain trademarks in certain foreign countries	None	None
<b>Restrictions on Franchisee's Use of Trademarks</b>	*Solely in connection with franchise restaurants *Cannot be used for Franchisee's corporate name	*Franchisee must use Marks in compliance with rules prescribed by Franchisor from time to time *Cannot be used for Franchisee's corporate name	*Solely in connection with franchise restaurants *Cannot be used for Franchisee's corporate name	*Solely in connection with franchise restaurants *Cannot be used for Franchisee's corporate name	*Solely in connection with franchise restaurants *Cannot be used for Franchisee's corporate name	*Solely in connection with franchise restaurants *Cannot be used for Franchisee's corporate name	*Solely in connection with franchise restaurants *Cannot be used for Franchisee's corporate name	*Solely in connection with franchise restaurants *Cannot be used for Franchisee's corporate name
<b>Ownership of Trademarks</b>	Franchisor is sole and exclusive owner	Franchisor is sole and exclusive owner	Franchisor is sole and exclusive owner	Franchisor is sole and exclusive owner	Franchisor is sole and exclusive owner	Franchisor is sole and exclusive owner	Franchisor is sole and exclusive owner	Franchisor is sole and exclusive owner

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Protection of Trademarks</b>	*Franchisee must notify Franchisor of any similar Marks or potential dispute actions *Franchisor has sole discretion to take such action as it deems appropriate and has exclusive control over any litigation *Franchisee must cooperate	*Franchisee must notify Franchisor of any similar Marks or potential dispute actions *Franchisor has sole discretion to take such action as it deems appropriate and has exclusive control over any litigation *Franchisee must cooperate	*Franchisee must notify Franchisor of any similar Marks or potential dispute actions *Franchisor has sole discretion to take such action as it deems appropriate and has exclusive control over any litigation *Franchisee must cooperate	*Franchisee must notify Franchisor of any similar Marks or potential dispute actions *Franchisor has sole discretion to take such action as it deems appropriate and has exclusive control over any litigation *Franchisee must cooperate	*Franchisee must notify Franchisor of any similar Marks or potential dispute actions *Franchisor has sole discretion to take such action as it deems appropriate and has exclusive control over any litigation *Franchisee must cooperate	*Franchisee must notify Franchisor of any similar Marks or potential dispute actions *Franchisor has sole discretion to take such action as it deems appropriate and has exclusive control over any litigation *Franchisee must cooperate	*Franchisee must notify Franchisor of any similar Marks or potential dispute actions *Franchisor has sole discretion to take such action as it deems appropriate and has exclusive control over any litigation *Franchisee must cooperate	*Franchisee must notify Franchisor of any similar Marks or potential dispute actions *Franchisor has sole discretion to take such action as it deems appropriate and has exclusive control over any litigation *Franchisee must cooperate
<b>Indemnification from Trademark Disputes</b>	Franchisee must indemnify PHI against any damage or expense if Franchisee damages or impairs Marks	Franchisor will indemnify Franchisees in case of a third-party dispute over authorized use of trademarks	Franchisor will indemnify Franchisees in case of a third-party dispute over authorized use of trademarks if it determines Franchisee has used Marks in accordance with Agreement	Franchisor has no obligation to indemnify Franchisees from third-party disputes	If Franchisor determines that Franchisee has used Marks in Accordance with Agreement, Franchisor shall bear costs	Franchisor has no obligation to indemnify Franchisee from third-party disputes	Franchisor has no obligation to indemnify Franchisees from third-party disputes, but will if it is in Franchisor's best interests to do so	Franchisor has no obligation to indemnify Franchisees from third-party disputes, except when defending Franchisors' Marks

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Third-Party Agreements</b>	None	None	*Agreement with Caesar World regarding use of "Caesar" *Agreement with Cadbury Beverages not to use "Little Caesars" Mark for beverages	*Investigation pending regarding a variety of pre-dated establishments using similar or same Marks	None	None	None	Agreement with Samiko, Inc. not to serve veal, chicken, or fish (except as toppings), not to use "Godfather's" without "Pizza," and not to employ waitstaff

