

**ITEM 1**  
**THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES**

**The Franchisor, its Predecessors and Affiliates.** The Franchisor is Big O Tires, Inc. For ease of reference, Big O Tires, Inc. is referred to as "we", "us" or "Big O" in this Offering Circular. We will refer to the person who is awarded the franchise as "you" throughout this Offering Circular. If the franchisee is a corporation, partnership, limited liability company, trust, association or other entity, certain terms of the Franchise Agreement also apply to the owners and will be noted.

Big O is a Nevada corporation incorporated on December 30, 1982. We do business under our current corporate name Big O Tires, Inc., as well as "Big O" and "Big O Tires", and no other name. Our principal place of business is 12650 East Briarwood Avenue, Suite 2-D, Centennial, Colorado 80112. Our agents for service of process are listed in Exhibit A.

Big O's mission is to be the #1 Tire Retailer in North America. Our belief is that we will get there by attaining each of the following:

- Exceptional Customer Experience
- Franchisee Profitability
- Growth
- Brand

In December 1986, Big O Tire Dealers, Inc., a Colorado corporation ("Dealers") was merged with us. We were the surviving company. Before the merger, our name was Tires, Inc. As part of the merger, our name was changed to our current corporate name. Dealers was originally established to act as a purchasers' cooperative to obtain tires for associated tire dealers at favorable prices. Dealers is our predecessor and it was formed in 1962. The last principal place of business of Dealers was 6021 South Syracuse Way, Suite 102, Englewood, Colorado 80111.

We have several companies who are our affiliates, which are involved in providing products or services to some or all of our franchisees. O Advertising, Inc., a Colorado corporation ("O Advertising"), sells wearables, point of sale merchandise and certain fixtures to our franchisees. Big O Development, Inc., a Colorado corporation ("Development"), operates our real estate concerns. Development subleases certain properties to some of our franchisees and on occasion acquires properties and sells them to a franchisee of ours for a store site. One Stop Undercar Denver, LLC, a Colorado limited liability company ("One Stop"), serves as a distributor of replacement automotive and light truck parts, excluding tires and wheels, for some of our franchisees and for other automotive service centers not affiliated with us. Currently, One Stop only operates along the front range of Colorado, which includes the Colorado cities of Fort Collins, Greeley, and the metropolitan area of Denver. It has plans to expand into other areas outside of Colorado in the future. O Advertising and Development are wholly-owned subsidiaries of ours. O Advertising and Development maintain the same principal place of business as we do. We own 50% interest in One Stop. The principal business address of One Stop is 2480 W. 4<sup>th</sup> Avenue, Units 27 and 28, Denver, CO 80223.

Big O is a wholly-owned subsidiary of TBC Private Brands, Inc., a Delaware corporation, which is a wholly-owned subsidiary of TBC Corporation, a Delaware corporation ("TBC"). TBC Private Brands is a marketer and distributor of tires and other products for the automotive replacement market. The principal place of business of TBC is 7111 Fairway Drive, Suite 201, Palm Beach Gardens, Florida 33418. The principal place of business of TBC Private Brands is 4770 Hickory Hill Road, Memphis, Tennessee 38141. TBC Private Brands may occasionally sell products or supply services to Big O franchisees.

Tire Kingdom, Inc. is a Florida corporation ("Tire Kingdom") and an indirect wholly-owned subsidiary of TBC. Tire Kingdom operates non-Big O retail outlets for the sale of tires and related automotive products and services (See Item 12 for more details) and may periodically operate such retail outlets under the Big O Tires name. Tire Kingdom's principal place of business is 823 Donald Ross Road, Juno Beach, Florida 33408. Tire Kingdom periodically engages in cooperative arrangements with Big O and its franchisees, such as joint credit cards or reciprocal honoring of warranties.

On November 17, 2005, TBC was acquired by Sumitomo Corporation of America, a company organized under the laws of New York, whose principal business address is 600 Third Avenue, New York, NY 10016 ("SCOA") and SCOA's parent corporation, Sumitomo Corporation, a company organized under the laws of Japan, whose principal business address is Harumi Island Triton Square Office Tower Y, 8-11 Harumi 1-chome, Chuo-ku, Tokyo 104-8610 Japan.

**Big O's Business.** We offer franchises for the operation of retail stores selling and servicing tires and related automotive products and services ("Big O Stores" or "Stores"). Big O also sells tires and automotive accessories to franchisees, and Big O and its affiliates also sell or lease other items to franchisees such as real estate, equipment, signs and services. Also, Big O conducts wholesale operations under which it sells non-Big O brand tires and other automotive accessories to Big O franchisees and to other purchasers.

**The Franchise.** Big O Stores operate under the service mark "BIG O" or "BIG O TIRES" and other trademarks and trade names, service marks and other logos and symbols periodically designated by Big O (collectively, "Licensed Marks") and use our proprietary licensed methods of doing business ("Big O System"). The Stores are serviced through regional sales and service centers ("RSCs"), which are owned and/or leased by us and operated by us.

The franchises to which this offering circular applies are business format franchises ("Business Format Franchises"). Prior to 2006, we offered only distribution franchises ("Distribution Franchises"), except for certain test market programs in southern Nevada, which ended around April, 2006. We now have Business Format Franchise test programs in the Redding, California area and in certain areas in Missouri, and are seeking additional Business Format Franchise test market programs in certain areas in Montana and Utah.

The Business Format Franchise and the Distribution Franchise are both licenses to operate Big O Tire retail tire and automotive repair stores. From a retail perspective, consumers should not see any substantive difference in the experience that they are provided. Both franchises are for the operation of retail stores selling and servicing tires and related automotive products and services that operate under the same licensed marks and use the same Big O system. The principal economic differences between the Business Format Franchise and the Distribution Franchise relate to:

1. Business Format Franchisees will pay a higher royalty to us (up to 6% of gross sales) as compared to 2% of gross sales paid by Distribution Franchisees.
2. Business Format Franchisees will receive pricing for "Big O Program Products" on a cost plus basis as opposed to the prices that Big O charges to Distribution Franchisees. The prices Big O charges under these two franchise models will vary by line and product, but we estimate the difference may range from zero to over twenty-one percent (0 - 21%) of wholesale price from Big O. However, Business Format Franchisees are not eligible to participate in any promotional programs offered by us to Distribution Franchisees, including the Big O 2006 Monthly Volume Bonus Program. Participation in future promotional programs will be announced on a program by program basis. (See Item 8). "Big O Program Products" are all tires and wheels bearing the Big O brand and all other products designated by Big O periodically in its discretion. Currently, the Big O Program Products include all tires and wheels sold by Big O.
3. Business Format Franchisees will receive additional products, licenses, and services that are not available to Distribution Franchisees or which may be available to Distribution Franchisees at an additional charge (which the Business Format Franchisees do not have to pay) or at prices higher than those charged to Business Format Franchisees. Some of these additional services and differential pricing are disclosed in this offering circular. For example, the approximately \$4,500 per Store license fees charged to Distribution Franchisees for the DST End User Software License Agreement will not be charged to Business Format Franchisees (such license fees will be absorbed by Big O). However, Business Format Franchisees will be required to pay other fees in

connection with the DST software (see Item 6 under "DST End User Software License Agreement Fees").

