

# Community FOODS

YOUR LOCAL FRESH MARKET

formerly People's Community Market

*Good Food*  
**for Everyone**

health & community



**INCLUSIVE  
OAKLAND**

equity & opportunity

*Let's end*  
**food deserts**

feed the people



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**THIS OFFERING IS ONLY OPEN TO CALIFORNIA RESIDENTS.**



**COMMUNITY FOODS MARKET, INC.**

**PREFERRED STOCK**

**OFFERING MEMORANDUM**

**COMMUNITY FOODS MARKET, INC.**

**A California Corporation**

***(Formerly People's Community Market)***

**3105 San Pablo Ave., Oakland, CA 94608**

**email@communityfoodsmarket.com**

**Telephone: (510) 285-6985**

**Contact: Brahm Ahmadi, CEO**

**Investing is often risky. You should not invest any funds in this offering unless you can afford to lose your entire investment. See Page 25 for a discussion of the risk factors that Management believes present the most substantial risks to you.**

The effective date of this Offering Memorandum is September 25, 2019. Neither the delivery of this Offering Memorandum nor any sale of the securities offered herein should be construed as creating any implication that there has been no change in the affairs of Community Foods Market, Inc. after the date hereof.

### **Our Social Mission**

To build community in West Oakland, to enhance the health and quality of life of local families and to empower our customers with knowledge about food and health.

To nurture a thriving local economy, to create opportunity for local residents and to support the entrepreneurial culture that sustains the vitality of our community.

To connect our community to its regional food system and to reignite an appreciation for the producers, suppliers and workers who nurture and feed us.

### **Our Service Mission**

We Nourish and Serve Our Community  
With Pride, Purpose and Integrity by  
Offering Quality, Healthy and Flavorful Foods and by  
Providing Caring and Knowledgeable Service  
That Puts People and Communities First.  
We Create Unique and Enjoyable Experiences  
For Our Customers and Our Employees  
That Enrich and Improve Their Lives.

### **Our Core Values**

- Pursue Higher Purpose
- Relationships Matter
- Teach and Learn Always
- Be of Service
- Expect People's Best
- Enable Participation
- Work Like Its Play
- Create Excitement

## Letter to Our Supporters

Dear Friends,

Our roots began just two blocks from our store location when I co-founded a nonprofit organization called People's Grocery in 2002. One goal in creating this nonprofit was to lay the groundwork necessary to open a full-service neighborhood food store, health resource center and social hub in West Oakland. From 2002 to 2010 I led People's Grocery in operating numerous food projects (including the Mobile Market and the Grub Box), urban gardens and nutrition education programs in West Oakland. Through this work we built an entrepreneurial track record, strong community relationships, and a knowledge in how to best provide food access and serve the West Oakland community.

From 2010 to 2012 I went to business school at Presidio Graduate School. The final project of my MBA was the first version of the business plan for Community Foods Market (originally known as People's Community Market). After completing my MBA, I was awarded a fellowship by the W.K. Kellogg Foundation to work on this project full-time. From 2013 – 2019 I undertook the long and patient work of building this venture from the ground up: forming a board of directors, recruiting a leadership team, refining the business plan and financial projections, raising capital, securing a location, getting government approvals and completing construction of a brand new food facility.

In many ways, Community Foods Market is a case study of the barriers that under-served communities face in opening food stores and the creative solutions, partnerships and tenacity that it takes to prevail. But the vision we conceived of seventeen years ago, and the patient course we have taken, has come to fruition. On June 1, 2019 we opened the doors of our food market and café to the public and received an incredibly excited and warm reception from the community. With 60 employees working hard to serve our customers, our store is getting better every day. We see a strong and productive future for our venture and have many plans for new initiatives and expansions to increase our service and impact in the community.

Although we have raised most of the funding we need for this venture, there is one important component that we are still raising: *working capital*. Specifically, we need to raise additional operating capital to cover business cash flow needs until our business is fully profitable. Many startups struggle to secure working capital due to a lack of collateral for such financing. So we are turning to community and public investors who are compelled by our project's social purpose to help provide critical funding for our operating capital needs.

If you are a California resident who believes in our mission and values, and you fulfill the suitability requirements contained in this memorandum, you can invest in Community Foods Market and partner with us in ensuring that our independent, mission-driven and locally-owned business serves the community for many decades.

Sincerely,



Brahm Ahmadi  
CEO/President

**Community Foods Market, Inc.**  
**Direct Public Offering Memorandum**

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**OFFERING MEMORANDUM**  
**California Qualification by Permit**

**\$179,444**  
**Series A Preferred Stock**

**1. Brief Description of Offering**

Community Foods Market, Inc. (“Community Foods”, “CFM” or the “Company”), is offering up to an aggregate of \$240,444 in non-voting, non-convertible shares of Series A Preferred Stock, which is more fully described in Section 7 herein, at \$2.00 per share (the “Purchase Price”) to finance working capital related to the day-to-day operation of its retail grocery store in West Oakland (as hereinafter defined) (the “Offering”). The minimum investment for each accredited investor (as defined in Rule 501 of Regulation D)<sup>1</sup> (an “Accredited Investor”) subscribing for the purchase of the Series A Preferred Stock offered in this Offering (the “Offered Securities”) is \$5,000. The minimum investment for an investor that is not an Accredited Investor (an “Unaccredited Investor”) subscribing for the purchase of the Offered Securities is \$1,000. Investors subscribing for the purchase of the Offered Securities are referred to herein as “Investors.”

In addition, any Investor who invests at least \$10,000 in the aggregate may have their name inscribed on a tile mosaic placed prominently on a wall at the entrance of the store; and any Investor who invests at least \$20,000 may, in addition, have a photo included on tile mosaic. There is no maximum investment, except as described in the section on Suitability Requirements.

This Offering will terminate one year from the date of commencement, unless such termination date is extended, at the discretion of Management and subject to any required consent of the California Department of Business Oversight. This Offering is limited to California residents.

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<sup>1</sup>An Accredited Investor is defined in Rule 501 of Regulation D as follows:

- (a) A bank, insurance company, registered investment company, business development company, or small business investment company;
- (b) an employee benefit plan, within the meaning of the Employee Retirement Income Security Act, if a bank, insurance company, or registered investment adviser makes the investment decisions, or if the plan has total assets in excess of \$5 million;
- (c) a charitable organization, corporation, or partnership with assets exceeding \$5 million;
- (d) a director, executive officer, or general partner of the company selling the securities;
- (e) a business in which all the equity owners are accredited Investors;
- (f) a natural person who has individual net worth, or joint net worth with the person’s spouse, that exceeds \$1 million at the time of the purchase, excluding the value of the primary residence of such person;
- (g) a natural person with income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year; or
- (h) a trust with assets in excess of \$5 million, not formed to acquire the securities offered, whose purchases a sophisticated person makes.

## **2. About the Company**

Community Foods Market (formerly People's Community Market) opened its doors for business on June 1, 2019. The Company's primary strategy is to seize the market opportunity in West Oakland to sustainably pursue three primary social impact objectives:

1. Enhance the health and well-being of local families by introducing healthier food options and increasing awareness about food, nutrition and health.
2. Improve economic outcomes for employees by providing fair wages, benefits, enhanced training and employee ownership opportunities.
3. Foster community building and positive relations across the diversity of West Oakland.

The Company operates a small-format, full-service neighborhood food market and café of approximately 14,000 square feet to enable residents of West Oakland's McClymonds, Hoover-Foster, and Clawson neighborhoods – which have not had a supermarket since the 1970's – to shop from a wide selection of nutritious fresh foods, prepared foods and staple groceries at affordable prices in their own neighborhood. In addition to retailing fresh foods, groceries and prepared foods, Community Foods offers information, resources and services to support customers in improving their health and provides a community venue in support of community building and positive socializing.

## **3. Target Market**

The West Oakland target market is a 2.5 square mile inner-city area with 25,250 residents who are predominantly African American and Latino ("West Oakland"). The majority (66%) of West Oakland households have incomes below the federal poverty level and area incomes in 2011 represented less than 60% of the City of Oakland's median and average incomes (US Census, 2011). However, median incomes rose by 82% between 1990 and 2000 and by 20% between 2000 and 2011, which was a faster income growth rate than for the City of Oakland as a whole. Significant area improvements, crime reduction, and growth in population and the local employment base over the next decade will likely enable household incomes to continue to increase and approach the City of Oakland's median income.

Although West Oakland is known as a lower-income neighborhood, it has a rich and diverse history. Before the 1950's there were numerous grocery stores and supermarkets located throughout the neighborhood that offered a variety of groceries, produce and prepared foods. Many of these stores had a unique Southern character and catered to the special food desires of local customers. These stores also provided places for people to get together and socialize. But, beginning in the 1950's, many of the grocery stores in West Oakland shut down or relocated to new suburbs that could offer more profits and cheap land for bigger stores. It became virtually impossible to buy fresh produce or quality food products in the neighborhood. This problem persists today.

West Oakland residents spend over \$60 million a year on groceries. Despite this sizable buying power, there are few food retail outlets in West Oakland. As a result, 70% of the neighborhood's annual grocery expenditures, or \$42 million, go to stores in surrounding areas. But West Oakland residents (many of whom do not own a vehicle and rely on public transportation) must travel far to get to distant supermarkets. The inconvenience, time and cost of these shopping trips leads many residents to regularly shop at nearby corner stores that carry mostly processed, poor quality foods sold at high prices.

These limited food choices are contributing to high rates of diet-related chronic disease in West

Oakland. Today, 48% of residents are obese or at an unhealthy weight and the community's diabetes hospitalization rate is three times that of Alameda County. But many residents also understand the connection between diet and health and are increasingly demanding healthier food choices, more knowledge and information, and supportive social settings and services.

### **3.1 Trade Area**

Community Foods retained Intalytics, a leading research firm, to survey the store's marketing area, commonly known as the Trade Area, and evaluate its sales potential. Intalytics defines CFM's Trade Area as a 1.5-mile radius around the store's location, which includes all of West Oakland and portions of North Oakland, downtown Oakland and the City of Emeryville. This Trade Area is notably larger and economically stronger than West Oakland itself, with a population of 48,760, an average household income \$53,492 and 61% of residents employed in white-collar occupations. The weekly grocery expenditure for the Trade Area is \$2,229,251, or \$115,921,052 annually, which is nearly double the amount of grocery expenditures coming from West Oakland. Intalytics estimates that, while 90% of CFM's sales will come from the Trade Area, its potential to generate sales from beyond the Trade Area is above average as its site on San Pablo Avenue is along a major traffic corridor. CFM is expected to generate 38% of sales from beyond one mile from the store site, suggesting that its reach into areas with greater population, income and spending power will enhance its financial performance.

### **3.2 Competition**

West Oakland has a limited competitive environment for food retail. Prior to Community Foods Market, no supermarkets or full-service grocery stores operated within the boundaries of CFM's Trade Area. While there are two supermarkets located approximately 1 mile from the Trade Area, many West Oakland residents are unable to frequently shop at these locations due to limited vehicle ownership and a reliance on walking and public transportation. There is an abundance of liquor stores in West Oakland that primarily sell snack foods, sugary beverages, alcohol and tobacco products. These stores carry limited grocery merchandise or produce and typically sell such items at high prices.