**ITEM 14  
PATENTS, ET AL**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Patents Material to Franchise</b>	None	None	None	None	None	None	None	None
<b>Patent Applications Pending</b>	None	None	Baked food dough product and method of preparation	None	None	None	None	None
<b>Patents Held by Franchisor</b>	Equipment used relating to preparing food products	None	None	None	None	None	Token Online Digital Dispense ("T.O.D.D.")	None

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Copyright Protection Claimed by Franchisor</b>	Manual and related materials, advertising and any PHI mark	Operating manuals, videotapes and related materials, proprietary software, advertisement and promotional materials	Cartoons (3)	Manuals, Proprietary Programs, videotapes and related material, Designated Software, other proprietary information	Operation Manual	Various creative works, other proprietary information	*Chuck E. Cheese's (2) *Pasqually *Jasper T. Towels *Munch *Chuck E. Cheese's theme *How will I know *Roots in the Country *Endlessly awake, Part I. *Chuck E. Cheese's Token *Chuck E. Cheese's Pizza Time Theater (2)	Operations Manual, Administrative Procedures Manual
<b>Right of Franchisee to Use Copyrighted Material</b>	*May use proprietary information in Manual *Franchisee does not reserve the right to use an item covered by a patent or copyright	*Franchisor will disclose certain proprietary information *Information may be disclosed only to the extent necessary for the operation of the store in accordance with the Franchise Agreement	*Franchisor will disclose certain proprietary information *May not use or disclose information except in the franchise operation	*Franchisor will disclose certain proprietary information *May not use or disclose information except in the franchise operation	*May receive proprietary information for use after purchasing Franchise *Franchisee receives and can use proprietary information in operation manual	*May use proprietary information in Manual *May grant revocable, non-exclusive, royalty-free licenses to reproduce copyrighted works	*Right to use copyrights granted in Franchise Agreement *No rights to use "T.O.D.D."	Item 11 describes limitations on Franchisee

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Pending Litigation Involving Infringement</b>	Only Mongiello litigation referenced in Item 3	None	None	None	None	None	None	None

**ITEM 15**  
**FRANCHISEE OBLIGATION TO PARTICIPATE IN THE BUSINESS**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Definition of Ownership</b> <i>(Non-Individual)</i>	Owners holding 10% or greater interest	None	None	None	Principals of the business entity	Holders of more than 10% interest	None	All owners of an interest
<b>Owner Participation</b>	Recommended but not required	Required	Required	Yes, for individual ownership; if a corporation, must designate Principal Operator	Not required	Franchisee or manager approved by Franchisor must directly operate	Not required	Not required
<b>Required Supervision</b>	On-site manager who has successfully completed Franchisor's training program	On-site supervision by controlling owner; in certain cases, by a fully-trained Manager	*On-site supervision by owner; in certain cases, by on-site trained Operator holding a minimum equity interest	On-site supervision by Principal Operator and one or more competent, trained managers	On-site supervision by trained manager (or owner) at all times	Direct, day-to-day oversight; either owner or designated manager who has been certified by Franchisor	Recommended but not required	On-site supervision by owner or trained manager
<b>Restrictions on Outside Business Interests</b>	Neither owner nor any on-site manager may have any interest or relationship with competitors	Must commit fully to Franchisor and not have any interest or relationship with other businesses (without consent)	None	None	No interest in any other pizza or Italian-style eatery	Franchisee must use best efforts to obtain signed Non-competition Agreement from 10% or greater interest holders	None	None