4. Business Format Franchisees may be required to adhere to certain standards or incur certain costs that would not be required of Distribution Franchisees.

Another difference between the two franchise models is that we anticipate that Distribution Franchisees will be allowed the option to convert Distribution Franchise Stores to Business Format Franchise Stores at times and under conditions prescribed by us, but we do not anticipate that Business Format Franchisees will be allowed to convert Business Format Franchise Stores to Distribution Franchise Stores.

We are now offering to sell both Business Format and Distribution Franchises but in different locations. See Item 20 in regard to the states in which we anticipate that each type of franchise will be sold during our fiscal year ending March 31, 2007. Also, while we anticipate that the Big O network will be moving to Business Format franchises over the long run, we anticipate that we will have both Business Format and Distribution Franchises in our network for the next ten years and possibly longer.

The information in this offering circular applies to Business Format Franchises. Because Business Format Franchises and Distribution Franchises are managed or will be managed by us as one retail system, we have provided information in this offering circular on both types of franchises. However, while the financial terms of the franchises described in this offering circular apply to Business Format Franchises, except as otherwise noted, such financial terms may or may not apply to Distribution Franchises.

You must operate your Big O Store according to our standards and specifications and must sign our standard franchise agreement for Business Format Franchises ("Franchise Agreement"). A copy of our Franchise Agreement is attached to this Offering Circular as Exhibit B. You will be granted the right to use our Licensed Marks and Big O System only with the operation of your Big O Store. We use the term "Franchised Business" to mean the business of operating a Big O Store under the Franchise Agreement using the Licensed Marks and the Big O System.

You will be assigned to a local group ("Local Group") which, among other things, coordinates group or regional marketing and advertising programs in your market area and collects and administers funds for these programs. If a Local Group has not been formed in your geographical area, we may require that you form a Local Group. You must comply with the decisions that the Local Group makes pursuant to procedures and guidelines approved by us. See Item 11 for further discussion of Local Groups.

We offer several programs for eligible persons to acquire franchises, including the first option rights and the Conversion Franchise programs. Also, if you are willing and able to open three or more Stores within certain areas within a mutually agreed upon time period, you may qualify to acquire franchises through our development program. See Item 5 for more information on these programs.

**Market for the Franchise Services and Competition.** The market for tires and related automotive products is directly related to the number of automobiles, trucks, recreational vehicles and other vehicles. This market is well developed. However, you will be in competition with other national and local tire store chains and independent operators, as well as service stations, specialty automotive repair and maintenance centers, warehouse clubs and department stores with automotive departments, and potentially with other Big O Stores. Your ability to compete in this market will be largely and significantly dependent on your management, sales and marketing capabilities, your involvement with your store, your financial strength, general economic conditions, geographical area and specific location. You will sell primarily to individuals, but may also choose to sell to commercial accounts.

**Regulations.** There are federal laws and regulations specific to the operation of a tire dealership business. Generally, you must comply with certain Department of Transportation rules and regulations

concerning transportation safety; Environmental Protection Agency ("EPA") rules and regulations concerning handling, storage and disposal of hazardous substances and solid waste disposal; the Occupational Safety and Health Act of 1970 ("OSHA") concerning workplace safety; the Americans with Disabilities Act ("ADA") concerning employment and the public access to goods and services offered by a business; and rules and regulations established by the National Highway Traffic Safety Administration under the Transportation Recall Enhancement Accountability and Documentation Act (the "TREAD Act") concerning the labeling, testing, monitoring, and recall of tires. There may also be some state and local laws and regulations specific to your Store. You should familiarize yourself with these laws and with other federal, state or local laws of a more general nature, which may affect the operation of your Franchised Business. It is also your responsibility to comply with employment, worker's compensation, insurance, corporate, tax and licensing laws.

**Business History of Big O.** We have offered franchises for the operation of retail stores selling and servicing tires and related automotive products since approximately 1982. Our principal predecessor, Big O Tire Dealers, Inc. offered franchises in this line of business since 1980 and offered dealer agreements in this line of business before 1980 and since approximately November 1962.

TBC has operated, through its subsidiaries, non-Big O retail outlets for tires and related products and services since 1995. (See further details in Item 12).

Except for the franchises described in this offering circular and the Distribution Franchises, neither Big O nor any of its predecessors or affiliates has offered franchises for the same type of business to be operated by you or in other lines of business.

## **ITEM 2 BUSINESS EXPERIENCE**

### **Director and Chairman of the Board: Lawrence C. Day.**

Mr. Day has been the sole director and Chairman of the Board of Directors of Big O and the sole director of its subsidiaries, Big O of Idaho, BORE, Development, and O Advertising since June 1999. Mr. Day has been the President and Chief Executive Officer of TBC since October 1999 and Chairman of the Board of TBC since December 2005. From October 1998 until October 1999, he served as President and Chief Operating Officer of TBC. Mr. Day is located at TBC's offices in Palm Beach Gardens, Florida

### **President: John B. Adams.**

Mr. Adams has served as our President since June 2000. From May 1998 until June 2000, he served as our Executive Vice President – Operations. He has been employed by us since December 1983, and from April 1990 to May 1998, Mr. Adams served as our Executive Vice President. He served as our Chief Financial Officer from November 1988 to May 1998. Mr. Adams also served as a director from April 1990 until July 1996. Mr. Adams also serves as President of Big O's subsidiaries, Development, Big O of Idaho and O Advertising. From November 1993, Mr. Adams has been a part owner of CAPS Tire, L.L.C., a limited liability company located in Englewood, Colorado that was a franchisee of ours in the Denver metropolitan area from November 1993 to April 1999 and since April 1999, the lessor of property to a franchisee of ours located in Englewood, Colorado. From 1999 to present Mr. Adams has been a member of two additional limited liability companies located in Englewood, Colorado named 4-CLAS, LLC and 4-CLAS TOWER, LLC, which were formed for the purpose of acquiring, developing, managing and leasing real property. Mr. Adams also leases a piece of property located in Denver, Colorado to a franchisee of ours. From October 2001 through July 2005, Mr. Adams served as a director of the Tire Industry Association of North America, which is located in Bowie, Maryland. Mr. Adams has been a Certified Franchise Executive since March 2005.

**Chief Operating Officer: Carl R. Finamore.**

Mr. Finamore has served as our Chief Operating Officer since January 2004. From April 2003 through December 2003, Mr. Finamore served as our Executive Vice President – Sales. From January 1999 until April 2003, he was the President of Merchant's Tire based in Manassas, Virginia.

**Senior Vice President – Business Development: Kevin A. Kormondy**

Mr. Kormondy has served as our Senior Vice President – Business Development since April 2006. From February 2002 through April 2006, he served as one of our Divisional Vice Presidents. From February 2000 until January 2002, Mr. Kormondy was employed by eOn Communications Corp. in Englewood, Colorado as the Vice President of Service & Operations. From August 1994 until January 2000, Mr. Kormondy was employed by BCS Technologies, Inc. in Englewood, Colorado as a Vice President.