A 2,700 square foot natural foods coop, called Mandela Foods Cooperative, located on 7<sup>th</sup> Street, carries a limited selection of organic food items. A 5,000 square foot Produce Pro located on San Pablo Ave and 26th Street carries a small selection of conventional produce and a limited grocery assortment of primarily Hispanic food types. Despite these and many convenience stores, CFM's research determined that food retail square footage per capita in West Oakland prior to CFM's store opening was 1.2 square feet, which falls well below the 3.0 square feet per capita that is considered to be a well-served area. A lack of existing food retail square footage underscores the highly limited competition.

Intalytics identified 12 conventional and specialty supermarkets serving portions of its defined 1.5-mile Trade Area. No new competition is expected to open during its five-year forecast period. These 12 supermarkets currently capture 79% of the Trade Area's market share. The remaining 21% of the Trade Area's market share is primarily accounted for by a Costco in the City of San Leandro to the South and by smaller convenience stores located throughout the Trade Area.

The nearest supermarket to CFM's location is a 54,000 square foot Pak N Save (owned by Safeway), which is located 0.8 miles from CFM's site, which generates 60% of its weekly sales (\$390,000) from within the Trade Area and which accounts for 17.5% of market share within the Trade Area. The next two closest supermarkets are a 26,000 square foot Sprouts Farmers Market (1.3 miles away) and a

33,000 square foot Grocery Outlet (1.4 miles away), which respectively generate 55% and 45% of their sales from the Trade Area and respectively account for 5.9% and 7.6% of market share within the Trade Area. While a 57,200 square foot Whole Foods accounts for a notably large market share within the Trade Area (20.4%), the high-end supermarket only derives 35% of its sales from within the Trade Area. Based on the type of customers that each of these supermarkets targets, CFM considers the Pak N Save and the Grocery Outlet to be its primary competitors regardless of their Trade Area market share or distance from CFM's store location.

#### **4. Business Plan Summary**

##### ***Business Model***

Community Foods Market is implementing a sustainable solution for West Oakland residents to buy nutritious and fresh foods, prepared foods and traditional groceries at great value in their own neighborhood, while also offering education, engagement and incentive programs that introduce customers to healthier food options and encourage them to adopt healthier eating habits over time.

Condensed Retail Format: CFM operates a condensed retail store of approximately 14,000 square feet, which is small by industry standards. This smaller size has reduced real estate acquisition, development costs and certain operating costs such as utilities and maintenance. The smaller size also allows the Company to operate at a central location in a dense urban area with high population density, vehicular traffic and accessibility by foot and public transportation. While the store will be smaller than most supermarkets, it carries an ample selection of approximately 10,000 items across all primary food shopping categories and provides sufficient aisle width, checkout counters, seating, programs and other aspects that are important to customer experience and the Company's activities.

Fresh Foods Focus: Community Foods Market's offerings focus on fresh and perishable foods that are the least available in West Oakland: produce, dairy, meats, poultry and seafood. Approximately 60% of total store products are perishable items. CFM believes that increasing access to fresh foods and encouraging customers to eat more fresh foods and foods made from whole ingredients (as well as eating less processed foods with high additive content) is the most effective means of improving health in the West Oakland community. CFM has set a goal of marketing 1,000,000 pounds of fresh produce to West Oakland residents annually and increasing produce consumption among its customers by 30% within seven years. The store accepts CalFresh/SNAP electronic benefit cards in support of this goal. Community Foods has also secured a grant from the USDA to provide a 50% discount to customers using CalFresh/SNAP for qualified fruits and vegetables.

Approximately 70% of CFM's initial fresh foods product is conventional to reflect the primary demand in the neighborhood and to ensure availability of affordably priced fresh foods. Offerings of organic and natural fresh food products will be increased as customer demand increases.

The produce department offers a diverse selection including seasonal displays and ethnic items. Prices on select items are reduced daily in order to increase turn-rates and maintain optimal freshness. Value-added convenience products in the produce department include salad kits, fresh-cut fruits, and vegetable meal solutions.

The meat and seafood department offers a curated selection of fresh and safe meats, poultry and seafood at reasonable prices. The meat case displays top-selling conventional, organic and locally

sourced cuts of choice and select grade beef, pork, lamb and poultry. The seafood case displays a curated selection of wild and farmed fresh fish, crustaceans and shellfish. Customers can order custom cuts of all selections from a single service clerk. The meat and seafood counters also feature value-added convenience products such as marinated, stuffed and encrusted items.

Prepared Foods: As the Trade Area also lacks quality prepared foods and meals, CFM's full-service café, delicatessen and grab-&-go section are a central offering that drive significant customer traffic. The prepared foods department provides a variety of choices for eating in, taking out, purchasing an entire meal or purchasing meal components. All prepared foods are made daily with fresh and whole ingredients. The Front Porch Cafe offers signature sandwiches, salads, soups and stews that are prepared daily. Hot breakfast foods are offered in the mornings. Beverages in the cafe include brewed and drip coffees and made-to-order hot beverages, smoothies and juices. The Front Porch Cafe also offers evening social events and performances such as live music, film showings and poetry nights.

Limited Grocery Assortment: Community Foods utilizes a limited assortment format, blended with warehouse format merchandising of pallet displays, for daily grocery staples, personal care and household products to cater to smaller, more frequent purchases that are characteristic of shoppers traveling by foot and public transportation. The Company stocks approximately 50% of the grocery inventory carried by supermarkets, offering a range of items for convenience while limiting the scope of products to the top selling items in a category. This approach creates a more efficient and manageable inventory that results in higher turn rates, lower carrying costs and lower shrinkage costs. It also optimizes CFM's merchandising and simplifies its shopping experience, satisfying customers' desires for a selection of goods without overstocking or excess waste.

### ***Pricing and Sourcing***

Community Foods offers a range of pricing options to cater to diverse customer segments and shopping budgets. The market's pricing strategy strives to balance price enticements that lure customers looking for bargains, with higher-margin items often purchased out of impulse or convenience, to create an overall merchandising mix that generates sustainable gross margins.

While it is important to price competitively and to maintain an accessible price image, CFM does not attempt to compete with big box and discount retailers on price. The Company believes that its proximity and convenient location enables it to compete for shoppers who are time constrained and/or who have limited mobility and are willing to pay marginally higher prices for greater convenience and proximity to their homes.

Additionally, economic theory suggests that price competition has less of an effect on retailers that are viewed as distinctive. CFM strives to compete against low price retailers through its key points of differentiation, as well as through a distinctive product mix, social experiences and ancillary services.

However, the Company also strives to price competitively against its most immediate competitors, which are nearby corner stores and the Pak N Save in Emeryville. Although the Pak N Save was once a discount retailer, a renovation of the store in 2015 by its parent company, Safeway, resulted in an increase in the store's pricing to the level of Safeway branded stores. Many local residents complain that, while the Emeryville Pak N Save used to be the most affordable outlet nearest to West Oakland, they now struggle to afford its higher prices and often choose to travel further to shop at a lower price retailer. Community Foods compares its pricing against the Pak N Save store and makes sure that its

prices are equal or lower across all critical categories.

Community Foods Market achieves competitive pricing through four primary strategies:

*Low cost financing:* The Company has secured forms of financing that are mission aligned and, as a result, provide below market rate costs of capital. This includes nearly \$1.7M in financing through the sale of Series A Preferred Stock with a 3% target dividend and \$675,000 in financing at 0.75% interest through a loan from EBALDC that was enabled by a federal grant from the [Healthy Food Financing Initiative](#) (“HFFI”). Although the Company was not the direct recipient of a note made by a supporter for the purchase of the store site, that financing has provided significant benefit to its pro forma through free rent. These forms of capital reduce pressures of debt service and rent expense, allowing CFM to invest in lower pricing.

*Operational efficiencies:* CFM’s condensed retail footprint reduces operating costs such as facilities maintenance and utilities. Utility costs are also reduced through the use of technologies, equipment and processes that reduce energy and water consumption. The food market’s limited assortment and warehouse formats in grocery result in operational efficiencies related to inventory management, carrying costs, stocking labor and shrinkage. Community Foods reduces marketing costs by relying on word-of-mouth marketing and utilizing low-cost marketing services provided by the Independent Grocers Alliance (IGA). Labor costs are reduced, in part, through cross training of employees in multiple departments, which reduces the need for additional employees to fill limited shifts. CFM also implements a culture of cost control at the management level by assigning P & L responsibility to department managers in which they create, control, monitor and meet department budgets.

*Sourcing tactics:* Community Foods uses sourcing tactics geared at reducing costs of goods and increasing gross margins. Sourcing tactics include sourcing directly from producers; sourcing imperfect, odd lot and surplus products; and purchasing in volume. CFM’s Management negotiate aggressively to secure the best possible pricing from mainline distributors. This includes securing extended terms, free fills, guaranteed sales, promotional budgets and other special deals.

*Merchandising Tactics:* Community Foods plans to offer segments of produce and packaged grocery through an everyday low price (“EDLP”) program, called Value Basics, to deliver an affordable basket of daily consumables to shoppers on a restricted budget. Shelf tags bearing the Value Basics label will make it easy for customers to identify CFM’s EDLP offerings. Additionally, the grocery department features a Wall of Values section located next to where pallet drops display special bargains and unique finds. This enables the business to concentrate its purchasing, thus boosting its bargaining power with suppliers, and to conduct opportunistic buying that requires larger volume purchases.

#### ***Education, Outreach and Community Building***

Community Foods supports customers in improving their health, building community and becoming more socially connected. CFM partners with community and health organizations to offer education programs on topics such as food, farming, nutrition and health, as well as health and nutrition services including screenings and dietary counseling. To effectively implement these programs, CFM formed a nonprofit tax-exempt organization, called the Fresh Life Foundation, to undertake charitable activities that are essential to CFM’s goals. In addition to the delivery of health education and services, the Fresh Life Foundation conducts outreach to increase community involvement in the store. The Fresh Life Foundation also organizes social activities and events in the Front Porch Cafe that support community

building and social cohesion among residents.

### **Marketing**

CFM's marketing activities concentrate on the West Oakland community in order to maximize local penetration in a cost-effective manner. While some traditional advertising is used, the Company invests most of its marketing resources into tactics that engage the local community. Marketing is currently focused on attracting new customers, but will gradually shift as the store matures to retaining existing customers. Concentrating marketing on the local community and on existing customers who already repeat shop will likely result in the greatest return on CFM's marketing dollars.

CFM joined the [Independent Grocers Alliance \("IGA"\)](#) to utilize its low-cost marketing services. IGA is the largest affiliation of independent grocers in the United States with over 4,000 member stores in the U.S. Many of IGA's stores operate in small town markets and are family owned and operated. IGA's primary goal is to ensure that independent grocery stores remain strong in the face of growing chain competition. Although IGA is known largely as a banner and a private label, the organization has in recent years shifted to primarily being a marketing partner to its members and providing an array of marketing programs and professionally designed marketing materials. These marketing programs provide independent grocers with significantly greater marketing capabilities and reach, while keeping costs low and allowing the member stores to maintain an independent identity.

### **Location and Development**

Community Foods Market is located at 3105 San Pablo Avenue in Oakland (94608). This site was selected due to its compelling location characteristics such as population density, vehicle traffic, penetration of the Trade Area and accessibility by foot and public transportation.

