

**Item 7. Estimated Initial Investment**

**YOUR ESTIMATED INITIAL INVESTMENT  
(Table No. 1: Build to Suit)**

<b>Type of expenditure</b>	<b>Low amount</b>	<b>High amount</b>	<b>Method of payment</b>	<b>When due</b>	<b>To whom payment is to be made</b>
Initial Franchise Fee	\$25,000.00	\$25,000.00	Lump Sum	Upon Signing	Us
Training Expenses (Note A)	\$3,000.00	\$8,000.00	As Incurred	Before, During & After Training	Vendors, Airlines, Hotels, Car Rental Companies, etc.
Build to Suit (BTS) Estimated Developer Fees (3 months given)	30,000.00	\$45,000.00	As Arranged	As Arranged	Landlord, Vendors, Us
Equipment	\$164,000.00	\$284,000.00	As Arranged	As Arranged	Vendors
Inventory to begin operating (Note D)	\$18,000.00	\$30,000.00	As Incurred	As Arranged	Us, Vendors
Security Deposits, utility deposits, business licenses and other prepaid expenses (Note E)	\$1,000.00	\$15,000.00	As Incurred	As Arranged	Vendors, Leasing Companies or Lender
Marketing (Note F)	\$1,000.00	\$7,000.00	As Incurred	As Arranged	Us, Vendors
Insurance (Note G)	\$3,000.00	\$7,000.00	As Arranged	As Arranged	Insurance Companies
Legal & Accounting Fees (Note H)	\$1,000.00	\$10,000.00	As Incurred	As Incurred	Your Lawyer & Accountant
Additional Funds for 3 months (Note I)	\$30,000.00	\$50,000.00	As Incurred	As Incurred	Employees, Vendors, Utilities, Taxing Agencies, Etc.
<b>Total</b>	<b>\$276,000.00</b>	<b>\$481,000.00</b>			

**YOUR ESTIMATED INITIAL INVESTMENT**  
**(Table No. 2: Land Lease)**

<b>Type of expenditure</b>	<b>Low amount</b>	<b>High amount</b>	<b>Method of payment</b>	<b>When due</b>	<b>To whom payment is to be made</b>
Initial Franchise Fee	\$25,000.00	\$25,000.00	Lump Sum	Upon Signing	Us
Training Expenses (Note A)	\$3,000.00	\$8,000.00	As Incurred	Before, During & After Training	Vendors, Airlines, Hotels, Car Rental Companies, etc.
Real Property (Note B)	\$10,000.00	\$20,000.00	As Arranged	As Arranged	Landlord or Mortgage Lender
Building costs, fixtures, other fixed assets, construction, remodeling, leasehold improvements and decorating costs (Note C)	\$510,000.00	\$840,000.00	As Arranged	As Arranged	Landlord, Vendors, Us
Equipment	\$164,000.00	\$284,000.00	As Arranged	As Arranged	Vendors
Inventory to begin operating (Note D)	\$18,000.00	\$30,000.00	As Incurred	As Arranged	Us, Vendors
Security Deposits, utility deposits, business licenses and other prepaid expenses (Note E)	\$1,000.00	\$15,000.00	As Incurred	As Arranged	Vendors, Leasing Companies or Lender
Marketing (Note F)	\$1,000.00	\$7,000.00	As Incurred	As Arranged	Us, Vendors
Insurance (Note G)	\$3,000.00	\$7,000.00	As Arranged	As Arranged	Insurance Companies
Legal & Accounting Fees (Note H)	\$1,000.00	\$10,000.00	As Incurred	As Incurred	Your Lawyer & Accountant
Additional Funds for 3 months (Note I)	\$30,000.00	\$50,000.00	As Incurred	As Incurred	Employees, Vendors, Utilities, Taxing Agencies, Etc.
<b>Total</b>	<b>\$766,000.00</b>	<b>\$1,296,000.00</b>			