**Vice President – Finance: David B. Runberg.**

Mr. Runberg has been employed by us since May 2003 as our Vice President – Finance. Since June 2003, he has also served as the Treasurer and Director of Big O Tires Scholarship Fund, a non-profit corporation located in Centennial, Colorado. From July 2000 until December 2002, Mr. Runberg was the Senior Vice President, Chief Financial Officer and Chief Operating Officer for Sovereign Financial Services, Inc., a private equity management and consulting firm located in Denver, Colorado.

**General Counsel and Secretary: Susan D. Hendee.**

Ms. Hendee has been employed by us since June 1993, and has served as our General Counsel and Secretary since March 1997 and General Counsel and Assistant Secretary of TBC since July 2006. Ms. Hendee has also served as President and Director of Big O Tires Scholarship Fund, a non-profit organization, since June 2003. She has also served as Secretary of Big O of Idaho, BORE, Development and O Advertising since March 1997.

**Senior Vice President - Finance: Timothy J. Miller.**

Mr. Miller has served as our Senior Vice President – Finance since October 2006. From August 2002 through September 2006, he served as our Vice President and Treasurer. He served as our Assistant Treasurer from September 2000 to August 2002. Mr. Miller has served as Treasurer of TBC since August 2002. Before that he was Assistant Treasurer of TBC from September 2000 through August 2002. Mr. Miller is located at TBC's offices in Palm Beach Gardens, Florida. Before joining TBC, Mr. Miller was Vice President, National Department of First Tennessee Bank in Memphis, Tennessee since 1996.

**Vice President - Distribution: John Cannon.**

Mr. Cannon has served as our Vice President – Distribution since January 1999. He has also served as a Director of Big O Tires Scholarship Fund, a non-profit corporation, since June 2003.

**Divisional Vice President: Pete M. Koury**

Mr. Koury has served as one of our Divisional Vice Presidents since May 2006. From January 2004 until May 2006, Mr. Koury served as one of our Regional Business Managers. From November 2000 until May 2003, Mr. Koury was employed by Pameco Corporation located in Golden, Colorado as the Vice President of Operations.

**Divisional Vice President: James A. Bull**

Mr. Bull has been employed by us since November 2005 as one of our Divisional Vice Presidents. Prior to that he was a Senior Marketing Manager for Al-Tamimi Group in Saudi Arabia from January 2005 to October 2005. Prior to that he was Territory Director of Eye Care Centers of America in Vienna, Virginia from April 2004 to August 2004. Prior to that he was Vice President-Retail Sales for Merchants Tire and Auto Centers Inc. in Manassas, Virginia from November 2001 to April 2003. Prior to that he was Regional Vice President for Merchants Tire and Auto Centers Inc. in Manassas, Virginia from December 1999 to November 2001.

**Vice President - Marketing: Steven G. Steffens.**

Mr. Steffens has served as our Vice President - Marketing since October 2005. From January 2005 through September 2005, he was one of our Divisional Vice Presidents. Before that he was the Director - Marketing for Tire Centers, LLC in Duncan, South Carolina from August, 2003 through December 2004. Before that he was Vice President- Marketing for Merchant's Inc. in Manassas, Virginia from April 1999 through April 2003.

**Vice President - Real Estate Development: Edward C. Prunier, Jr.**

Mr. Prunier became our Vice President - Real Estate Development on April 1, 2005. Before that he was Vice President Real Estate, Construction and National Accounts Procurement, Cole Vision Corporation in Twinsburg, Ohio from December, 2000 to March, 2005. Before that he was employed by Dunkin' Donuts, Inc. in Randolph, Massachusetts as Director Corporate Real Estate from 1987 through December, 2000.

**Vice President - Human Resources and Training: Sheila M. Marko.**

Ms. Marko has been employed by us as our Vice President - Human Resources and Training since September 2003. From July 2002 until September 2003, Ms. Marko served as our Director - Human Resources and Training. She has also served as a Director of Big O Tires Scholarship Fund, a non-profit corporation, since June 2003. From April 2001 through June 2002, Ms. Marko was employed by Spherion - Human Capital Consulting Group in Denver, Colorado as a consultant. From November 1998 until May 2000, Ms. Marko was the Vice President - Human Resources of VICORP Restaurants, Inc. located in Denver, Colorado.

**President - Franchise Business: Koichiro Iwasawa.**

Mr. Iwasawa has been employed by us as our President - Franchise Business since October 2006. Before that he was President & Chief Operating Officer of Treadways Corporation, a subsidiary of Sumitomo Corporation, Japan in East Norriton, Pennsylvania from April 2006 to September 2006. Before that he was Executive Vice President of Operations of Treadways Corporation in East Norriton, Pennsylvania from April 2005 to March 2006. Before that he was General Manager, Paper & Paperboard Export Department, Sumisho Paper Co., Ltd. (a subsidiary of Sumitomo Corporation, Japan) from April 2002 to March 2005. Before that he was Deputy General Manager, Pulp & Paper Department, Sumitomo Corporation from June 2001 to March 2002.

**ITEM 3  
LITIGATION**

Periodically we are named as a defendant in lawsuits filed by persons who have been involved in automobile accidents and who allege that a defective tire was the cause of the accident. The allegations against us usually include products liability, negligence and breach of warranty claims. We do not consider these lawsuits to be material nor have there been a significant number of them irrespective of materiality. We have no litigation involving our Business Format Franchises. SEE EXHIBIT V FOR ADDITIONAL DISCLOSURES APPLICABLE TO CERTAIN STATES.

**Pending Litigation.**

Big O Tires, Inc. vs. Haitham Masri and Fatima Masri, in the District Court, County of Denver, Colorado, (Case No.: 05 CV 9761, Courtroom 19) ("Masri"). In October 2005, Big O franchisee US Autocare, LLC, ("USAC"), holder of 10 Big O franchise licenses in Michigan, filed for protection under Chapter 11 of the United States Bankruptcy Code. The filing was converted to a Chapter 7 bankruptcy filing in March 2006. Subsequently, we filed this action to enforce obligations undertaken by the defendants pursuant to their personal guaranties to a Promissory Note between USAC and Big O and pursuant to the personal guaranties both defendants entered into for each of the franchise locations. The defendants by way of Answer and Counterclaim, allege false representation of facts, including unlawful earnings claims. The matter is currently pending.