- The gravity zone of a geographical area is the direction in which residents and daytime workers enter and depart and which has the greatest concentration of vehicle and public transit. A trade area analysis determined that the gravity zone for West Oakland is in the north between Grand Avenue and Emeryville. Community Foods Market's site is centrally located within the gravity zone of West Oakland.
- The site's frontage is along San Pablo Avenue, which is a major corridor in the East Bay with an estimated 12,800 average daily vehicular traffic count. The 1.5-mile Section of San Pablo Avenue that runs through West Oakland, locally referred to as the San Pablo Corridor, is particularly important as it connects the high-growth areas of downtown Oakland and Emeryville. Community Foods's site is located within 100 feet of bus stops for the 72, 72M and 72R bus lines that run on San Pablo Ave, 500 feet from the 88 bus line on Market Street and 0.3 miles from the 36 bus line on Adeline St.
- Over 9,000 residents are estimated to live within 0.5 miles of this location, which encompasses the McClymonds, Hoover-Foster, and Clawson neighborhoods. Given a large number of area households do not own vehicles, locating Community Foods's store within walking distance is important in providing convenient shopping access to area residents, as well as generating recurrent sales from repeat customers who may come to rely on the market for their primary food shopping.
- There are 600 new units of market rate housing in development within 0.5 miles of Community Foods's location, as well as 300 units of affordable housing. The resulting population density and added spending power from these new housing units (not including single family homes) will strengthen the market's potential for increasing its customer foot

traffic and resulting sales.

Community Foods Market began construction of a 14,000 square foot facility and 22,000 square foot parking lot in April 2018. In conjunction with its Project Manager, David Greensfelder, and its architect, Lowney Architecture, the Company coordinated planning and permitting for demolition, construction, on-site and off-site improvements. Approval from the Oakland Planning Department was secured through a Regular Design Review. This approval included variances for “off-site” parking and a parking shortfall, as well as a minor conditional use permit for a building height below the zoning minimum. The Company also made improvements to the adjacent Parking Lot that it has leased from St. Matthew Missionary Baptist Church to provide 42 parking spaces on the site.

Truck loading primarily occurs at a loading zone in front of the Parking Lot on San Pablo Avenue. While loading from San Pablo cannot be received directly into the back of house (deliveries will be brought to the back of house by hand), it minimizes impacts on street traffic, navigation within the parking lot and on residential homes located along Filbert St. two locations. Small deliveries and service vehicles can also deliver from a receiving driveway on Filbert St. which receives directly to the market’s back of house.

## **5. Management**

### *Chief Executive Officer & President*

Brahm is a co-founder of People’s Grocery and was the Executive Director of the nonprofit for eight years. Brahm has first-hand experience in developing food enterprises, marketing healthy foods in the inner city and providing training and education to low-income residents. Brahm has an MBA in Sustainable Management from the Presidio Graduate School and is a Food and Community Fellow with the Institute for Agriculture and Trade Policy. He is the chief visionary and strategist behind Community Foods Market and led the development of the Company from seed to grand opening.

### *Chief Financial Officer*

David Guendelman brings years of experience with startup companies that make a positive social impact in the world. In 2004, David was a member of the founding team as CFO of World of Good, which he led through two rounds of equity financing, helped to scale to become one of the leading fair trade product companies with a line in Whole Foods and a partnership with eBay, and then oversaw its sale to eBay in 2010. David is the first CFO at [Saveup.com](http://Saveup.com), an online rewards program, as well as a financial consultant to [Lotus Foods](http://Lotus Foods), which imports handcrafted and sustainably produced heirloom rices.

### *Store Manager*

Morgan Carrico has 20 years of retail management background. He was the Director of Stores at [Daily Table](http://Daily Table), a nationally recognized non-profit grocery store in Dorchester, a low-income neighborhood of Boston that, like West Oakland, was previously a “food desert” that lacked access to grocery stores and fresh food shopping options. Through his role at Daily Table, Morgan gained first-hand experience operating a community-oriented and mission-driven food store in a lower-income community. Prior to Daily Table, Morgan was Procurement and Grocery Manager at [Port Townsend Food Co-op](http://Port Townsend Food Co-op) in Port Townsend, WA, where he managed daily operations of 52% of the store's \$16,000,000 in annual sales and helped lead the store in a large-scale remodel. Morgan began his career in food retail at [Trader Joe's](http://Trader Joe's) where he worked as assistant store manager for 15 years in multiple stores in Arizona and Texas.

### *Assistant Store Manager*

Patricia De La Cruz has been in retail operations and customer service for over 20 years, with 8 years working in the fresh foods and grocery retail industry. She was Assistant Store Manager at [Sprouts Farmers Markets](#) for four years, where she traveled from store to store in Northern California helping implement improvements and filling in for Store Managers. In this role, Patricia often supervised 130+ employees at any given time. Prior to Sprouts, she was Assistant Store Manager at [Sam's Club](#), where she oversaw 150+ employees and was responsible for the operations of multi-million-dollar grocery and fresh food departments.

### *Produce Manager*

Bill Fujimoto is a fresh grocer and produce pioneer in the San Francisco with over 40 years of experience in the grocery business. Formerly at Monterey Market in Berkeley, where he built a highly successful fresh food market centered on direct procurement and unique promotional strategies, Mr. Fujimoto is working with CFM in building its the produce department and produce procurement.

### *Accounting & HR Manager*

LaShante Boyd is an experienced administrator, human resources, and accounting professional. Her specialized skills range from handling small business multitasking to high volume handling of large corporation functions and business processes. She was a Coordinator for World Bank and International Financial Corporation ("IFC") Doing Business project effective from 2009 - 2019.

## **6. Plan of Distribution**

This Offering will be offered and sold on a no minimum basis, with a maximum aggregate Offering amount of \$179,444. This Offering will terminate one year from the date of commencement (unless such termination date is extended, at the discretion of Management and subject to the consent of the California Department of Business Oversight).

Brahm Ahmadi, the Company's CEO and President, will represent the Company in offering and selling the Offered Securities. Some administrative tasks related to this Offering may be conducted by other employees of the Company under the supervision of officers. No person will receive any commission or other compensation for their distribution efforts. The Company will not use any broker-dealers or any other agents in connection with this Offering.

The Company will advertise this Offering in newsletters and email communications; in newsletters and email communications of other organizations and businesses; in newspaper and magazine ads and/or articles; on radio and television interviews; on the Company's web site and online social media sites; in online promotional videos; and at events, conferences and presentations. All communications will direct prospective Investors to this Offering Memorandum, which will be available in hardcopy and in digital format. The Company will offer and sell the Offered Securities only to California residents.

## **7. Offered Securities Attributes**

As indicated in Section 1 above, the Offered Securities are 120,222 shares of Series A Preferred Stock for a price of \$2.00 per share.

### **7.1 Dividends**

Each holder of Series A Preferred Stock shall be entitled to receive annual cumulative dividends at a rate

of 3% of the original issue price of each share of such stock held by such holder, when, as, and if such dividends are declared by the Board of Directors, prior and in preference to any payment of any dividend on the Company's common stock (the "Common Stock"). Dividends shall begin to accrue on each share of the Series A Preferred Stock from the date on which such share is issued by the Company and shall accrue from day to day until paid, whether or not earned or declared. To the extent that dividends are not declared by the Board of Directors, they will continue to accrue, but no payments upon such accrued and undeclared dividends will be due to the shareholders, subject to sections 7.2 and 7.4 below. The Board of Directors may choose to declare dividends, or not, at its sole discretion, subject to the requirements of the California Corporations Code.

Dividend rights of the Series A Preferred Stock shall be senior to the Common Stock. After dividends in the full preferential amounts for the Series A Preferred Stock have been paid or declared and set apart for a given calendar year, all remaining dividends in such calendar year will be declared solely on the Common Stock.

### **7.2 Liquidation Preference**

In the event of a "Liquidation Event" (including a liquidation, dissolution or winding up, merger or acquisition, consolidation or change in control, or a sale of substantially all of the Company's assets), holders of Series A Preferred Stock will be entitled to receive an amount equal to their original investment in the Series A Preferred Stock plus all accrued but unpaid dividends thereon, whether or not such dividends have been declared (the "Preference Amount"). If the available funds and assets legally available for distribution to shareholders is insufficient to permit payment of the full Preference Amount to holders of the Series A Preferred Stock, such available funds and assets shall be distributed among holders of Series A Preferred Stock pro rata according to the number of outstanding shares of Series A Preferred Stock held by each such holder.

After the Preference Amount has been paid to the holders of the Series A Preferred Stock as described above, all remaining funds and assets of the Company legally available for distribution to shareholders will be distributed pro rata among the holders of the Common Stock according to the number of shares of Common Stock held by each holder thereof.

### **7.3 Conversion Rights**

The Series A Preferred Stock is NON-convertible.

### **7.4 Voting Rights**

The Series A Preferred Stock is NON-voting. Election of the Directors of the Company shall be by vote of Common Stock holders only.

### **7.5 Redemption**

Subject to any legal restrictions on the Company's redemption of shares, at any time on or after the end of the seventh full year of the Company's business operations (the "Redemption Start Date"), the Company, at its option, may redeem in whole or in part the Series A Preferred Stock held by all or any number of selected holders of the Series A Preferred Stock, by payment to such holders of the Preference Amount. Prior to effecting redemption, the Company shall provide all such holders a 60-day notice of its intent to redeem.

Subject to any legal restrictions on the Company's redemption of shares, at any time after the Redemption Start Date, each holder of Series A Preferred Stock, at such holder's option, shall have to right to require the Company to redeem all of such holder's shares of Series A Preferred Stock by payment to such holder of the Preference Amount. Any holder of Series A Preferred Stock seeking to exercise this redemption right shall provide the Company with a written redemption request 60 days prior to the date the shares are redeemed.

#### **7.6 Benefits to Investors**

For so long as any Investor holds all shares of the Offered Securities originally purchased by such Investor prior to the Redemption Start Date, for any calendar year in which the Company conducts business operations, such Investor shall receive a store credit from the Company equal to 1% of the aggregate purchase price paid by such Investor for such shares of the Offered Securities; provided, however, that any portion of such store credit that is not used in such calendar year shall be forfeited. If any Investor, whether through sale, transfer, redemption or other transaction, no longer holds all shares of the Offered Securities originally purchased by such Investor prior to the Redemption Start Date, then such Investor shall have no further rights to receive or use such store credit.

In addition, any Investor who, in the aggregate, invests at least \$10,000 in the Offered Securities will have the opportunity to have their own name (or that of a person in whose honor the investment is made) inscribed on a tile mosaic placed prominently on a wall at the entrance of the store. Further, any Investor who invests, in the aggregate, at least \$20,000 in the Offered Securities will have an opportunity to have a photograph (or other graphical design) included along with their name on the tile mosaic. The Company may, in its sole discretion, impose length limitations, photograph parameters, and reasonable deadlines, and retains the right to reject any name, photograph, or image that it deems inappropriate or contrary to the Company's mission or on any other reasonable basis.

#### **7.7 Company Right of First Refusal**

The Company shall have a right of first refusal ("ROFR") to purchase any of the Offered Securities that any Investor proposes to sell, transfer, gift, pledge, assign, distribute, encumber or otherwise dispose of to a third party, except for transfers which are part of an inheritance or to a controlled affiliate of the Investor. The Company's ROFR will be assignable by the Company to any other investor and/or shareholder of the Company.