**YOUR ESTIMATED INITIAL INVESTMENT**  
**(Table No. 3: Land Purchase)**

<b>Type of expenditure</b>	<b>Low amount</b>	<b>High amount</b>	<b>Method of payment</b>	<b>When due</b>	<b>To whom payment is to be made</b>
Initial Franchise Fee	\$25,000.00	\$25,000.00	Lump Sum	Upon Signing	Us
Training Expenses (Note A)	\$3,000.00	\$8,000.00	As Incurred	Before, During & After Training	Vendors, Airlines, Hotels, Car Rental Companies, etc.
Real Property (Note B)	\$275,000.00	\$600,000.00	As Arranged	As Arranged	Landlord or Mortgage Lender
Building costs, fixtures, other fixed assets, construction, remodeling, leasehold improvements and decorating costs (Note C)	\$510,000.00	\$840,000.00	As Arranged	As Arranged	Landlord, Vendors, Us
Equipment	\$164,000.00	\$284,000.00	As Arranged	As Arranged	Vendors
Inventory to begin operating (Note D)	\$18,000.00	\$30,000.00	As Incurred	As Arranged	Us, Vendors
Security Deposits, utility deposits, business licenses and other prepaid expenses (Note E)	\$1,000.00	\$15,000.00	As Incurred	As Arranged	Vendors, Leasing Companies or Lender
Marketing (Note F)	\$1,000.00	\$7,000.00	As Incurred	As Arranged	Us, Vendors
Insurance (Note G)	\$3,000.00	\$7,000.00	As Arranged	As Arranged	Insurance Companies
Legal & Accounting Fees (Note H)	\$1,000.00	\$10,000.00	As Incurred	As Incurred	Your Lawyer & Accountant
Additional Funds for 3 months (Note I)	\$30,000.00	\$50,000.00	As Incurred	As Incurred	Employees, Vendors, Utilities, Taxing Agencies, Etc.
<b>Total</b>	<b>\$1,031,000.00</b>	<b>\$1,876,000.00</b>			

Notes Regarding Initial Investment:

### **Summary of Tables.**

The three tables above are based on the following three scenarios:

Table No. 1 - Build to Suit: The landlord owns the land and building and leases to you.

Table No. 2 - Land Lease: The landlord owns the land and leases it to you. You build and own the building on the land.

Table No. 3 - Land Purchase: You purchase and own the land. You build and own the building.

### **Note A: Training expenses.**

You are responsible for travel, lodging, meals and compensation for you and your manager or employees who attend the initial training.

### **Note B: Real Property Expense.**

This estimate is for the cost of purchasing or leasing the land. See Note C for the cost of the building and leasehold improvements. If you already lease or own Premises, you should review your lease or purchase documents to evaluate the cost of real estate. If not, lease situations will vary in rental amounts, lease terms, amount of space required, tenant improvements required, security deposit and advance rental required. Location is a very major factor in the amount of rent required. These estimates do not include advance rental deposits, insurance and similar expenses. You may elect to own your own real estate on which to locate the Premises, in which case it is difficult for us to estimate the cost because of the wide variations in price and financing options. If you rent real estate for the Premises, you may be liable for the entire term of the lease whether or not you succeed in the Licensed Business. You should consult your lease documents and your attorney. The estimate we have provided should cover about three months of rental or mortgage payments.

### **Note C: Leasehold Improvements & Equipment**

This estimate includes the cost of construction and materials for the unique Frugals® building, including construction or remodeling, equipment, fixtures, other fixed assets, signs and decorating costs. The cost could vary from this estimate because of the costs of building materials and labor. The cost could be higher if you or your landlord request changes from the standard design and materials.

If you already lease or own Premises, you should review your lease or purchase documents to evaluate the cost of real estate leasehold improvements. If not, lease situations will vary in rental amounts, lease terms, amount of space required and tenant improvements required. Size, configuration and landlord requirements will be major factors in cost. Some landlords finance leasehold improvements by amortizing them over the lease term and charging a higher rental amount to cover the cost. You should attempt to determine your costs and financing options before deciding on Premises.

Even if you are taking over or continuing in an existing Frugals® Premises or another existing facility, we may require that you remodel, redecorate or make other changes to the Premises to comply with our specifications, at your cost. You must maintain the Premises, at your expense, including furniture, fixtures, interior and exterior paint and landscaping, in accordance with our specifications.