### Concluded Litigation.

Big O Tires, Inc. and TBC Corporation v. Iverson Tires, Inc., Dennis Iverson and Kay L. Iverson, in the District Court, County of Arapahoe, Colorado (Case No.: 00 CV 1428, Courtroom: 5) ("Iverson"); Big O Tires, Inc. and TBC Corporation v. Robert J. Kent, in the District Court, County of Arapahoe, Colorado (Case No.: 00 CV 1442, Division 3) ("Kent"); Big O Tires, Inc. and TBC Corporation v. HBHB, Inc., Hughes C. Ball and Helen E. Ball, in the District Court, County of Arapahoe, Colorado (Case No.: 00 CV 1439, Division 4) ("HBHB"); Big O Tires, Inc. and TBC Corporation v. Auto Plaza, Inc., Gawain D. Charles and Dennis E. Hardesty, in the District Court, County of Arapahoe, Colorado (Case No.: 00 CV 1440, Division 5) ("Auto Plaza"); Big O Tires, Inc. and TBC Corporation v. Puget Park Automotive Services, Inc., Darrell W. Garner and Diana Garner, in the District Court, County of Arapahoe, Colorado (Case No.: 00 CV 1430, Division 5) ("Puget Park"); Big O Tires, Inc. and TBC Corporation v. Dolman & Miller, LLC, Richard G. Dolman, Linda L. Dolman, Louis L. Miller, Jr. and Carol J. Miller, in the District Court, County of Arapahoe, Colorado (Case No.: 00 CV 1438, Division 4) ("Dolman & Miller"); Big O Tires, Inc. and TBC Corporation v. Tripp Tire, Inc., Gary L. Tripp and Jean L. Tripp, in the District Court, County of Arapahoe, Colorado (Case No.: 00 CV 1429, Division 4) ("Tripp"); and Big O Tires, Inc. and TBC Corporation v. J&K Northwest, Inc., Joseph S. Williams and Karen A. Williams, in the District Court, County of Arapahoe, Colorado (Case No.: 00 CV 1441, Division 5) ("J&K").

In June 2000, Big O and its parent corporation TBC filed complaints against individual franchisees and former franchisees of Big O, and the guarantors of the respective franchise agreements (collectively, the "Washington Franchise Parties") if any, for failure to make payments when due for service fees, advertising fund fees and purchase of goods, services and/or inventory. The complaints alleged one or more of the following: breach of contract, failure to pay the account stated and breach of guarantees, and sought to recover damages, interest, attorneys' fees and costs.

In addition, Big O sought declaratory judgments in its favor with respect to certain allegations contained in a May 25, 2000, letter from the Washington Franchise Parties asserting that Big O violated the Washington Franchise Investment Protection Act, breached a statutory covenant of good faith and fair dealing and demanding either a rescission or early termination of the franchise agreement, that Big O repurchase the business, that Big O forgive the debt of the Washington Franchise Parties to Big O, or that Big O compensate the Washington Franchise Parties for losses. TBC sought separate declaratory judgments in its favor with respect to other allegations contained in the May 25 letter asserting that TBC acted to curtail Big O's expansion in the Northwestern United States and that such conduct interfered with the contractual relations of the Washington Franchise Parties and Big O, posed a conflict of interest and was otherwise tortious.

On October 31, 2000, the HBHB case, Auto Plaza case, Dolman & Miller case, Kent case, Puget Park case and Tripp case were consolidated with the Iverson case.

Thereafter, the Washington Franchise Parties in the Iverson, Kent, HBHB and Auto Plaza cases each filed an Answer and Counterclaim in response to our complaints wherein they each denied our claims and alleged, among other things, violations of the Washington Franchise Investment Protection Act, breach of the franchise agreement, fraud, misrepresentation, interference with contractual relations and violation of the Washington Consumer Protection Act. We denied these counterclaims.

By 2004, the Washington Franchise Parties in each case agreed to the terms of individual settlement agreements in each of which, neither we nor TBC acknowledged any wrongdoing or agreed to pay any amounts to the Washington Franchise Parties, and both we and TBC were fully released. The specific terms of each settlement agreement are as follows:

- In the Iverson case, the Washington Franchise Parties in this case agreed to pay the sum of \$12,000 owed to us, payable in \$1,000 installments over a 12-month period.

- In the Kent case, the Washington Franchisee Party in this case ("Mr. Kent") agreed to pay the sum of \$35,000 owed to us, together with interest at 8% per annum, payable in 35 monthly installments of \$1,000 plus all accrued and unpaid interest. We also agreed that at any time prior to February 12, 2006, Mr. Kent could convert his existing retail tire store to a Big O Tire store by executing Big O's then current franchise agreement, conversion rider and other customary documents to acquire a Big O franchise and we would then agree to waive the remaining payments due under the settlement agreement and provide Mr. Kent the conversion assistance set forth in Big O's conversion program. Mr. Kent elected not to convert his existing retail tire store to a Big O Tire store on or before February 12, 2006, and therefore, the obligations owed by the defendant to us under the settlement agreement were increased by \$7,500, with the payment terms extended an additional eight months as provided for in the settlement agreement.
- In the HBHB case, the Washington Franchisee Parties in this case (the "Balls") agreed to pay all past due amounts owed to us, sell their franchise back to Big O and have their franchise agreement terminated, resulting in the Balls no longer being franchisees of ours. Each party agreed to release the other party of any claims arising out of this litigation or the franchise relationship.
- In the Auto Plaza case, the Washington Franchisee Parties in this case (the "Auto Plaza Parties") agreed to pay past due amounts owed to us, we agreed to assist the Auto Plaza Parties with the development and financing of a new site to relocate their Big O Store, and we agreed to assist with the training of the Auto Plaza Parties' Big O Store manager.
- In the Puget Park case, we purchased certain assets of the Big O Store from the franchisee who was Washington Franchisee Party in this case and the franchise agreement for the Big O Store was terminated.
- In the Dolman & Miller case, the Washington Franchisee Parties in this case paid the amounts owed to us and to the Seattle Group Ad Fund and we provided the franchisee who was a Washington Franchisee Party in this case a used Big O pole sign, certain financial assistance, including a six (6) month rent abatement on the lease for the Big O Store, and we approved the transfer of the franchise to certain of the Washington Franchisee Parties in this case.
- In the Tripp case, we purchased certain assets of the Big O Store from the franchisee who was a Washington Franchisee Party in this case and we entered into a termination agreement with this franchisee under which the franchise agreement for the Big O Store was terminated.
- In the J&K case, the franchisee, who was a Washington Franchisee Party in this case, continued to operate one Big O Store and agreed to allow Big O to manage the franchisee's second Big O Store. The settlement agreement provided that the franchisee was allowed to sell the second Big O Store, but if he did not do so, then we would agree to enter into a termination agreement with franchisee under which the franchise agreement for the second store would be terminated. However, the franchisee closed the first store in June 2001, and continued to operate the second store, and his franchise license agreement for the second store expired in May 2006.