#### **7.8 Other Restrictions on Transferability**

This Offering is made pursuant to an exemption from federal registration requirements set forth in Rule 147A under the Securities Act of 1933, as amended (the "Securities Act"). As required by Rule 147A:

(i) for a period of six (6) months after an Investor purchases the Offered Securities described herein, all resales of the Offered Securities, by any person, shall be made only to persons resident within the state of California (the "Rule 147A Resale Limitation");

(ii) the Company shall, in connection with any sales by it of the Offered Securities described herein, (x) place a legend on any certificate or other document evidencing such Offered Securities stating that such Offered Securities have not been registered under the Securities Act and setting forth the Rule 147A Resale Limitation, and (y) issue stop transfer instructions to the Company's transfer agent, if any, with respect to such securities, or, if the Company transfers its

own securities, make a notation in the appropriate records of the Company ((x) and (y), collectively, the “Legending and Stop-Transfer Actions”); and

(ii) the Company shall, in connection with the issuance of new certificates for any of securities described herein that are presented for transfer during the time periods in which the Rule 147A Resale Limitation applies, take the Legending and Stop-Transfer Actions.

In addition to Company’s (assignable) ROFR and any other restrictions imposed upon the transfer of the Offered Securities by securities or other laws, Company will restrict holders of the Offered Securities from transfers of such shares to competitors or potential competitors.

The following will be imprinted on any stock certificates representing the Offered Securities prohibiting their transfer except in accordance therewith:

“IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY, OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREFORE, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF THE DEPARTMENT OF BUSINESS OVERSIGHT OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED IN THE COMMISSIONER’S RULES.”

For more information pertaining to the legend and the rules permitted by the Commissioner see Exhibit C California Code of Regulations Section 260.141.11., Restriction on Transfer, in Exhibit C to this Offering Memorandum.

The exemption for secondary trading under section 25104(h) of the California Corporations Code will be withheld, but other exemptions for secondary trading, including under section 25104(a) of the California Corporations Code (which covers private sales by a bona fide owner for his or her own account without advertising and without being effected by or through a broker dealer in a public offering), may be available.

## **8. Use of Offering Proceeds**

The Company intends to use the proceeds from the sale and issuance of the Offered Securities, along with the proceeds of a potential loan from one or more financial institutions as follows:

### **8.1 Selling Expenses**

The selling expenses of this Offering shall not exceed 10% of the aggregate offering amount. California regulations define selling expenses as the total underwriting and brokerage discounts and commissions (including fees of the underwriters’ attorneys paid by the issuer) paid in connection with this Offering plus all other expenses incurred by the issuer relating to printing, mailing, salaries of employees while engaged in sales activity, charges of transfer agents, registrars, trustees, escrow holders, depositaries, and engineers and other experts, expenses of qualification of the sale of the securities under federal and State laws, including taxes and fees, and any other expenses incurred by the issuer directly related to this Offering, but excluding accountants’ and the issuer’s attorneys’ fees and options to underwriters.

### **8.2 Scenario Analysis of Sources and Uses of Funds**

During the one year period ending September 24, 2013, the Company raised \$762,148 through the sale

of 381,074 shares of Series A Preferred Stock, at two dollars (\$2.00) per share, to California residents, made under a public securities offering qualification by permit issued on September 25<sup>th</sup>, 2012 under section 25113(b)(1) of the California Corporate Securities Law (the “2012 Offering”).

During the one year period ending September 23, 2014, the Company raised \$451,300 through the sale of 225,650 shares of Series A Preferred Stock, at two dollars (\$2.00) per share, and \$1,250 worth of pre-paid store credits, in each case to California residents, made under a public securities offering qualification by permit issued on September 24<sup>th</sup>, 2013 under section 25113(b)(1) of the California Corporate Securities Law (the “2013 Offering”).

During the one year period ending January 29, 2016, the Company raised \$8,500 through the sale of 4,250 shares of Series A Preferred Stock, at two dollars (\$2.00) per share, to California residents, made under a public securities offering qualification by permit issued on January 30<sup>th</sup>, 2015 under section 25113(b)(1) of the California Corporate Securities Law (the “2015 Offering”).

During the one year period ending January 28, 2017, the Company raised \$420,258 through the sale of 210,129 shares of Series A Preferred Stock, at two dollars (\$2.00) per share, to California residents, made under a public securities offering qualification by permit issued on January 29<sup>th</sup>, 2016 under section 25113(b)(1) of the California Corporate Securities Law (the “2016 Offering”).

During the one year period ending April 12, 2018, the Company raised \$41,700 through the sale of 20,850 shares of Series A Preferred Stock, at two dollars (\$2.00) per share, to California residents, made under a public securities offering qualification by permit issued on April 13, 2017 under section 25113(b)(1) of the California Corporate Securities Law (the “2017 Offering”).

Pursuant to a public securities offering qualification by permit issued on August 20, 2018 under section 25113(b)(1) of the California Corporate Securities Law, the Company has, as of July 27, 2019, raised \$636,650 through the sale of 318,325 shares of Series A Preferred Stock, at two dollars (\$2.00) per share, to California residents (the “2018 Offering” and, together with the 2012 Offering, the 2013 Offering, the 2015 Offering, the 2016 Offering, and the 2017 Offering, the “Prior Offerings”).

The following table represents the Company’s intended use of the combined proceeds from this Offering, the Prior Offerings and other forms of financing that are secured or will be secured.

| <b>Sources of Funds</b>  |             | <b>Uses of Funds</b>           |             |
|--|-------------|--------------------------------|-------------|
| Prior Offerings  | \$2,321,806 | Build Out                      | \$6,565,210 |
| This Offering  | \$179,444   | Furnishings, Fixtures & Equip. | \$1,750,000 |
| Grants   | \$210,000   | Real Estate Acquisition        | \$991,825   |
| New Markets Tax Credit Program (“NMTC Program”) Financing <sup>1</sup> | \$3,500,000 | IT Systems & Hardware          | \$175,000   |

<sup>1</sup> The NMTC Program, more fully described in Section 9 below, is a federal program that incentivizes private investment into distressed communities through the use of tax credits. Proceeds from NMTC Program funding will be used for acquiring the future store site, as well as for a majority of furnishings, fixtures and equipment.

|                               |                     |                                |                     |
|-------------------------------|---------------------|--------------------------------|---------------------|
| EBALDC Loan <sup>2</sup>      | \$675,000           | Opening Inventory              | \$366,000           |
| Construction Loan             | \$5,462,500         | Pre-Operating Expenses         | \$900,000           |
|                               |                     | Business Launch Expenses       | \$311,631           |
|                               |                     | Working Capital/Operating Cash | \$1,164,084         |
|                               |                     | Incentive & Workforce Programs | \$125,000           |
| <b>Total Sources of Funds</b> | <b>\$12,348,750</b> | <b>Total Uses of Funds</b>     | <b>\$12,348,750</b> |

This budget scenario assumes that the Company is able to secure an additional \$179,444 in financing from Investors. All other financing included in the above budget has been secured.

The Company is currently limited by its articles of incorporation to issue no more than 1,250,000 shares of Preferred Stock, for an aggregate total of \$2,500,000. The Company may, at a subsequent date, call a meeting of shareholders to consider amending its articles of incorporation to increase the authorized number of shares of Preferred Stock that may be issued. If the Company's shareholders approve such an amendment, the Company may amend this Offering, or conduct a subsequent offering to offer additional shares of Preferred Stock, which would result in a decrease in the amount of debt financing.

## **9. Financing to Date**

CFM has been keeping its expenses to a minimum over the past five years in preparation to procure financing. During this time the Company has utilized the following capital infusions:

- 1) \$70,000 grant from the USDA Farmer's Market Promotion Program.
- 2) \$35,000 grant from the California FreshWorks Fund.
- 3) \$30,000 subordinated note from People's Grocery (repaid in 2013).
- 4) \$25,000 subordinated note from a private individual (repaid in 2013).
- 5) \$25,000 subordinated note from a private family foundation.
- 6) \$50,000 subordinated note from a private investment fund.
- 7) \$25,000 grant from the Northern California Community Loan Fund.
- 8) \$10,000 grant from Beneficial State Bank.

Additionally, as described above, the Company raised \$2,259,556 in the Prior Offerings. Proceeds from the Prior Offerings have been used to pay for selling expenses, pre-operating expenses including salaries and management fees, architectural and engineering services, permit applications and working capital.

In December 2017, the Company closed on a total of \$5,462,500 in construction loans by three lenders: the Northern California Community Loan Fund ("NCCLF"), a San Francisco-based nonprofit lender, for \$3,000,000; Self-Help Federal Credit Union, based in Durham, NC, for \$1,985,000; and the California FreshWorks Fund for \$477,500. These loans, together the Construction Loan, funded the demolition of the existing building on the property; site work such as grading, landscaping and paving; construction of

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<sup>2</sup> In September 2016, the East Bay Asian Local Development Corporation ("EBALDC") was awarded a \$750,000 grant by the federal Healthy Food Financing Initiative ("HFFI") in support of the creation of Community Foods Market. CFM has signed a loan agreement with EBALDC to borrow 90% of this grant. award, or \$675,000, through a 22-year subordinated note.

the building core and shell; plumbing, HVAC and electrical; and the purchase and installation of portions of refrigeration.

In December 2018, the Company closed on a financing transaction through the NMTC Program, a federal program that incentivizes investment into distressed communities through the use of tax credits. The program is administered by the US Treasury Department's Community Development Financial Institutions ("CDFI") Fund and allocated by local Community Development Entities ("CDEs"), which are domestic corporations or partnerships that act as intermediary vehicles for the provision of loans, investments, or financial counseling in low-income communities.. The complex capital stack of this transaction included a \$6,100,000 million leverage loan from Community Vision Capital (formerly Northern California Community Loan Fund) with junior participation from Clearinghouse CDFI, and the Nonprofit Finance Fund. The transaction also included \$12,000,000 in tax credits, \$10,500,000 of which was provided by Community Vision Capital and \$1,500,000 by Capital One. This generated a \$3,600,000 equity investment by Capital One. A portion of the NMTC financing was used to refinance the Construction Loan. As illustrated in the Sources of Funds in Section 8.2 above, this transaction provided new net financing of \$3,500,000, which was used to fund the acquisition of the property from the East Bay Asian Local Development Corporation, as well as the majority of furnishings, fixtures and equipment items that are not funded by the Construction Loan.

## **10. Additional Financing**

The Company may require additional financing for its operations, for expansion or for the implementation of new initiatives. Such financing may be secured in the form of loans from private financial institutions or in the form of grants from public governmental agencies or private foundations.

## **11. Financial Matters**

The Company was incorporated in 2010. The Company's Fiscal Year ends January 31. Financial statements are attached as Exhibit A. The Company has also developed a financial model and pro forma forecast with assistance from financial and retail professionals that projects expected financial performance, operating costs and capital requirements. Management believes that its financial forecasts present a reasonable outlook. The Company's Consolidated Pro Forma Financial Statement is attached as Exhibit B.

## **12. Litigation and Legal Matters**

The Company is not presently party to any litigation, nor to the knowledge of Management is any litigation threatened against the Company, any of its management, or any affiliate, which may materially affect operations or projected goals.