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
<b>Owner or Manager Responsibilities</b>	<ul style="list-style-type: none"> <li>*Sign confidentiality covenant</li> <li>*All owners must sign personal guaranty</li> <li>*Fulfill all obligations of Franchise Agreement</li> <li>*Assure that Franchise is in strict accordance with standards</li> </ul>	<ul style="list-style-type: none"> <li>*Sign confidentiality covenant</li> <li>*All owners must personally guaranty the fulfillment of the Franchise Agreement and be bound by the confidentiality and non-competition covenant</li> <li>*Remain fully devoted to operation of the Franchise, excluding all other business interests</li> </ul>	<ul style="list-style-type: none"> <li>*Personally supervise operation of Franchise</li> </ul>	<ul style="list-style-type: none"> <li>*All owners must sign personal guaranty</li> <li>*Fulfill all obligations of Franchise Agreement</li> <li>*Maintain highest standards of product quality and consistency, sanitation, cleanliness, and customer service</li> </ul>	<ul style="list-style-type: none"> <li>*Non-individual owners may be required to sign guaranty</li> <li>*Devote full-time hours to operation of restaurant</li> <li>*Successfully completed training</li> </ul>	<ul style="list-style-type: none"> <li>*Sign confidentiality and non-competition agreement</li> <li>*Sign personal guaranty, if required</li> <li>*Diligently devote best efforts to operation and management</li> </ul>	<ul style="list-style-type: none"> <li>Sign confidentiality and non-competition covenant</li> </ul>	<ul style="list-style-type: none"> <li>*Sign confidentiality covenant</li> <li>*All owners must sign personal guaranty</li> </ul>

**ITEM 16**  
**RESTRICTION ON WHAT THE FRANCHISEE MAY SELL**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Items Allowed for Sale</b>	Only products approved by Franchisor	Only products approved by Franchisor	Only products approved by Franchisor	Only products approved by Franchisor	Only products approved by Franchisor	Only products approved by Franchisor	Only products approved by Franchisor	Only products approved by Franchisor
<b>Composition of Menu</b>	Must sell all Franchisor "standard" products, may sell "optional" items	Franchisee must offer all designated products and must make some available for delivery Franchisor can periodically change types of authorized products	No limits on Franchisor's right to change approved products	No limits on Franchisor's right to change approved products	All products designated by Franchisor; other items, if approved	*No limits on Franchisor's right to change approved products *Franchisee may object to new items by pursuing arbitration *Franchisee must show unreasonable burden	Must offer all approved items and refrain from deviation	Not required to offer all approved products at this time
<b>Restrictions on Customers</b>	No restrictions on customers, except may deliver only inside boundaries	No restrictions on customers, except must deliver only inside boundaries	No restriction on customers, including delivery	No restrictions on customers, except may only sell from restaurant premises	No restrictions on customers, except may only sell from restaurant premises	No restriction on customers, except must deliver only inside boundaries	No restriction on customers, except as limited by law for sale of alcohol	No restriction on customers, except must deliver only inside boundaries

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Other Restrictions</b>	*May only sell product by its brand name *May only sell product as a complete product	None	None	None	May not engage in any other business at or from the franchise location	*Television and vending equipment is permitted only if it does not alter a wholesome family setting *Franchisor may limit delivery menu	None	Franchisor may permit sales at wholesale value to other retailers

**ITEM 17  
RENEWAL, TERMINATION, TRANSFER & DISPUTE RESOLUTION**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Term</b>	20 years	10 years	10 years	10 years	10 years	10 years	15 years	15 years
<b>Renewal Term</b>	None	One 10 year term	One 10 year term	10 years	None	10 years	One 10 year term	10 years
<b>Conditions of Renewal</b>	Not applicable	*Sign then current form of agreement *Refurbish *Provide written notice *Secure designated new location, if Franchisor requires *Not be in default of any agreement with Franchisor or its subsidiaries/ affiliates/ creditors/ suppliers	*Sign then current form of agreement *Refurbish *Provide written notice *Convert to another format if Franchisor so requires *Be in compliance with Agreement *Not be in default of any agreement with Franchisor, affiliates *Execute release	*Sign then current form of agreement *Provide written notice *Secure approved location *Sign a release *Franchisor continues to offer franchises in the state	Not applicable	*Sign then current form of agreement *Refurbish *Provide written notice at least one year prior *Secure approved location *Sign a release *Not be in default	*Sign then current form of agreement *Provide written notice of intent to renew within specified period *Refurbish *Be in good standing *Pay fee *Sign general release	*Provide written notice *Pay \$100 renewal fee