Big O Tires, Inc. v. Philips, Kyle & Connelly Enterprises, LLC, and G&G, 2000, Inc., in District Court, County of Arapahoe, Colorado (Case No.: 02-CV-185, Division 5). This case arises out of a dispute between two franchisees (Philips, Kyle & Connelly Enterprises LLC, which we refer to as "Philips" and G&G 2000, Inc., which we refer to as "G&G 2000") and us over which of the two franchisees has the first option rights to a new store we were opening in Poway, California. Both Philips and G&G are existing franchisees of ours. We originally awarded the store to G&G 2000 on the basis that its existing



store is geographically closer to the new store than the Philips existing store. Philips believed it had better rights to the store. As such, on January 16, 2003, we filed a complaint against Philips and G&G seeking a declaratory judgment with respect to each of their claim of right to be awarded the franchise for the new Poway, California Big O Tires store. On March 12, 2003, Philips filed a counterclaim against Big O alleging among other things, breach of contract, misrepresentation and breach of duty of good faith and fair dealing by Big O offering the Poway location to G&G 2000 rather than to Philips. Philips sought damages and a declaration of its rights to the Poway location. We denied all of the counterclaims. On February 5, 2004, a trial was held. On April 1, 2004, the judge ruled that: (a) the proper method for determining priority of the first option rights between competing franchisees to a new store is a straight line distance from the new store to the competing franchisee's other stores, (b) the Poway store was not a conversion store entitling Philips to first rights to the store, (c) G&G 2000's existing Big O Tires store was the closest store to the Poway location, thus G&G 2000 was entitled to the first option for the Poway location, and (d) Philips was entitled to \$1,500 from us to cover costs it incurred related to the Poway location, but all other damages sought by Philips, including a claim for lost profits, were denied. Following the award, Philips threatened to appeal the decision. As such, with the desire to avoid protracted legal fees associated with the appeal, and to create goodwill with one of our largest dealers, we entered into an Agreement and Limited Release with Philips effective June 1, 2004, wherein we agreed to pay Philips \$31,500 in consideration of Philips releasing us from any further claims related to the Poway location.

Big O Tires, Inc. v. Smithcor, LLC, W. Claude Smith, Daniel C. Smith, and Marsha K. Smith, in District Court, County of Arapahoe, Colorado (Case No.:02-CV-4536, Division 5). On December 13, 2002, Big O filed a complaint against Smithcor, LLC, a Big O franchisee with stores located in Salt Lake City, Utah, and the guarantors of its franchise agreement for the 3120 South Highland Drive, Salt Lake City, Utah Big O store, for breach of contract for failing to open its South Highland store for business and failure to pay Big O for inventory purchases. We sought damages, including the past due amounts, interest, lost royalties and gross profits, advertising fees, lost sales of tires and other products to franchisee, and attorney fees. On January 23, 2003, the parties agreed to the terms of a settlement agreement and the lawsuit was dismissed. Under the settlement agreement the parties signed an amendment modifying the franchisee's trade area rights under its franchise agreement for its Big O store located at 2002 East 3300 South, Salt Lake City, Utah, franchisee paid all past due amounts owed to us under both Salt Lake City franchise agreements, and the South Highland franchise agreement was terminated.

Big O Tires, Inc. and Big O Tire of Idaho, Inc. v. Grey-Don, LLC and Marshall M. Gardner, in the Second Judicial District Court, County of Davis, Utah (Case No: 01-0801673). The franchise agreement of Grey-Don, LLC (together with Marshall M. Gardner collectively referred to in this paragraph as "Grey-Don") for a Big O Tire store in Layton, Utah, was terminated on September 12, 2001, for Grey-Don's failure to make payments when due for inventory, royalties and advertising and failure to carry a representative line of Big O inventory. On October 2, 2001, Big O filed a complaint against Grey-Don alleging termination of the franchise agreement and seeking to enforce the termination by, among other things, injunctive relief preventing Grey-Don from continuing to hold itself out as a Big O franchisee, requiring Grey-Don to de-identify as a Big O franchisee and seeking recovery of monies owed and replevin of the collateral. The court issued a temporary restraining order that, among other things, ordered Grey-Don to cease use of the Big O name and to refrain from selling the collateral and required Grey-Don to disclose the location of the collateral. On October 10, 2001, Grey-Don filed an answer and counterclaim. The counterclaim sought compensatory and punitive damages and alleged that Big O breached its contractual agreements with Grey-Don, wrongfully terminated the franchise agreement, obtained the restraining order on false, misleading and incorrect statements, intentionally interfered with Grey-Don's contractual relations with its landlord and breached an implied covenant of good faith and fair dealing with Grey-Don. Due to the impending settlement, the allegations in the counterclaim were not formally answered by Big O; however, Big O denies all such allegations. On October 11, 2001, the parties agreed to settle the claims of the complaint and the counterclaim. The terms of the settlement were approved as binding by the court. Under this settlement, Grey-Don was permitted until February 28, 2002 to find a qualified buyer for the Layton Big O Store and until March 31, 2002 to close the sale. The settlement provided that Grey-Don could continue to operate its Big O Store until March 31, 2002, but the franchise would terminate if it did not close the sale by the March 31 deadline. Under the settlement,

Grey-Don agreed to waive all claims against Big O, including but not limited to, the claims made under the counterclaim, without requiring any payment or forgiveness of debt by Big O. Grey-Don was able to close the sale of its franchise as provided in the settlement agreement.

T.O. Haas Holding Company, Inc. and T.O. Haas Tire Company, Inc. v. TBC Corporation, and Big O Tires, Inc., in the United States District Court for the District of Nebraska, (Case No. 4: 00 CV 3169). The Distributor Agreements of plaintiff T.O. Haas Holding Company, Inc. for TBC Sigma brand tires, Cordovan brand tires and Multi-Mile brand tires were terminated on May 23, 2000, due to its attempt to transfer substantial assets and control of the distributorship to a third party without consent and to carry a competitive line of products. Similarly, the Franchise Agreement of plaintiff T.O. Haas Tire Company, Inc. for a Big O Tire Store in Lincoln, Nebraska was terminated on June 8, 2000, due to its attempt to transfer that agreement to a third party without consent and to carry a competitive line of products. On July 6, 2000, T.O. Haas Holding Company, Inc. and T.O. Haas Tire Company, Inc. (collectively, "Haas") commenced this action alleging that they had been wrongfully terminated and that their request to transfer substantial assets, including the franchise agreement, to a third party had been wrongfully refused in violation of Haas' contracts, the implied covenant of good faith and fair dealing, the Nebraska Franchise Practices Act, Neb. Rev. St. § 87-401 *et seq.*, the Iowa Franchise Act, Ia. Stat. § 523H.1 *et seq.*, and the Minnesota Franchise Act, Minn. Stat. § 80C.01 *et seq.* The complaint also asserted a cause of action for tortious interference with contract and prospective economic advantage as well as for recoupment and sought an unspecified amount of actual, incidental and consequential damages, interest, attorneys' fees and costs. The parties entered into a settlement agreement effective as of August 31, 2000 that provides, among other things, that neither TBC nor Big O acknowledges any liability or fault, that TBC and Big O are released from any liability to the plaintiffs except for obligations under the settlement agreement, that termination of the Distributor Agreements and Franchise Agreement at issue is accepted, that Haas may return inventory for credit to TBC or Big O (as the case may be) under specified conditions, that TBC will pay Haas a volume bonus on their purchase of products from TBC during 2000 in accordance with TBC's volume bonus program (except for the waiver of certain requirements for minimum purchases and an ongoing distribution relationship as of December 31), that Haas will pay the remaining balances of their accounts receivable to TBC and Big O and that the franchisee's sublease of a Big O Store will be terminated before expiration.