## **13. Management Ownership and Compensation**

| <u>Owner of Record</u> | <u>Amount</u>                    | <u>% Ownership</u> |
|------------------------|----------------------------------|--------------------|
| Brahm Ahmadi           | 1,000,000 shares of Common Stock | 46%                |

The CEO, Brahm Ahmadi, received \$23,000 in compensation in 2010 for his general services in leading the Company through its formation, planning and pre-development. Beginning in August of 2013, the CEO received an annual salary of \$20,000 to compensate for 50% of his full-time work. Beginning in

January of 2014, the CEO received an annual salary of \$40,000 to compensate for 100% of his full-time work. Beginning in April of 2016, the CEO received an annual salary of \$50,000 to compensate for 100% of his full-time work. He also received a \$10,000 bonus for securing the Company's real estate contracts. Beginning in January of 2018, the CEO received an annual salary of \$60,000 to compensate for 100% of his full-time work. Beginning in January of 2019, the CEO received an annual salary of \$70,000 to compensate for 100% of his full-time work.

## **14. Investor Suitability Requirements**

### **15.1 General**

Investment in Securities is highly speculative, involves significant risks, and is suitable only for persons of adequate financial means who have no need for liquidity from the investment and who can bear the economic risk of a complete loss of their investment. This Offering is made in reliance on the intrastate offering exemptions under the Securities Act and the public offering qualification under section 25113(b)(1) of the California Corporate Securities Law ("California Securities Laws") and other applicable laws or regulations.

The Suitability Requirements discussed below represent minimum requirements for prospective Investors. The satisfaction of such requirements by a prospective Investor does not necessarily mean that the Securities are a suitable investment for such prospective Investor. Prospective Investors are encouraged to consult their financial advisors to determine whether an investment in the Securities is appropriate. The Company may reject subscriptions, in whole or in part, in its absolute discretion.

### **15.2 Suitability Requirements**

The Suitability Requirements for this Offering are as follows:

- (1) (a) if Investor is an individual, he or she resides in the state of California; and (b) if the Investor is an entity, then the entity's principal place of business is located in the state of California;
- (2) Either:
  - a. Investor invests less than \$2,500 total in the Company, including any investments made during the prior 12 months; OR
  - b. Investor has a minimum net worth (exclusive of homes, home furnishings, and automobiles) of at least \$250,000 and minimum gross income of \$65,000 AND the investment does not exceed 10% of that net worth; OR
  - c. Investor has a minimum net worth (exclusive of homes, home furnishings, and automobiles) of \$500,000 AND the investment does not exceed 10% of that net worth; OR
  - d. Investor is an Accredited Investor AND the investment does not exceed 10% of Investor's net worth (exclusive of homes, home furnishings, and automobiles).
- (3) If Investor is an Accredited Investor, Investor's subscription amount is not less than \$5,000,

and if Investor is an Unaccredited Investor, Investor's subscription amount is not less than \$1,000.

### **15.3 Other Requirements**

Subscriptions will not be accepted from prospective Investors whom the Company has reason to believe may not meet the requirements described in above. Prospective Investors who wish to invest more than \$2,500 (including prior investments by the same Investor) may be required to complete a Suitability Questionnaire prior to issuance of a Preferred Stock Subscription Agreement for the purchase of Series A Preferred Stock in order to provide certain necessary information to allow the Company to determine the satisfaction of the Suitability Requirements by such prospective Investors.

Each Investor will be required to make certain representations and warranties to the Company and to agree to indemnify, hold harmless, and pay all fees and expenses that are incurred by, and all judgments and claims made against the Company, its affiliates and counsel, for any liability that is incurred as a result of any misrepresentation made by Investor.

### **15.4 No Revocation**

Once a person has (a) executed a Preferred Stock Subscription Agreement and (b) submitted funds, such subscription may not be revoked without the consent of the Company.

## **15. How to Purchase Securities**

1. Review this Offering Memorandum and all exhibits.
2. Complete the blank fields of the Suitability Questionnaire provided by the Company on its website (or paper copy by request), including the Signature Page of the Suitability Questionnaire, and submit to the Company for review.
3. Upon confirmation of the satisfaction of the Suitability Requirements, complete the blank fields of the Preferred Stock Subscription Agreement provided by the Company on its website (or paper copy by request), including the Signature Page of the Preferred Stock Subscription Agreement, and submit to the Company for review. If the Investor is an entity, the Preferred Stock Subscription Agreement must be executed by an agent authorized to bind the Investor.
4. Write a check payable to Community Foods Market for the number of shares of Series A Preferred Stock desired for purchase (note: this amount must be at least \$1,000 for unaccredited and \$5,000 for accredited Investors). Mail the check to the Company at the address contained in the Preferred Stock Subscription Agreement and on the Company's website. All payments must be received within ten (10) business days from the date of execution of the Preferred Stock Subscription Agreement. Note: fractional shares will not be sold.
5. The Company will mail you a copy of your share certificate. Important: Your investment has not been accepted by the Company until you receive a share certificate from the Company. The Company reserves the right to reject any prospective investment for any reason.

In all cases, the Investor, not the Company, bears the responsibility of delivery of payment and any other documents required in order for the Investor to purchase Securities.

## **17. Risk Factors**

AN INVESTMENT IN THE COMPANY IS SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK, INCLUDING THE POSSIBLE LOSS OF THE ENTIRE INVESTMENT, AND EACH INVESTOR SHOULD CAREFULLY READ AND CONSIDER THE FOLLOWING RISK FACTORS AND ALL MATTERS SPECIFIED IN THESE SUBSCRIPTION DOCUMENTS IN DETERMINING WHETHER OR NOT TO INVEST IN THE COMPANY AS SPECIFIED HEREIN. THE FOLLOWING FACTORS ARE NOT AN ALL-INCLUSIVE LIST OF POSSIBLE RISKS INHERENT IN THE OFFERING.

### **17.1 Risks Related to an Investment in our Company**

#### *Certain Factors May Affect Future Success*

Any continued future success that the Company might enjoy will depend upon many factors, including factors beyond the control of the Company and/or which cannot be predicted at this time. These factors may include but are not limited to cost overruns in construction; the Company's ability to maintain a lease; changes in or increased levels of competition, including the entry of additional competitors and/or increased success by existing competitors; changes in general economic conditions; increases in labor and/or operating costs; the Company's ability to generate sufficient demand, expand its customer base and retain key customers; and reduced margins caused by competitive pressures, rising food costs and/or other increased operating costs. These conditions may have a material adverse effect upon the Company's business, operating results, and financial condition.

#### *Dependence on Key Personnel*

Much of the Company's success depends on the skills, experience, and performance of its key persons. The Company currently does not have a firm plan fully detailing how to replace any of these persons in the case of death or disability. The Company's success also depends on the Company's ability to recruit, train, and retain qualified personnel. The loss of the services of any of the key members of senior management, other key personnel, or the Company's inability to recruit, train, and retain senior management or key personnel, may have a material adverse effect on the Company's business, operating results, and financial condition.

#### *Control of the Company*

Control of the Company and all of its operations are solely with its managers and will remain with them. Investors must rely upon the judgment and skills of the managers.

#### *No Guarantee of Return*

No assurance can be given that an Investor will realize a substantial return on investment, or any return at all, or that an Investor will not lose a substantial portion or all of the investment. For this reason, each prospective Investor should carefully read this memorandum and all exhibits attached hereto and consult with an attorney, accountant, and/or business advisor prior to making any investment decision.

#### *Tax Risks*

No representation or warranty of any kind is made by the Company, the officers, directors, counsel to the Company, or any other professional advisors thereto with respect to any tax consequences of any

investment in the Company. EACH PROSPECTIVE INVESTOR SHOULD SEEK THE INVESTOR'S OWN TAX ADVICE CONCERNING THE TAX CONSEQUENCES OF AN INVESTMENT IN THE COMPANY.

#### *Revisions to Use of Proceeds*

It is possible that the Company's use of the proceeds from this Offering will be revised by its Management. If proceeds from this Offering are insufficient to cover the actual costs, the Company could experience financial problems, which may adversely affect its ability to implement its business plan. Management will have significant flexibility in applying the net proceeds of this Offering. The failure of Management to apply such funds effectively could have a material adverse effect on the Company's business, prospects, financial condition, and results of operations.

#### *Development Costs*

The Company has procured architectural and construction plans and cost estimates. While cost estimates are based on known assumptions and factors affecting construction costs, such as the cost of materials and the timetable for construction, there is risk that any one or more base assumptions affecting the cost estimates may be incorrect and/or may change in the future in a manner that the Company cannot anticipate. Such changes may cause an increase to the costs of construction in excess of the Company's finances, thus requiring additional capital or revision to the business plan.

#### *Site Leases*

The Company has secured a location for the retail store, as well as a location for vehicle parking, through two separate long-term ground leases. The Company has made its plans based on the assumption that the ground leases it has entered into are fully enforceable and will be performed by the landlords in accordance with their terms. The Company has also made its plans based on the assumption that the terms and provisions of the ground leases are satisfactory for purposes of obtaining additional required financing. There is a risk that either landlord may, with or without justification, choose to not uphold certain agreed upon terms, may demand different lease terms than have been agreed to, may attempt to prematurely terminate the lease, may attempt to sell the property to a third party without honoring the Company's right of first refusal to purchase the property, or may demand a purchase price that is beyond the Company's ability to pay. Such events may cause the Company to experience substantial delays in the project and/or in maintaining control of a location for the retail store.

#### *Cost of Labor and Operations*

The Company has developed a plan and forecast based on certain assumptions about the costs of labor and operations such as wages, benefits, utilities, taxes, and freight costs. While cost estimates are based on known assumptions and factors affecting labor and operating costs, there is a risk that one or more of the base assumptions affecting the cost estimates may be incorrect and/or may change in the future in a manner that the Company cannot anticipate. Such changes may cause an increase to the costs of labor and/or operations such that the Company may have to increase its prices, reduce its margins, and/or reduce its accrued distributable profits.

#### *Operating Margins*

The Company has developed a plan and forecast based on certain targets and base assumptions about the operating margins that the Company must achieve in order to remain financially solvent, produce sufficient retained earnings and accrue distributable profits. There is a risk that one or more of the base assumptions used to determine the target operating margins may be incorrect and/or may change in the future in a manner that the Company cannot anticipate. Such changes may cause the Company to not

achieve its annual targets for operating margins, which may jeopardize the Company's financial solvency and/or its ability to pay its employees, vendors, shareholders and/or other parties.

#### *Consumer Demand*

The Company has developed a plan and forecast based on certain targets and base assumptions about the level of consumer demand, and the corresponding level of sales potential, that exist in the Trade Area. There is a risk that one or more of the base assumptions used to determine the consumer demand in the Trade Area and/or the Company's sales potential may be incorrect and/or may change in the future in a manner that the Company cannot anticipate. Such changes may cause the Company to not achieve its annual targets for sales and operating margins, which may jeopardize the Company's financial solvency and/or its ability to pay its employees, vendors, shareholders and/or other parties.

#### *Supply Chain Management*

The Company has developed a plan and forecast based on certain targets and base assumptions about how it will manage its supply chain and cost effectively procure the desired product inventory and the desired pricing structure. There is a risk that one or more of the base assumptions for the Company's supply chain management and procurement strategy may be incorrect and/or may change in the future in a manner that Company cannot anticipate. Such changes may cause the Company to be unable to efficiently manage its supply chain and suppliers and cost effectively procure the desired products and the desired pricing, resulting in a different product mix, pricing scheme and/or operating margin than the Company had planned.