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Termination by Franchisee</b>	No right to terminate	Franchisee is in compliance and only if Franchisor has breached Agreement and does not cure after 30-day written notice	No right to terminate	No right to terminate	May terminate if a Lease Agreement is not signed within 9 months from date of Franchise Agreement	*If Franchisor materially defaults and does not cure after notice *If Franchisor requires changes to Franchisees proposed design/layout that increase Franchisees cost 5% or above the estimated high cost	No right to terminate	May terminate without cause by giving 12 to 24 months notice or if Franchisor has uncured defaults
<b>Termination by Franchisor</b>	No right to terminate without cause	No right to terminate without cause	No right to terminate without cause	No right to terminate without cause	No right to terminate without cause	No right to terminate without cause	No right to terminate without cause	No right to terminate without cause

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
<b>“Cause”- Defined Defaults Which Can Be Cured</b>	*Failure to timely pay monies owed *Any other breach of Franchise Agreement that is not an incurable default	After receipt of written notice: *Failure to pay monies owed (10 days) *Failure to maintain or obtain required insurance (48 hours) *Failure to comply with rules for any Mark, quality of food products (7 days) *30 days for all other defaults	All breaches not specifically defined as being non-curable	15 days for all other defaults not specifically labeled as non-curable	*Failure to pay monies owed (10 days) *20 days for “most other defaults”	*10 days to cure defaults other than: -failure to obtain suitable location -insolvency or bankruptcy -abandonment -failure to repair expeditiously	*Failure to pay monies owed *Failure to submit financial information or reports *All other breaches of the Franchise Agreement or Operational Policies not identified as an incurable default	20 days to cure most defaults

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Obligations on Termination/ Non-renewal</b>	<ul style="list-style-type: none"> <li>*Deidentify</li> <li>*Pay amounts due</li> <li>*Return manual</li> <li>*Cease use of Marks</li> <li>*Return trademarked spice blends and items</li> <li>*Assign phone numbers</li> <li>*Remove SUS System Software</li> <li>*Non-compete requirements of Agreement</li> </ul>	<ul style="list-style-type: none"> <li>*Deidentify, including remodeling of premises of Franchisee retains possession</li> <li>*Pay monies due</li> <li>*Return manual</li> <li>*Cease and return Customer Lists</li> <li>*Cease use of confidential information and Marks</li> <li>*Assign phone numbers</li> <li>*Make store accessible for Franchisor</li> <li>*Franchisor has right to purchase assets, including leasehold interest</li> </ul>	<ul style="list-style-type: none"> <li>*Deidentify</li> <li>*Pay monies due</li> <li>*Cease use of property Marks</li> <li>*Assign lease</li> <li>*Franchisor has right to purchase assets</li> </ul>	<ul style="list-style-type: none"> <li>*Deidentify</li> <li>*Pay monies due</li> <li>*Return manual</li> <li>*Cease use of property, confidential information and Marks</li> <li>*Cancel name registrations</li> <li>*Comply with covenants</li> <li>*Assign phone number</li> </ul>	<ul style="list-style-type: none"> <li>*Deidentify</li> <li>*Pay monies due</li> <li>*Return manual</li> <li>*Relinquish all interest in lease</li> <li>*Comply with non-compete covenant</li> <li>*Make all records available to Franchisor for review</li> <li>*Assign phone number</li> <li>*Franchisor has right to purchase assets</li> </ul>	<ul style="list-style-type: none"> <li>*Deidentify, including reasonable modification to location</li> <li>*Cease use of proprietary marks and, if terminated for cause: <ul style="list-style-type: none"> <li>-assign phone number</li> <li>-deliver customer list to Franchisor</li> </ul> </li> <li>*Franchisor may make these changes if Franchisee fails to do so</li> <li>*Franchisor has right to occupy premises</li> </ul>	<ul style="list-style-type: none"> <li>*Deidentify</li> <li>*Pay monies due</li> <li>*Return all materials</li> <li>*Franchisor has right to purchase interest in Restaurant as defined by Franchisor</li> </ul>	<ul style="list-style-type: none"> <li>*Deidentify</li> <li>*Pay monies due</li> <li>*Submit all reports</li> </ul>
<b>Assignment of Contract by Franchisor</b>	No restrictions	No restrictions	No restrictions	No restrictions	No restrictions	No restrictions	No restrictions	No restrictions
<b>Definition of "Transfer" by Franchisee</b>	Transfer of interest in Agreement, assets, or ownership	Transfer of interest in Agreement, assets, or ownership	Transfer of interest in Agreement, assets, or ownership	Transfer of interest in Agreement, assets, or ownership	Transfer of interest in Agreement, assets, or ownership	Transfer of interest in Agreement or ownership	Transfer of Agreement, assets, or ownership	Transfer of interest in Agreement, assets, or ownership