Big O Tires, Inc. and Big O Development, Inc. v. G.A.B. Enterprises, Inc. and Paul E. Bell and Jill M. Bell, in the Superior Court of the State of Washington, King County, (Case No. 97-2-25694-1SEA). On October 14, 1997, Big O filed a complaint against G.A.B. Enterprises, Inc., a former franchisee of ours, and Paul E. Bell and Jill M. Bell (together with G.A.B. Enterprises, Inc., collectively, the "Bells") for declaratory relief and damages. On March 24, 1998, the Bells filed a counter-claim against Big O alleging misrepresentation and breach of contract. On April 7, 1998, the Bells alleged fraud and violation of the Washington Franchise Investment Protection Act, Revised Code of Washington 13.100.180(d) in Defendant's Brief in Opposition to Plaintiff's Motion for Summary Judgment. On May 20, 1999, the Bells agreed to the terms of a settlement agreement. This dispute was settled in a manner by which we did not pay any amounts to the Bells, nor did we acknowledge any wrongdoing.

Charles A. Phipps v. Big O Tires, Inc., Greg Hatch and Does 1 through 200, in the Superior Court of California, County of Orange, (Case No. 742157). In March, 1995, Mr. Phipps, who is not associated with us in any capacity, commenced this action alleging we and Mr. Hatch, a former employee of ours, committed fraud, deceit, misrepresentation, breach of contract, interference with protected property rights and infliction of emotional distress. Mr. Phipps claimed he was purchasing a Big O Store from a former franchisee of ours in La Habra, California. However, the former franchisee and we mutually agreed to terminate the franchise. We were unaware of Mr. Phipps intentions. Mr. Phipps sought damages in an unspecified amount. We intended to vigorously defend this action on the basis it was wholly without merit. In December 1996, this action was dismissed with prejudice following our agreement to waive costs.

### **Administrative Action.**

Certain franchisees of ours in San Diego, California, including a partnership in which a subsidiary of ours had a 50% interest but no managerial control over day-to-day operations (the "San Diego Target Franchisees") were the subject of an investigation regarding the advertising of Store products and services by the Office of the City Attorney of San Diego. We cooperated with the California authorities in reviewing and assessing allegations as to whether violations of California law that regulate advertising had occurred, and in November 1993, we entered into a Stipulation for Entry of Final Judgment and a Permanent Injunction against us and certain of the San Diego Target Franchisees. The Stipulation was entered in an action which was commenced for the purpose of filing the Stipulation and entitled People of the State of California v. Big O Tires, Inc., et al., in the San Diego County Superior Court in California (Civil Action No. 671161). The Stipulation does not constitute an admission or adjudication of any of the allegations made by the State, but does permanently enjoin us from directly or indirectly advertising the purchase or lease of a product or service that requires, as a condition of the sale, the purchase or lease of a different product or service without conspicuously disclosing in the advertisement the price of all of the products and services involved. The San Diego Target Franchisees and we are also required to inform any prospective purchaser of one of the Stores, which were the subject of the investigation of the existence of the injunction. As part of the Stipulation, the San Diego Target Franchisees and we agreed to pay certain costs and civil penalties totaling \$35,000. Our portion totaled \$25,000.

Other than these 16 actions (including the 8 actions described together at the beginning of the Concluded Litigation part of this Item 3), no litigation is required to be disclosed in this Offering Circular.

### **ITEM 4 BANKRUPTCY**

No person previously identified in Items 1 or 2 of this Offering Circular has been involved as a debtor in proceedings under the U.S. Bankruptcy Code required to be disclosed in this Item.

### **ITEM 5 INITIAL FRANCHISE FEE**

Except as described below, the initial franchise fee is \$30,000 and is due as follows: (i) \$10,000 when you submit to us a franchise application and sign a Franchise Deposit Receipt Agreement, a copy of which is attached to this Offering Circular as Exhibit E; and (ii) \$20,000 when you sign the Franchise Agreement and before you commence your training. The initial franchise fee is nonrefundable, except (a) if we do not approve the franchise application, we will refund the initial \$10,000 to you; or (b) if you fail to successfully complete the initial training program, we may terminate the Franchise Agreement and upon receipt from you of a general release in a form approved by us, refund a portion of the initial fee; the portion refunded will be the initial franchise fee less the costs we incurred in your approval process, your training and any other administrative expenses.

If you are an existing franchisee in good standing whose Franchise Agreement is expiring, you may renew your franchise by signing a current Franchise Agreement. We waive the payment of the initial franchise fee, but you must pay a renewal administrative fee. See Item 6 below.

**First Option Rights.** Each franchisee is granted an option to apply for any new Big O franchise to be located within five miles of the franchisee's existing Big O Store, determined as a radius of five miles from the geographic center of your location. You must meet certain conditions to exercise your First Option Rights, including that you are in compliance with your Franchise Agreement, as determined solely by Big O, and all Big O Stores owned or operated by you or an affiliate of yours are Business Format Franchises or have signed agreements to become Business Format Franchises. If you apply for a Big O franchise pursuant to your first option rights, the franchise deposit must be paid with your application to exercise your first option rights. The balance of the initial franchise fee must be paid to us at the time specified by us in our notice of the right to exercise first option rights, but in no event later than the earlier of: (a) date you sign the new Franchise Agreement, or (b) 120 days from the deadline for submitting an

application to Big O to exercise its first option rights (this deadline is 30 days after Big O gives notice that the franchisee may exercise its first option rights). The franchise deposit becomes nonrefundable upon our approval of your franchise application. See Item 12 for a more detailed discussion on your First Option rights.

**Pioneers.** A Pioneer is a Big O franchisee who has owned at least a 25% equity interest in a Big O Store continuously since March 1, 1987 and (i) whose franchises for all other existing Big O Stores are in good standing with us and in compliance with all agreements related to the franchise and all applicable laws; and (ii) who meets all other qualification standards we use to assess franchise applications. If you qualify as a Pioneer, you may acquire additional Big O franchises for an initial franchise fee equal to one-third of our initial franchise fee in effect at the time you submit your franchise application (the "Pioneer Fee"), but not less than \$10,000. This right is not assignable to others. You must pay us one-half of the Pioneer Fee when you submit your franchise application. The remainder is due when you sign the Franchise Agreement. The initial franchise fee is not refundable, except that one-half of the Pioneer Fee is refundable if we do not approve your franchise application. The Pioneer must own at least a 25% equity interest in the new franchise for at least two years. Should the Pioneer fail to do so, we may collect the full franchise fee we are then (at the time the Pioneer falls below this 25% equity interest) charging for new franchises.