## **18. Restrictions and Warranties**

### **18.1 Other Information Is Not Authorized.**

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION WITH RESPECT TO THE COMPANY OR THIS OFFERING EXCEPT SUCH INFORMATION AS IS CONTAINED IN THIS MEMORANDUM. ONLY INFORMATION OR REPRESENTATIONS CONTAINED HEREIN MAY BE RELIED UPON AS HAVING BEEN AUTHORIZED.

THE INFORMATION IN THIS MEMORANDUM SUPERSEDES AND REPLACES IN ITS ENTIRETY ANY INFORMATION PREVIOUSLY DISTRIBUTED TO, PROVIDED TO, OR VIEWED BY ANY INVESTOR.

### **18.2 Withdrawal, Cancellation or Modification**

THIS OFFERING IS MADE SUBJECT TO WITHDRAWAL, CANCELLATION, OR MODIFICATION BY THE COMPANY WITHOUT NOTICE. OFFERS TO PURCHASE THESE SECURITIES MAY BE REJECTED IN WHOLE OR IN PART BY THE COMPANY AND NEED NOT BE ACCEPTED IN THE ORDER RECEIVED. THE COMPANY RESERVES THE RIGHT, IN ITS SOLE DISCRETION, TO ALLOT TO ANY PROSPECTIVE INVESTOR LESS THAN THE AMOUNT OF THE SECURITIES SUCH INVESTOR DESIRES TO PURCHASE. THE COMPANY SHALL HAVE NO LIABILITY WHATSOEVER TO ANY OFFEREE AND/OR INVESTOR IN THE EVENT THAT ANY OF THE FOREGOING SHALL OCCUR.

THE STATEMENTS IN THIS MEMORANDUM ARE MADE AS OF THE EFFECTIVE DATE UNLESS OTHERWISE SPECIFIED.

### **18.3 No Warranty of Projections or Assumptions**

Projections concerning the business or financial affairs of the Company that may be provided to

prospective Investors, including without limitation those set forth in this Memorandum and its exhibits, are for illustrative purposes only. These projections are based upon assumptions that Management of the Company believes to be reasonable. However, there can be no assurance that actual events will correspond to the assumptions, and the projections should be viewed merely as financial possibilities based on the assumptions stated and not as a prediction or guarantee of future performance. The assumptions upon which these projections are based should be carefully reviewed by each prospective Investor. Projections or conclusions regarding the financial condition of the Company, including projections regarding the profitability of the Company, may be substantially adversely affected by variances from the assumptions made by the Company.

#### **18.4 Forward-Looking Statements**

This statement is being included in connection with the safe harbor provision of the Private Securities Litigation Reform Act. THIS MEMORANDUM CONTAINS FORWARD LOOKING STATEMENTS. FROM TIME TO TIME, ADDITIONAL WRITTEN FORWARD LOOKING STATEMENTS MAY BE MADE BY THE COMPANY. SUCH FORWARD LOOKING STATEMENTS ARE WITHIN THE MEANING OF THAT TERM IN SECTION 27A OF THE SECURITIES ACT AND MAY INCLUDE PROJECTIONS OF REVENUES, INCOME OR LOSS, CAPITAL EXPENDITURES, BUSINESS RELATIONSHIPS, FINANCINGS, PROPOSED FINANCINGS OR INVESTMENTS BY THIRD PARTIES, PRODUCT DEVELOPMENT, PLANS FOR FUTURE OPERATIONS, PLANS RELATING TO PRODUCTS OF THE COMPANY, AS WELL AS ASSUMPTIONS RELATING TO THE FOREGOING. SUCH STATEMENTS ARE BASED UPON MANAGEMENT'S CURRENT EXPECTATIONS, BELIEFS, AND ASSUMPTIONS ABOUT FUTURE EVENTS, AND ARE OTHER THAN STATEMENTS OF HISTORICAL FACT AND INVOLVE A NUMBER OF RISKS AND UNCERTAINTIES.

THE WORDS "BELIEVE," "EXPECT," "INTEND," "ANTICIPATE," "ESTIMATE," "PROJECT," AND SIMILAR EXPRESSIONS IDENTIFY FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE THE STATEMENT WAS MADE, BUT ARE NOT THE EXCLUSIVE MEANS OF IDENTIFYING SUCH STATEMENTS. FORWARD-LOOKING STATEMENTS ARE INHERENTLY SUBJECT TO RISKS AND UNCERTAINTIES, SOME OF WHICH CANNOT BE PREDICTED OR QUANTIFIED. FUTURE EVENTS AND ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN, CONTEMPLATED BY, OR UNDERLYING THE FORWARD-LOOKING STATEMENTS. STATEMENTS IN THIS MEMORANDUM -- INCLUDING THOSE CONTAINED IN THE SECTION ENTITLED "RISK FACTORS" -- DESCRIBE FACTORS, AMONG OTHERS, THAT COULD CONTRIBUTE TO OR CAUSE SUCH DIFFERENCES.

## Exhibit A

### Financial Statements

I, Brahm Ahmadi, Chief Executive Officer & President of Community Foods Market, Inc., hereby certify that, to my knowledge, the financial statements set forth in this Exhibit A have been prepared in accordance with United States generally accepted accounting principles.

Signed:  \_\_\_\_\_

Date: August 21, 2019

**Consolidated Balance Sheets**

|                                     | As of January 31, 2017 | As of January 31, 2018 | As of January 31, 2019* | As of June 30, 2019* |
|-------------------------------------|------------------------|------------------------|-------------------------|----------------------|
| <b>ASSETS</b>                       |                        |                        |                         |                      |
| Cash                                | \$ 851,807             | \$ 723,324             | \$ 1,148,771            | \$ 1,770,228         |
| Other Current Assets                | \$ 27,812              | \$ 16,112              | \$ 4,177,956            | \$ 1,505,021         |
| Fixed Assets                        | \$ 442,559             | \$ 1,091,158           | \$ 7,322,612            | \$ 9,125,518         |
| Other Assets                        | \$ 42,440              | \$ 42,440              | \$ 11,356,993           | \$ 11,381,993        |
| <b>TOTAL ASSETS</b>                 | <b>\$ 1,364,618</b>    | <b>\$ 1,873,034</b>    | <b>\$ 24,006,332</b>    | <b>\$ 23,782,760</b> |
| <b>LIABILITIES AND EQUITY</b>       |                        |                        |                         |                      |
| Liabilities                         |                        |                        |                         |                      |
| Current Liabilities                 | \$ 3,799               | \$ 4,622               | \$ 108,581              | \$ 155,011           |
| Long Term Liabilities               | \$ 75,000              | \$ 750,000             | \$ 21,712,262           | \$ 21,712,262        |
| Total Liabilities                   | \$ 78,799              | \$ 754,622             | \$ 21,820,843           | \$ 21,867,273        |
| Equity                              |                        |                        |                         |                      |
| Paid-in Capital                     | \$ 1,000               | \$ 1,000               | \$ 1,000                | \$ 728,527           |
| Preferred Stock                     | \$ 1,656,156           | \$ 1,685,656           | \$ 2,580,028            | \$ 2,050,051         |
| Retained Earnings                   | \$ (227,563)           | \$ (371,337)           | \$ (633,451)            | \$ (392,936)         |
| Net Income                          | \$ (143,774)           | \$ (196,906)           | \$ 237,912              | \$ (470,155)         |
| Total Equity                        | \$ 1,285,819           | \$ 1,118,412           | \$ 2,185,489            | \$ 1,915,487         |
| <b>TOTAL LIABILITIES AND EQUITY</b> | <b>\$ 1,364,618</b>    | <b>\$ 1,873,034</b>    | <b>\$ 24,006,332</b>    | <b>\$ 23,782,760</b> |

\* Financial statements for FYE January 31, 2019 and June 30, 2019 are consolidated statements of two entities: Community Foods Market, Inc. and Community Foods Market QALICB LLC. The latter entity was formed in September 2018 to facilitate the NMTC financing that is explained in Section 9 herein. The notable increase in assets in the 2019 balance sheet relates primarily to A) acquisition of real estate and newly constructed facility and B) loan funds that had not yet been disbursed as of FYE January 31, 2019.

### Consolidated Statements of Income

|                       | Feb. 1, 2016 - Jan 31, 2017 |                  | Feb. 1, 2017 - Jan 31, 2018 |                  | Feb. 1, 2018 - Jan 31, 2019** |                | Feb. 1, 2019 - June 30, 2019 |                  |
|-----------------------|-----------------------------|------------------|-----------------------------|------------------|-------------------------------|----------------|------------------------------|------------------|
| <b>Income</b>         |                             |                  |                             |                  |                               |                |                              |                  |
| Expense Reimbursement | \$                          | 10,284           | \$                          | 1,105            | \$                            | 2,509          | \$                           | 315,511          |
| Sales                 | \$                          | -                | \$                          | -                | \$                            | -              | \$                           | 165,834          |
| Interest Earned       | \$                          | 4,462            | \$                          | 1,641            | \$                            | 12,007         | \$                           | 88,000           |
| Other Income          | \$                          | 45,387           | \$                          | 407              | \$                            | 450,533        | \$                           | 233              |
| <b>Total Income</b>   | <b>\$</b>                   | <b>60,133</b>    | <b>\$</b>                   | <b>3,153</b>     | <b>\$</b>                     | <b>465,049</b> | <b>\$</b>                    | <b>569,578</b>   |
| Cost of Goods Sold    |                             |                  |                             |                  |                               |                | \$                           | 165,016          |
| <b>Gross Profit</b>   | <b>\$</b>                   | <b>60,133</b>    | <b>\$</b>                   | <b>3,153</b>     | <b>\$</b>                     | <b>465,049</b> | <b>\$</b>                    | <b>404,563</b>   |
| <b>Expenses</b>       |                             |                  |                             |                  |                               |                |                              |                  |
| Operating Expenses    | \$                          | 140,556          | \$                          | 143,868          | \$                            | 166,412        | \$                           | 247,780          |
| Personnel Expenses    | \$                          | 63,351           | \$                          | 56,192           | \$                            | 64,991         | \$                           | 223,836          |
| Construction Expenses |                             |                  |                             | (51,959)         | \$                            |                | \$                           | 294,964          |
| Interest Expenses     |                             |                  |                             |                  | \$                            | 47,693         | \$                           | 97,771           |
| <b>Total Expenses</b> | <b>\$</b>                   | <b>203,907</b>   | <b>\$</b>                   | <b>200,061</b>   | <b>\$</b>                     | <b>227,137</b> | <b>\$</b>                    | <b>864,351</b>   |
| <b>Net Income</b>     | <b>\$</b>                   | <b>(143,774)</b> | <b>\$</b>                   | <b>(196,908)</b> | <b>\$</b>                     | <b>237,912</b> | <b>\$</b>                    | <b>(459,788)</b> |

\*\* Construction expenses in 2019 represent expenses that had not yet been capitalized to the balance sheet by January 31, 2019. A negative balance in construction expenses is due to a reconciliation with the project budget for the NMTC financing that took place in December 2018.