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
<b>Franchisor's Approval of Transfers by Franchisee</b>	Must approve all transfers	Must approve all transfers	Must approve all transfers	Must approve all transfers, except those among franchisee shareholders, members, or partners	Must approve most transfers	Must approve all transfers	Must approve all transfers	Must approve all transfers, but may not unreasonably withhold approval
<b>Conditions for Approval of Transfer</b>	<ul style="list-style-type: none"> <li>*Transferee qualifies and assumes obligations</li> <li>*Transfer fee paid</li> <li>*No defaults</li> <li>*Both parties sign release</li> <li>*Acknowledge post-term covenants</li> <li>*Transferee and its employees have completed PHI training</li> <li>*If corporation: 10% owners personally guaranty obligations, restricted stock, no publicly-traded stock</li> </ul>	<ul style="list-style-type: none"> <li>*Transferee qualifies and is bound by Franchise Agreement</li> <li>*Transfer fee paid</li> <li>*Transferee is not operating any other pizza business</li> <li>*Transferee is in full compliance</li> <li>*Refurbish store</li> <li>*Transferee completes all required training</li> </ul>	<ul style="list-style-type: none"> <li>*Transfer qualifies</li> <li>*Transfer fee paid</li> <li>*All amounts paid in full</li> <li>*Conversion to different Store concept</li> <li>*Execution of Release</li> <li>*Assignee execute new Agreement or assignment of old Agreement, at Franchisor's option</li> </ul>	<ul style="list-style-type: none"> <li>*Transferee qualifies and provides required documents</li> <li>*All amounts paid in full</li> <li>*Full compliance</li> </ul>	<ul style="list-style-type: none"> <li>*Transferee qualifies</li> <li>*Transfer fee paid</li> <li>*Release signed</li> <li>*Transferee assumes all obligations of Franchisee</li> <li>*Franchisee pays all debts</li> <li>*Transferee signs then-current Agreement</li> <li>*Transferee agrees to remodel, if required</li> </ul>	<ul style="list-style-type: none"> <li>*Transferee qualifies</li> <li>*Transfer fee paid</li> <li>*Release signed by Franchisee and Franchisor</li> <li>*All of Franchisee's obligations under Agreement are satisfied</li> <li>*Transferee assumes all obligations</li> <li>*Franchisee delivers to Franchisor copies of all liquor license documents</li> </ul>	<ul style="list-style-type: none"> <li>*Transferee qualifies and executes personal guarantee</li> <li>*Transfer fee paid</li> <li>*All amounts paid in full</li> <li>*Disclose names of Transferee's principals</li> <li>*Franchisee is in good standing</li> </ul>	<ul style="list-style-type: none"> <li>*Sign new Agreement</li> <li>*No transfer fee</li> </ul>

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Franchisor's Right of First Refusal to Acquire Franchisee Business</b>	Franchisor may match any offer, except gift to spouse or direct descendant	Franchisor may match any offer	Franchisor may match any offer	Franchisor may match any offer	Franchisor may match any offer	Franchisor can match any offer, except when transferee is a family member, retirement plan, estate trust or existing equity holder of the franchisee	Franchisor may match any offer	Franchisor may match any offer
<b>Franchisor's Option to Buy Franchisee Business upon Termination or Nonrenewal</b>	No obligation to buy business, except right to buy all spice blends and trademarked items	Purchase for an amount based on percentage of royalty sales during previous 12 months	Franchisor can buy certain assets and receive assignment of lease	Franchisor has right to purchase assets for fair market value	None	Franchisor has right to purchase business	Franchisor has right to purchase business if Agreement is terminated	Franchisor may acquire location if Franchisee defaults
<b>Franchisee's Death or Disability</b>	Transfer to approved buyer within six months	Franchisee's Personal Representative must submit transfer proposal in accordance with the Agreement within 120 days	*Transfer to approved buyer within six months *No transfer fee	Transfer to approved buyer within nine months	Franchisee's Personal Representative or heirs may take over franchise, subject to state law	*Franchisor can operate business as long as necessary *Heirs can transfer Agreement if they comply with requirements	Third-party transfer restrictions apply	None