**Additional Store Development Program.** Subject to the eligibility standards set forth below, if you are an existing franchisee of ours, are not a Pioneer and desire to purchase an additional franchise other than under a Multi-Unit Development Agreement (that is, you are not a "MUD", as defined below), the initial franchise fee will be \$15,000, payable \$10,000 when you submit a franchise application to us and sign a Franchise Deposit Receipt Agreement and \$5,000 when you sign a Franchise Agreement. To be eligible for this program, you must be qualified (as determined by Big O in its sole discretion) to operate an additional Store or Stores but have not signed a Multi-Unit Development Agreement.

**Conversion Program.** If you already own a retail tire store that is open and operating before becoming a Big O franchisee and desire to convert it to a Big O Store or if you are a participant in the Option Assignment Program described in this Item 5 below (in either case, referred to as a "Conversion Franchisee"), and you are approved by Big O, we may, in our discretion, waive (subject to negotiations and to the eligibility qualifications described at the end of this Item 5) the base initial franchise fee for each retail store to be converted. The Conversion Franchisee must sign a Converter Rider, generally in the form which is attached to the Franchise Agreement as Schedule 7. Big O may, in its discretion, waive (subject to negotiations between you and Big O and depending on your automotive tire and service experience) training fees for initial training. However, the Conversion Franchisee may incur travel expenses, lodging and meal costs in connection with the initial training under certain circumstances. In some cases Conversion Franchisees may be required to have "additional training" (as described in Item 11); in such a case, the Conversion Franchisee will pay for transportation, lodging and living expenses and we may charge a reasonable fee for this additional training. See the disclosure about training programs in Item 11. We may also require a Conversion Franchisee to obtain a surety bond or letter of credit of not less than \$10,000 (or such other amount as we may periodically designate) to secure payment of contributions to the National Marketing Program and Local Fund.

**Option Assignment Program.** Big O anticipates that periodically it (or an affiliate) will obtain options to buy non-Big O retail tire stores and assign these options to current or prospective Big O franchisees to enable them to exercise the option, purchase the store and convert it to a Big O Store (the "Option Assignment Program"). In this Option Assignment Program, we will assign the option in accordance with the Option Agreement Assignment and Assumption Agreement, a copy of which is included in Exhibit S attached to this Offering Circular. Also included in Exhibit S is a prototype of the form of option agreement (with attached prototype asset purchase and sale agreement) that would be assigned to a participant in the Option Assignment Program. However, these option agreements and asset purchase and sale agreements are subject to negotiations and so the actual agreements are likely to vary from these prototypes and each other. If you are the assignee of an option agreement you must pay an amount to Big O for the assignment; that amount will be equal to the costs incurred by Big O to obtain the option and any extensions of the option. Big O estimates that such costs may range from

\$1,000 to \$5,000 per retail outlet (however, this range is only an estimate). You must pay that option cost at the time specified in the Option Agreement Assignment and Assumption Agreement, which will usually be at the time the parties sign that agreement. In addition, you must act in good faith to consummate the purchase of the retail store which is the subject of the option and to enter into the proper franchise and other agreements with us to convert this store into a Big O Store. The option cost under this program is in addition to the initial fee which you are required to pay to purchase a franchise from us.

Sale of Store Operations. Big O anticipates that periodically it (or an affiliate) will sell retail store operations assets owned by Big O (or an affiliate) to current or prospective Big O franchisees to enable them to operate these stores as Big O Stores (the "Store Sale Program"). The price of these assets will be negotiated and will vary depending on such factors as the number, type and condition of the assets being sold, the price Big O paid for these assets and local market conditions. Generally, these sales will involve assets of non-Big O Stores that were recently acquired by Big O (or an affiliate), but these sales could occur in other situations as well. Generally, the purchasing franchisee must enter into an asset purchase agreement with Big O (or other seller). Included in Exhibit T is a prototype of the form of such an Asset Purchase Agreement. However, these asset purchase agreements are subject to negotiations and so the actual agreements are likely to vary from this prototype and each other. The categories of assets sold may vary from one transaction to the next, but are likely to involve some or all of the following categories: inventory, equipment, other personal property, a real estate lease and goodwill. The Store Sale Program will only be available occasionally at Big O's discretion. The purchase price of the assets you purchase from Big O or an affiliate of Big O is in addition to the initial fee which you are required to pay to purchase a franchise from us.

Multi-Unit Developers. We may grant to certain persons the right to develop Big O Stores within certain territories upon the signing of a Multi-Unit Development Agreement in a form attached to this Offering Circular as Exhibit C. Each such person is known as a Multi-Unit Developer ("MUD"). We may approve or disapprove your selection as a MUD based upon a review of your financial situation and the exercise of our discretion. A MUD must pay an initial franchise fee to us for each Store developed as stated in the Multi-Unit Development Agreement. You must apply for and sign a separate Franchise Agreement for each Store once we have approved it. The initial franchise fee is \$30,000 for the first franchise granted pursuant to a Multi-Unit Development Agreement, \$15,000 for each of the next three franchises and \$10,000 for each additional franchise after the first four franchises. Fifty percent of the total of the initial franchise fees for the total number of Stores to be developed is due upon signing of the Multi-Unit Development Agreement and the remainder is due upon the signing of each Franchise Agreement. These fees are nonrefundable.

Associate Franchise Discount. Full-time employees (also referred to as "associates") of Big O Tires, Inc. or affiliated companies (such as TBC Private Brands, Tire Kingdom, NTB, Merchants Tire and Auto Centers, Inc., SCOA, and subsidiaries of SCOA) who have been employees on an uninterrupted basis for at least five years will be eligible for an Associate Franchise Discount in the amount of \$15,000 against the initial franchise fee for a newly developed Big O Store. One-half of the Associate Franchise Discount will be applied against the portion of the initial franchise fee payable upon signing of the Franchise Agreement, and one-half of the Associate Franchise Discount will be applied against the balance of the initial franchise fee. The employee must resign his or her position with Big O Tires, Inc. or the affiliated company and assume full-time active management of the Big O franchise. The associate will not be entitled to the Associate Franchise Discount if the associate purchases an existing Big O franchise. Also, to be entitled to the Associate Franchise Discount, the associate must be acquiring a majority interest in the new franchise. If the associate does not continue to meet this ownership requirement for at least two years after acquiring the new franchise, the associate must pay us the difference between the initial franchise fee (which is now \$30,000) which would have been due had the associate not qualified for the reduction and the reduced initial franchise fee the associate did pay.

U.S. Military Veterans. We will waive the initial franchise fee for franchisees who are U.S. military veterans (as established in accordance with our policies as we may adopt periodically) and for franchisees that are corporations, limited liability companies or other entities for which a U.S. military veteran (together with the veteran's spouse) owns a majority of the equity interest. This waiver applies

only to the first Big O franchise established by the veteran or the veteran's company. If you do not continue to meet this ownership requirement for at least two years after acquiring the new franchise, you must also pay us the difference between the initial franchise fee (which is now \$30,000) which would have been due had you not qualified for the reduction and the reduced initial franchise fee you did pay.