**Consolidated Statement of Cash Flows**

|   | Year Ended January 31, 2017 | Year Ended January 31, 2018 | Year Ended January 31, 2019*** | Feb. 1, 2019 - June 30, 2019 |
|---|-----------------------------|-----------------------------|--------------------------------|------------------------------|
| Net Income                                      | \$ (143,185)                | \$ (128,152)                | \$ 237,912                     | \$ (365,227)                 |
| Adjustments to reconcile Net Income to Net Cash | \$ (19,606)                 | \$ 14,238                   | \$ 58,481                      | \$ (335,490)                 |
| Net cash provided by operating activities       | \$ (162,791)                | \$ (113,914)                | \$ 296,393                     | \$ (700,718)                 |
| Net cash provided by investing activities       | \$ (331,674)                | \$ (719,750)                | \$ (17,603,561)                | \$ (2,461,772)               |
| Net cash provided by financing activities       | \$ 433,208                  | \$ 704,500                  | \$ 21,856,634                  | \$ 197,550                   |
| <b>Net cash increase for period</b>             | <b>\$ (61,257)</b>          | <b>\$ (129,164)</b>         | <b>\$ 4,549,466</b>            | <b>\$ (2,964,939)</b>        |
| Cash at beginning of period                     | \$ 909,967                  | \$ 848,710                  | \$ 719,547                     | \$ 5,879,338                 |
| <b>Cash at end of period</b>                    | <b>\$ 848,710</b>           | <b>\$ 719,547</b>           | <b>\$ 5,269,012</b>            | <b>\$ 2,914,399</b>          |

\*\*\* Cash at end of period for year ended January 31, 2019 includes \$4,118,231.22 in loan funds held in disbursement accounts controlled by the lenders. While these funds are shown on CFM's consolidated financial statements, they are not funds that CFM has access to use of without lender approval through draw requests that are submitted on a monthly basis.

## Exhibit B

### Pro Forma Consolidated Statement of Income

|                               | Year 1 of<br>Operation | Year 2 of<br>Operation | Year 3 of<br>Operation | Year 4 of<br>Operation | Year 5 of<br>Operation |
|-------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Sales                         | \$ 7,508,800           | \$ 7,909,200           | \$ 8,309,600           | \$ 8,577,400           | \$ 8,845,200           |
| Cost of Goods Sold            | \$ 4,874,713           | \$ 5,129,116           | \$ 5,324,792           | \$ 5,490,394           | \$ 5,593,704           |
| Gross Income                  | \$ 2,634,087           | \$ 2,780,084           | \$ 2,984,808           | \$ 3,087,006           | \$ 3,251,396           |
| <b>Gross Margin %</b>         | <b>35.08%</b>          | <b>35.15%</b>          | <b>35.92%</b>          | <b>35.99%</b>          | <b>36.76%</b>          |
| Personnel Expenses            | \$ 1,169,069           | \$ 1,299,296           | \$ 1,324,867           | \$ 1,359,723           | \$ 1,416,376           |
| Operating Expenses            | \$ 879,292             | \$ 927,161             | \$ 968,030             | \$ 996,012             | \$ 1,024,036           |
| Operating Income              | \$ 585,726             | \$ 553,627             | \$ 691,912             | \$ 731,272             | \$ 811,084             |
| <b>Operating Margin %</b>     | <b>7.80%</b>           | <b>7.00%</b>           | <b>8.33%</b>           | <b>8.53%</b>           | <b>9.17%</b>           |
| Interest Expense              | \$ 270,746             | \$ 263,012             | \$ 254,756             | \$ 246,089             | \$ 236,989             |
| Taxes                         | \$ -                   | \$ -                   | \$ -                   | \$ -                   | \$ -                   |
| Depreciation and Amortization | \$ 614,803             | \$ 614,803             | \$ 614,803             | \$ 614,803             | \$ 614,803             |
| Net Income                    | \$ (299,824)           | \$ (324,188)           | \$ (177,648)           | \$ (129,621)           | \$ (40,709)            |
| <i>Net Margin %</i>           | <i>-4.0%</i>           | <i>-4.1%</i>           | <i>-2.1%</i>           | <i>-1.5%</i>           | <i>-0.5%</i>           |

Sales Forecast: The Company's sales forecast is based on a potential sales survey (PSS) conducted by Intalytics, a leading market research firm. The PSS was developed utilizing a regression and correlation model to analyze pertinent data such as consumer expenditures, demographics, competition and retail operations in analogous markets and, from that data, to estimate the Trade Area's market size and of the Company's sales potential over five years. The sales forecast is based on the following primary factors:

- **Per Capita Expenditures and Market Size:** The average per capita weekly expenditure for food-at-home in in the Trade Area is \$45.72, or \$2,377 annually. Based on the estimated population size for the trade are, the aggregate annual food expenditure for food-at-home in West Oakland is approximately \$60.5M.
- **Per Capita Sales Potential:** The Company's annual capture rate is estimated to likely reach \$354 in per capita sales by the fifth year of operations. This accounts for 15.25% of the Trade Area market share. Given a high level of Trade Area expenditure leakage and a limited competitive environment, the Company's Management believes that this forecasts presents a reasonable outlook.
- **Revenue Per Square Foot (RPSF):** The Company utilizes RPSF to validate its sales forecast against industry standards and the performance of food stores in analogous markets. The Company projects that RPSF in years 1 and 2 will be below the industry average of \$593 and that RPSF in years 3-5, while above the industry average, will be below the RPSF attained by some analogous stores, which range from \$1,000 - \$1,500. The Company's Management believes that a RPSF projection at maturity that moderately outperforms the industry is achievable.
- **Transaction Size:** The Company's forecasted average per capita transaction size is estimated at \$31.92 by the fifth year of business. This per capita transaction forecast has been compared to transaction data gathered from independent retail stores and from industry sources and has been assessed to be consistent with average transaction sizes attained by retail stores in similar markets.

Gross Margin: The forecasted Cost of Goods Sold (COGS) of 63.20% by the fifth year of business is consistent with inventory and procurement costs incurred by analogous stores and cited by industry standards. The resulting Gross Margin of 36.76% is determined to be a sufficient margin target for the financial and operational requirements of the business and is reflective of factors that are specific to the Company's business plan and retail operating model, including:

- The product class that the Company intends to carry is anticipated to be able to produce gross margins in the range of 30-38%, as demonstrated by analogous retail operations in similar demographic areas with similar ranges in gross margins.
- The price markups that the Company intends to implement above its COGs are targeted to bring the gross margin into the forecasted range.
- The Company will implement a departmental margin strategy in which higher margin departments, such as the Deli, offset lower margin departments, such as produce, and enable the total store gross margin to reach the forecasted range.

Operating Margin: The Company's operating expenses, excluding personnel, are drawn from industry averages and analogous stores of similar size, operations and market demographics. The Company has targeted its total labor expense at 15% of sales, which is consistent with compensation rates for unionized retail markets. The resulting operating margin projection by the fifth year of operations is above the industry average of 6.85%. The Company has determined that the projected operating margin is realistic and sufficient to cover the operating cash needs of the business as well as its forecasted interest and tax expenses.

## Pro Forma Consolidated Balance Sheets

|   | Year 1 of Operations | Year 2 of Operations | Year 3 of Operations | Year 4 of Operations | Year 5 of Operations |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>ASSETS</b>                                 |                      |                      |                      |                      |                      |
| <b>Current Assets</b>                         |                      |                      |                      |                      |                      |
| Cash & Cash Equivalents                       | \$ 28,665            | \$ 30,243            | \$ 156,946           | \$ 428,168           | \$ 779,652           |
| Inventory                                     | \$ 10,056            | \$ 10,056            | \$ 10,056            | \$ 10,056            | \$ 10,056            |
| Credit Card Receivables                       | \$ 63,640            | \$ 76,987            | \$ 85,913            | \$ 94,840            | \$ 104,342           |
| <b>Total Current Assets</b>                   | <b>\$ 102,361</b>    | <b>\$ 117,286</b>    | <b>\$ 752,916</b>    | <b>\$ 1,033,064</b>  | <b>\$ 1,394,050</b>  |
| <b>Long-term Assets</b>                       |                      |                      |                      |                      |                      |
| Gross PP&E                                    | \$ 933,702           | \$ 933,702           | \$ 933,702           | \$ 933,702           | \$ 933,702           |
| Accumulated Depreciation                      | -\$ 15,925           | -\$ 421,580          | -\$ 1,027,235        | -\$ 1,632,891        | -\$ 2,238,546        |
| Other Assets                                  | \$ 1,000             | \$ 9,000             | \$ 9,000             | \$ 9,000             | \$ 27,000            |
| Gross Preopening Costs                        | \$ 37,220            | \$ 37,220            | \$ 37,220            | \$ 37,220            | \$ 37,220            |
| Accumulated Amortization (pre-opening)        | -\$ 2,197            | -\$ 1,345            | -\$ 30,493           | -\$ 9,641            | -\$ 28,789           |
| <b>Total Long-term Assets</b>                 | <b>\$ 293,800</b>    | <b>\$ 696,996</b>    | <b>\$ 1,104,193</b>  | <b>\$ 1,507,390</b>  | <b>\$ 1,910,586</b>  |
| <b>Total Assets</b>                           | <b>\$ 696,161</b>    | <b>\$ 1,214,283</b>  | <b>\$ 1,857,109</b>  | <b>\$ 2,540,454</b>  | <b>\$ 3,304,636</b>  |
| <b>LIABILITIES</b>                            |                      |                      |                      |                      |                      |
| <b>Current Liabilities</b>                    |                      |                      |                      |                      |                      |
| Inventory Payable                             | \$ 85,258            | \$ 95,822            | \$ 105,355           | \$ 110,761           | \$ 120,777           |
| Other Accounts Payable                        | \$ 6,898             | \$ 10,531            | \$ 13,675            | \$ 17,664            | \$ 20,196            |
| Taxes Payable                                 | \$ 10,607            | \$ 1,366             | \$ 1,855             | \$ 2,343             | \$ 2,866             |
| <b>Total Current Liabilities</b>              | <b>\$ 102,764</b>    | <b>\$ 117,719</b>    | <b>\$ 130,885</b>    | <b>\$ 140,768</b>    | <b>\$ 153,839</b>    |
| <b>Long-term Liabilities</b>                  |                      |                      |                      |                      |                      |
| Long-term Loans                               | \$ 920,039           | \$ 734,733           | \$ 538,553           | \$ 333,740           | \$ 119,864           |
| <b>Total Long-term Liabilities</b>            | <b>\$ 920,039</b>    | <b>\$ 734,733</b>    | <b>\$ 538,553</b>    | <b>\$ 333,740</b>    | <b>\$ 119,864</b>    |
| <b>Owners' Equity</b>                         |                      |                      |                      |                      |                      |
| Common Stock                                  | \$ 2,500             | \$ 2,500             | \$ 2,500             | \$ 2,500             | \$ 2,500             |
| Preferred Stock                               | \$ 500,000           | \$ 500,000           | \$ 500,000           | \$ 500,000           | \$ 500,000           |
| Additional Equity                             | \$ 29,954            | \$ 29,954            | \$ 29,954            | \$ 29,954            | \$ 29,954            |
| Retained Earnings                             | -\$ 159,096          | -\$ 470,624          | -\$ 1,644,783        | -\$ 2,766,509        | -\$ 4,801,521        |
| <b>Total Owners' Equity</b>                   | <b>\$ 373,358</b>    | <b>\$ 1,061,830</b>  | <b>\$ 1,887,671</b>  | <b>\$ 2,765,945</b>  | <b>\$ 3,730,933</b>  |
| <b>Total Liabilities &amp; Owners' Equity</b> | <b>\$ 696,161</b>    | <b>\$ 1,214,283</b>  | <b>\$ 1,857,109</b>  | <b>\$ 2,540,454</b>  | <b>\$ 3,304,636</b>  |