TRADE NAME	Pizza Hut	Domino's	Little Caesars	Papa John's	Sbarro	Round Table	Chuck E. Cheese's	Godfather's
<p><b>Non-Competitive Covenants (during franchise term)</b></p>	<p>*No involvement in similar-style food business *No letting of Franchisee's property to such a business</p>	<p>No involvement in other carry-out or delivery pizza store business anywhere</p>	<p>*No involvement in competing business *Prohibition on diverting customers *No employing managers who have worked for company within past six months</p>	<p>No involvement in any other business anywhere</p>	<p>No involvement in competing business anywhere</p>	<p>No involvement in similar pizza-style business in county where Franchisee's Restaurant is located</p>	<p>*No involvement with competing business within 25 miles of Franchise *Cannot divert business to competitors *Cannot employ any person employed by Franchisor or by any other Franchisee *Franchisor may require Franchisee to obtain non-competition covenants from employees</p>	<p>*No involvement in a pizza restaurant business anywhere *No involvement with a business competitive with Franchisor within 3 miles</p>

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Non-Competitive Covenants (after franchise is terminated or expires)</b>	*No involvement in competing food business within same county within 25 miles of any System Restaurant, or within 10 miles of any affiliate for 1.5 years from conclusion *No action that would impair goodwill	No involvement in competing food business for one year within 10 miles of the Store	No involvement in competing food business located within one mile of any Franchise Restaurant for one year, no involvement for two years within the Area of the Store	No involvement in competing business for two years within ten miles of any other Franchise restaurant	No involvement with competing business for one year within five miles of any Franchise restaurant	None	In term covenants applicable for one year after termination, expiration, or transfer	No involvement in competing business for two years, within three miles of Franchisor
<b>Modification of Agreement</b>	*No modifications except by written agreement of the parties *Operating Manual subject to change	*No modifications unless in writing and signed by both parties *Operating Manual subject to change	*No modifications unless in writing and signed by both parties *Operating Manual subject to change	*No modifications generally *Operating Manual subject to change	*No modifications generally unless in writing *Operating Manual subject to change	*No modifications unless in writing *Changes to Operating Manual will not alter Franchisees rights or obligations under the Franchise Agreement	*No modifications unless in writing *Except those Franchisor is permitted to make unilaterally *Operating Manual subject to change	*No modifications unless in writing and approved by both parties *Operating Manual subject to change

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Integration/ Merger Clause</b>	*The Franchise Agreement (along with the Manual) contains the entire agreement *No prior discussions, promises, etc., including those in the UFOC, shall survive	Only Franchise Agreement is binding (subject to state law)	The Franchise Agreement, attachments and any ancillary agreements signed contemporaneously	Only Franchise Agreement is binding (subject to state law)	Only Franchise Agreement is binding	*Only Franchise Agreement is binding (subject to state law) *No other promises enforceable	Only Franchise Agreement and operational policies are binding	*Only Franchise Agreement is binding (subject to state law) *No other promises enforceable
<b>Dispute Resolution by Arbitration or Mediation</b>	All disputes between PHI and Franchisee relating to the Agreement (except system-wide) must be submitted to mediation	None	None	Arbitration of most disputes in Louisville, Kentucky	None	Parties must make good faith effort to resolve any dispute through negotiations; if negotiations fail, either party may submit dispute to mediation	*Must mediate any dispute, except over trademarks or money owed *Must submit all disputes to non-binding mediation in Dallas, TX except those concerning trademarks, intellectual property and money owed	Follows guidelines of IFDA