Our estimate includes the cost of required equipment for your Licensed Business. The cost of equipment could vary widely depending primarily upon your circumstances. Some new franchisees may have existing businesses and may already have some of the equipment they will need. This may or may not be your situation. There are factors beyond our control, including economic conditions and the cost of raw materials and equipment that could cause you to invest more in equipment.

If you lease the equipment, that may increase your monthly fixed expenses. If you borrow money to purchase the equipment, that may increase your monthly fixed expenses.

### **Note D: Inventory.**

Our estimate for your inventory to begin operating includes an opening inventory of food and supplies and is just the opening inventory. You will replace some of the items as often as three or four times per week, but we assume you will generally replace them out of revenues. If your revenues are not sufficient or if your margins are too low, you may need more cash.

### **Note E: Deposits & Licenses.**

Your landlord, utilities, vendors or lenders may require deposits. We do not set those or control them. We have tried to

estimate, within a range, what you can expect based upon the experiences of our affiliates that have operated Frugals outlets and based upon our understanding of current economic conditions. We have included in the estimate what we think you can expect to pay for state and local licenses. This does not include building permits. That estimate is included in the Equipment and construction estimate described in connection with Note C, above.

**Note F: Marketing.**

This estimate does not include any marketing assessment by any Local Marketing Cooperative. This estimate does not include any extraordinary initial marketing expense for obtaining employees and informing the community of your business opening.

**Note G: Insurance.**

Keeping in mind that the price of insurance has varied widely in recent years, you should obtain a price quotation from your insurance agent or broker in planning to purchase the Franchise. Workers Compensation and employers liability insurance are extra and you should obtain prices from your state agencies or your insurance agent or broker.

**Note H: Legal & Accounting.**

Because of the variability of attorney's fees and accounting services and fees, this is, at best, an estimate. You should check with your attorney or with several knowledgeable attorneys to determine the actual range of fees before signing the Franchise Agreement or Area Development Agreement. You may need an attorney to assist and advise you in setting up your business organization and reviewing contract documents. This estimate does not include any ongoing needs for legal services in connection with relationships with customers or vendors. Depending upon your experience and staffing, you may also need accounting services. You should consult your accountant for a more accurate estimate of fees based upon what you need. Our estimate is only for the period up until you open for business.

**Note I: Additional Funds.**

This estimates your startup expenses during approximately a three-month period after you open your Licensed Business. These expenses include payroll costs and various service costs such as utilities. These expenses also include cash for cash registers and petty cash. These estimates do not include owner compensation or return on investment. These figures are estimates and we cannot guarantee that you will not have additional expenses starting the business. We have based these estimates on the experience of our affiliates in operating Frugals outlets over a period of six years or more. We believe our estimates are reasonably accurate, but your expenses will depend on factors such as: how closely you follow our methods and procedures; your management skill, experience and business acumen; local economic conditions; the local market for the products and services you offer; the prevailing wage rate; competition; and the sales level you reach during the initial period. Although we have tried to factor into our estimates the fact that our affiliates have had years of experience in operating such businesses, there is no way to absolutely quantify that experience. You may need more funds than our estimate before your Licensed Business breaks even.

If you purchase an existing operating Frugals® business from us or from another franchisee, you should expect to pay, in addition to the estimated initial investment, an amount representing the fair market going concern value of the business. That value might exceed the estimated initial investment. Any purchase of existing business assets and going concern value would be under a separate agreement negotiated between you and the seller.

**Additional Notes:**

**No Financing.**

See Item 10. we do not offer financing for any items. Should we establish relationships with sources of possible financing, we would make the information available to you. Financing availability and qualification requirements would probably change and vary widely. If we make financing available to you, we or our affiliate(s) would expect to make a profit from it. we do not require you to obtain financing from us or our affiliate(s).

**No Refunds.**

We will not refund any of the payments you make except as provided in Item 5, above.

**Area Development.**

We have not included a separate table for the initial investment if you sign an Area Development Agreement. Other than the Initial Fees payable under the Area Development Agreement, actual start-up costs pertaining to the Restaurants opened under the Area Development Agreement are as estimated above, subject to potential increases over time or other changes in circumstances. If you sign an Area Development Agreement, your professional fees may be higher.