## Pro Forma Consolidated Statements of Cash Flows

|  | Year 1 of Operations | Year 2 of Operations | Year 3 of Operations | Year 4 of Operations | Year 5 of Operations |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Cash Flow from Operations</b>                       |                      |                      |                      |                      |                      |
| Net Income   | -\$ 51,462           | -\$ 11,528           | -\$ 74,160           | -\$ 21,725           | -\$ 5,012            |
| Add back Depreciation                                  | \$ 5,655             | \$ 5,655             | \$ 5,655             | \$ 5,655             | \$ 5,655             |
| Add back Amortization                                  | \$ 148               | \$ 148               | \$ 148               | \$ 148               | \$ 148               |
| <b>Operating Cash Flow</b>                             | <b>\$ 63,341</b>     | <b>\$ 3,275</b>      | <b>\$ 40,644</b>     | <b>\$ 93,078</b>     | <b>\$ 79,791</b>     |
| <b>Changes in Working Capital</b>                      |                      |                      |                      |                      |                      |
| Decrease (Increase) in Accounts Receivable             | -\$ 3,347            | -\$ 3,347            | -\$ 8,927            | -\$ 8,927            | -\$ 9,502            |
| Decrease (Increase) in Inventories                     | \$ -                 | \$ -                 | \$ -                 | \$ -                 | \$ -                 |
| Decrease (Increase) in Other Assets (prepaid rent etc) | -\$ 2,000            | -\$ 8,000            | -\$ 2,000            | -\$ 8,000            | -\$ 8,000            |
| Increase (Decrease) in Taxes Payable                   | \$ 759               | \$ 759               | \$ 489               | \$ 488               | \$ 523               |
| Increase (Decrease) in Inventory Payable               | \$ 4,441             | \$ 10,563            | \$ 19,534            | \$ 25,406            | \$ 30,015            |
| Increase (Decrease) in Other Accounts Payable          | \$ 2,492             | \$ 2,642             | \$ 7,794             | \$ 7,797             | \$ 9,910             |
| Increase (Decrease) in Short-term borrowing            | \$ -                 | \$ -                 | \$ -                 | \$ -                 | \$ -                 |
| Increase (Decrease) in Accrued Salaries, Benefits      | \$ 7,076             | \$ 991               | \$ 3,350             | \$ 2,192             | \$ 523               |
| <b>Change in Working Capital</b>                       | <b>\$ 1,422</b>      | <b>-\$ 6,392</b>     | <b>-\$ 7,760</b>     | <b>-\$ 7,043</b>     | <b>-\$ 4,432</b>     |
| <b>Cash Flow from Finances</b>                         |                      |                      |                      |                      |                      |
| Commercial Loan  | -\$ 9,092            | -\$ 3,138            | -\$ 7,392            | -\$ 1,863            | -\$ 6,563            |
| Equipment Loan   | -\$ 69,320           | -\$ 2,867            | -\$ 6,595            | -\$ 8,514            | -\$ 4,633            |
| HFFI Loan  | \$ -                 | -\$ 9,300            | -\$ 2,194            | -\$ 2,436            | -\$ 2,680            |
| <b>Cash Flow from Financing</b>                        | <b>-\$ 78,412</b>    | <b>-\$ 15,305</b>    | <b>-\$ 16,181</b>    | <b>-\$ 22,813</b>    | <b>-\$ 13,876</b>    |
| Increase (Decrease) in Cash                            | \$ 26,351            | \$ 101,579           | \$ 26,703            | \$ 71,222            | \$ 51,484            |
| Cash, Beginning of Month/Year                          | \$ 2,314             | \$ 28,665            | \$ 30,243            | \$ 156,946           | \$ 428,168           |
| Cash, End of Month/Year                                | \$ 28,665            | \$ 30,243            | \$ 156,946           | \$ 428,168           | \$ 779,652           |

Statements that are not based on historical fact are forward-looking statements. Although such statements are based on Management's current estimates and expectations, and currently available competitive, financial, and economic data, forward-looking statements are inherently uncertain. We, therefore, caution the reader that there are a variety of factors that could cause business conditions and results to differ materially from what is contained in our forward-looking statements.

## Exhibit C

### California Code of Regulations Section 260.141.11. Restriction on Transfer.

It is unlawful for the holder of [this] security to consummate a sale or transfer of such security, or any interest therein, without the prior written consent of the Commissioner (until this condition is removed pursuant to Section 260.141.12 of these rules), except:

(1) to the issuer;

(2) pursuant to the order or process of any court;

(3) to any person described in Subdivision (i) of Section 25102 of the Code or Section 260.105.14 of these rules;

(4) to the transferor's ancestors, descendants or spouse, or any custodian or trustee for the account of the transferor or the transferor's ancestors, descendants, or spouse; or to a transferee by a trustee or custodian for the account of the transferee or the transferee's ancestors, descendants or spouse;

(5) to holders of securities of the same class of the same issuer;

(6) by way of gift or donation inter vivos or on death;

(7) by or through a broker-dealer licensed under the Code (either acting as such or as a finder) to a resident of a foreign state, territory or country who is neither domiciled in this state to the knowledge of the broker-dealer, nor actually present in this state if the sale of such securities is not in violation of any securities law of the foreign state, territory or country concerned;

(8) to a broker-dealer licensed under the Code in a principal transaction, or as an underwriter or member of an underwriting syndicate or selling group;

(9) if the interest sold or transferred is a pledge or other lien given by the purchaser to the seller upon a sale of the security for which the Commissioner's written consent is obtained or under this rule not required;

(10) by way of a sale qualified under Sections 25111, 25112, 25113, or 25121 of the Code, of the securities to be transferred, provided that no order under Section 25140 or subdivision (a) of Section 25143 is in effect with respect to such qualification;

(11) by a corporation to a wholly owned subsidiary of such corporation, or by a wholly owned subsidiary of a corporation to such corporation;

(12) by way of an exchange qualified under Section 25111, 25112 or 25113 of the Code, provided that no order under Section 25140 or subdivision (a) of Section 25143 is in effect with respect to such

qualification;

(13) between residents of foreign states, territories or countries who are neither domiciled nor actually present in this state;

(14) to the State Controller pursuant to the Unclaimed Property Law or to the administrator of the unclaimed property law of another state; or

(15) by the State Controller pursuant to the Unclaimed Property Law or by the administrator of the unclaimed property law of another state if, in either such case, such person (i) discloses to potential purchasers at the sale that transfer of the securities is restricted under this rule, (ii) delivers to each purchaser a copy of this rule, and (iii) advises the Commissioner of the name of each purchaser;

(16) by a trustee to a successor trustee when such transfer does not involve a change in the beneficial ownership of the securities;

(17) by way of an offer and sale of outstanding securities in an issuer transaction that is subject to the qualification requirement of Section 25110 of the Code but exempt from that qualification requirement by subdivision (f) of Section 25102; provided that any such transfer is on the condition that any certificate evidencing the security issued to such transferee shall contain the legend required by this section.

**Exhibit D**

**Amendment of Articles**

**Exhibit E**

**Restated Articles**

## **Exhibit F**

### **Consumer Guide to Small Business Investments**

State laws have been relaxed to make it easier for small businesses to raise start-up and growth financing from the public. Many investors view this as an opportunity to "get in on the ground floor" of emerging businesses and to "hit it big" as these small businesses grow into large ones.

Statistically, most small businesses fail within a few years. Small business investments are among the most risky that investors can make. This guide suggests items to consider for determining whether you should make a small business investment.

#### **Risks and Investment Strategy**

A basic principle of investing in a small business is: NEVER MAKE A SMALL BUSINESS INVESTMENT THAT YOU CANNOT AFFORD TO LOSE ENTIRELY. Never use funds that might be needed for other purposes, such as college education, retirement, loan repayment or medical expenses. Instead, use funds that would otherwise be used for a consumer purchase, such as a vacation or a down payment on a boat or RV.

Above all, never let a commissioned securities salesperson or an officer or director of a company convince you that the investment is not risky. Any such assurance is almost always inaccurate. Small business investments are generally highly illiquid even though the securities may technically be freely transferable. Thus, you will usually be unable to sell your securities if the company takes a turn for the worse.

Also, just because the state has registered the offering does not mean the particular investment will be successful. The state does not evaluate or endorse the investment. (If anyone suggests otherwise to you, it is unlawful.)

If you plan to invest some large amounts of money in a small business, you should consider investing smaller amounts in several small businesses. A few highly successful investments can offset the unsuccessful ones. Even when using this strategy, **DO NOT INVEST FUNDS YOU CANNOT AFFORD TO LOSE ENTIRELY.**

### **Analyzing the Investment**

Although there is no magic formula for making successful investment decisions, certain factors are often considered particularly important by professional venture investors. Some questions to consider are as follows:

1. How long has the company been in business? If it is a start up or has only a brief operating history, are you being asked to pay more than the shares are worth?
2. Consider whether management is dealing unfairly with investors by taking salaries or other benefits that are too large in view of the company's stage of development or by retaining an inordinate amount of the equity of the company compared with the amount investors will receive. For example, is the public putting up 80% of the money but only receiving 10% of the company shares?
3. How much experience does management have in the industry and in a small business? How successful were the managers in previous businesses?
4. Do you know enough about the industry to be able to evaluate the company and make a wise investment?
5. Does the company have a realistic marketing plan and do they have the resources to market the product or service successfully?

There are many other questions to be answered, but you should be able to answer these before you consider investing.

### **Making Money on Your Investment**

The two classic methods for making money on an investment in a small business are resale in the public securities markets following a public offering and receiving cash or marketable securities in a merger or other acquisition of the company.

If the company is the type that is not likely to go public or be sold out within a reasonable time (i.e., a family owned or closely held corporation), it may not be a good investment for you irrespective of its prospects for success because of the lack of opportunity to cash in on the investment. Management of a successful private company may receive a good return indefinitely through salaries and bonuses but it is unlikely that there will be profits sufficient to pay dividends commensurate with the risk of the investment.

### **Other Suggestions**

The Disclosure Document usually used in public venture offerings is the "Form U-7," which has a question and answer format. The questions are designed to bring out particular factors that may be crucial to the proper assessment of the offering. Read each question and answer carefully. If an answer does not adequately address the issues raised by the question, reflect on the importance of the issue in the context of the particular company.

Even the best venture offerings are highly risky. If you have a nagging sense of doubt, there is probably a good reason for it. Good investments are based on sound business criteria and not emotions. If you are not entirely comfortable, the best approach is usually not to invest. There will be many other opportunities. Do not let a securities salesperson pressure you into making a premature decision.

It is generally a good idea to see management of the company face-to-face to size them up. Focus on experience and track record rather than a smooth sales presentation. If at all possible, take a sophisticated business person with you to help in your analysis.

Beware of information that is different from that in the Disclosure Document or not contained in the Disclosure Document. If it is significant, it must be in the Disclosure Document or the offering will be illegal.

### **Conclusion**

Greater numbers of public investors are "getting in on the ground floor" by investing in small businesses. When successful, these enterprises enhance the economy and provide jobs for its citizens. They can also provide new investment opportunities, but that must be balanced against the inherently risky nature of small business investments.

In considering a small business investment, you should proceed with caution, and above all, never invest more than you can lose.

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