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Choice of Forum</b>	Sedgwick County, Kansas, or any other country or district in which PHI then has its principal place of business	Litigation in state where Store is located	Judicial district where Franchisor has principal place of business	Jefferson County, Kentucky (subject to state law)	Suffolk County, New York	Determined by arbitrator	State Courts of Dallas County, Texas and Federal Dist Ct for Northern District of Texas, Dallas Division	Illinois Franchise Disclosure Act ("IFDA") prohibits Franchise Agreement from designating litigation forum outside Illinois
<b>Choice of Law</b>	Kansas, without giving effect to Kansas choice of law rules	Laws of State where Store is located	Michigan	Kentucky (unless prohibited by laws of state where Restaurant is located)	New York	California (subject to state law)	Texas (without regard to its conflicts of laws provision)	Nebraska law, with limited exceptions

**ITEM 18  
PUBLIC FIGURES**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
	None	None	None	None	None	None	None	None

**ITEM 19  
EARNINGS CLAIMS**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Claims made</b>	None	None	None	None	None	None	Statement of average operating results of Franchisor-owned Restaurants	None
<b>Exceptions</b>	<i>May provide actual operating results of a specific unit offered for sale</i>	None	None	None	None	High, low and average annual sales and operating costs for company owned Restaurants	High, low and average annual sales and operating costs for company owned Restaurants and Franchised Restaurants	None

**ITEM 20  
LIST OF OUTLETS**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro<sup>15</sup></b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Franchised</b>	3,582	3,689	2,515	1116	165	535	63	363
<b>% Franchised</b>	48.4%	82.8%	81.0%	73.5%	20.9%	96.6%	20.2%	67.0%
<b>Corporate</b>	3,821	766	592	401	623	19 <sup>16</sup>	249	177
<b>% Corporate</b>	51.6%	17.2%	19.0%	26.4%	79.1%	3.6%	79.8%	32.7%
<b>Total Locations</b>	7,403	4,455	3,107	1517	788	554	312	540
<b>Reporting Date</b>	12/24/97	12/31/97	12/31/97	12/31/97	12/31/97	6/30/98	12/31/97	5/26/97

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<sup>15</sup> Includes "licensed" locations

<sup>16</sup> These restaurants were owned by the company's affiliates

**ITEM 21  
FINANCIAL STATEMENTS**

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Reporting Date</b>	12/27/97	12/28/97	12/31/97	12/29/96	12/28/97	6/30/98	1/2/98	6/30/96

**INCOME STATEMENT (000)**

<b>Royalty &amp; Fr Fees</b>	569,000	102,746	42,206	22,113	7,360	14,730	3,480	600
<b>Total Revenue</b>	9,681,000	1,045,237	581,667	360,052	349,435	15,063	420,196	10,164
<b>Royalty/Fees as % Total Revenue</b>	5.9%	9.8%	7.3%	6.1%	2.1%	97.8%	0.82%	5.9%
<b>Operating Income</b>	241,000	65,451	3,114	25,629	58,197	7,877	76,860	606
<b>Net Income</b>	(111,000)	61,105	2,468	18,614	36,082	5,016	46,388	490
<b>Net Income as % of Revenue</b>	1.1%	5.8%	4.2%	5.17%	10.3%	33.3%	11%	4.8%

**BALANCE SHEET**

<b>Current Ratio</b>	1 to 2.3	1 to 1.3	205 to 1	1.6 to 1	2.9 to 1	1.5 to 1	1.2 to 1	1 to 2.1
<b>Long Term Debt</b>	6,718,000,000	75,005,000	20,792,000	10,128,000	11,801,000	0	22,981,000	12,270,436

<b>TRADE NAME</b>	<b>Pizza Hut</b>	<b>Domino's</b>	<b>Little Caesars</b>	<b>Papa John's</b>	<b>Sbarro</b>	<b>Round Table</b>	<b>Chuck E. Cheese's</b>	<b>Godfather's</b>
<b>Retained Earnings</b>	683,000,000	25,840,000	271,350,000	35,882	187,791,000	1,862	155,938	7,465,919
<b>Shareholder Equity</b>	(1,620,000,000)	26,118,000	196,621,000	180,643	220,439,000	4,868,000	226,368	8,733,566

1. All figures in Item 5 are for the Pizza Station Format

2. All figures in Item 5 are for the Pizza Station Format