Eligibility For Certain Programs. To be eligible for any reduced initial franchise fee as a MUD, a Conversion Franchisee, or a participant in the Additional Store Development Program, the new franchisee must be the same person (that is, individual or entity) or have the same majority owner as the franchisee for the other Store or Stores on which the discount is based. That is, all the MUD Stores' businesses must be owned by the MUD, a franchisee whose majority owner is the MUD, or by a franchisee with the same majority owner as the MUD; the Conversion Franchisee's Store must be owned by the same person or by a company with the same majority owner as the person or company who owned the store's business before the conversion; and the new franchisee under the Additional Store Development Program must be the same franchisee (or have the same majority owner) as the existing franchisee on which the discount is based. If you do not continue to meet this ownership requirement for at least two years after acquiring the new franchise, you must also pay us the difference between the initial franchise fee (which is now \$30,000) which would have been due had you not qualified for the reduction and the reduced initial franchisee fee you did pay. This payment is due upon the date the new franchisee no longer meets these ownership requirements.

Other Fee Waivers. We may waive all or part of any initial franchise fee in our discretion in accordance with programs, plans and criteria periodically adopted by us.

Except as stated above, all initial franchise fees are uniform as to all persons currently acquiring a franchise and are nonrefundable once paid unless we determine otherwise at our sole discretion.

**ITEM 6  
OTHER FEES**

<b>Name of Fee (Note 1)</b>	<b>Amount</b>	<b>Due Date</b>	<b>Remarks</b>
Royalty	Between 4.5% and 6% of each month's Gross Sales, subject to reductions in certain situations (Notes 2 and 3)	Received by Big O by the 17 <sup>th</sup> day of the following month	Gross Sales includes all revenue generated from your Big O Store. Gross Sales do not include taxes, refunds, returns, sales to other Stores, tire disposal fees, or intrastore transfers.
"Local Fund" for advertising and related expenditures	4% of prior month's Gross Sales, subject to increases or reductions in certain cases (Note 4)	Received by Big O or your Local Group (as we designate) by the 17 <sup>th</sup> day of the month	In our discretion, payable to your Local Group, to us or expended for advertising in your trade area as we may approve. See Item 11.
National Marketing Fee	0.15% of prior month's Gross Sales	Received by Big O by the 17 <sup>th</sup> day of the month	May increase only 0.1% in any 12-month period, up to a maximum of 1% of prior month's Gross Sales, unless the Franchise Advisory Council (Note 5) consents to a more rapid increase. These fees are used by Big O in its National Marketing Program (described in Item 11).
Specialty Items, Wearables and Display Materials	Will vary by circumstances	As Incurred	Payable to our subsidiary, O Advertising, Inc., or such other licensee as designated by us. You must purchase uniforms to attend the training programs; the cost of the approved uniform shirts and dark pants is about \$300 per person for a 5 day supply.
Point of Purchase Packages	Not more than \$1,500 per year, as adjusted each year for changes in the consumer price index	Billed quarterly	Point-of-purchase packages are prescribed by Big O with Franchise Advisory Council consultation. Big O, in its discretion, may take payment of this fee from the National Marketing Program funds, the franchisee or a portion from both.

Name of Fee (Note 1)	Amount	Due Date	Remarks
Newspaper Mats and Broadcast Commercial Tapes	Will vary by circumstances	As Incurred	At the request of your Local Group or of Big O if you are not assigned to a Local Group, we will supply you with newspaper mats and radio and television commercial tapes for which we may charge a fee to the Local Group or you.
Market Reservation Fee	Will vary by circumstances, but generally will be in the range of \$2,500 to \$6,000	At the time you sign a Market Reservation Agreement ( <u>Exhibit Q</u> ).	Payable if you want a 12 month option to open another Store. See description in Item 12.
Retail Accounting Centers ("RAC")	Varies based on services provided, but not less than \$200 per month	As Incurred Monthly	RACs may provide accounting, payroll and related services. You may be assessed a flat fee or percentage of sales, as decided by each RAC (which may be Big O) and based upon services used. See Item 8.
National Fleet Accounts Fees	Presently 4% of Gross Sales to certain National Fleet Account customers	At time of credit to franchisee's account for the sale to the National Fleet Account customer.	This fee is used to offset costs associated with the development, administration and processing of customers onto this system. See Item 11 under "Continuing Obligations" paragraph 7 for more details about National Fleet Accounts.
Transfer Fees	\$1,500 upon a transfer involving an assignment of the Franchise Agreement or a change in control. If the transfer does not involve an assignment of the Franchise Agreement or a change in control, the transfer fee is equal to Big O's expenses relating to the transfer up to \$1,500.	Before consummation of transfer	Payable by the transferor or transferee upon the occurrence of a "Transfer" (which is described in Item 17.k). The transferor may also be required to pay previously allowed discounts on the initial franchise fee for transfers occurring within two years of signing the Franchise Agreement. See Item 5. Transferee training fees and costs are additional. See Item 11 under "Training."



Name of Fee (Note 1)	Amount	Due Date	Remarks
Insurance Administrative Surcharge	10% of cost of insurance	As Incurred	You must obtain your own insurance. If you fail to purchase the required insurance, we may purchase the insurance for you and you must reimburse us and pay us an administrative surcharge.
Interest on Late Payments	Lesser of 18% per annum or maximum rate of interest allowed by law	As Incurred	Begins to accrue 10 days after payments are due.
Renewal Administrative Fee	Varies (See Remarks column.)	Payable on signing of a new Franchise Agreement	A new Franchise Agreement must be signed at least <b>180 days before expiration of existing Franchise Agreement</b> . Your renewal fee will be calculated based upon our time to process the renewal multiplied by our hourly rate (currently, \$200 per hour).
Store Management Fee	As set by us periodically; no amount is currently set	As incurred	Payable if we undertake the management of your Big O Store.
Hiring of Big O employees	If you hire a Big O employee within 3 months after termination of employment with Big O or an affiliate, you must, in Big O's discretion, reimburse Big O for training and relocation costs of such employee. For ease of administration, we have set the fees associated with these reimbursement items as indicated in Note 6.	Within 30 days after a former Big O employee begins working for you.	This fee may, in our discretion, be waived upon your written application to us detailing why this fee is not applicable.

Name of Fee (Note 1)	Amount	Due Date	Remarks
Real Estate Rental and Fees	See Note 2 of Item 7	First day of each month (paid by Automatic Clearing House debits to your checking account)	Payable to us if we own or lease the store location and we lease or sublease it to you. These amounts may include common area maintenance fees, taxes, and fee assessments. For any payments received after the first day of each month (if not paid within the applicable grace period), you will be assessed a late fee of up to 15% of the amount due plus interest, and such other charges as are stated in the Lease or Sublease. See Exhibit F and Exhibit P.
Real Estate Development Fee	\$25,000 to \$60,000	Payable at closing of your purchase of the real estate for the Store or as otherwise negotiated.	This fee is applicable to you only if we develop the site and your Store or we use a third party developer to develop the site and your Store.
Real Estate Consulting Charges	May vary between \$200 and \$15,000 (estimate)	Payable at the end of the month that follows the month in which the consulting work is completed	If you (in your discretion) utilize the services of members of the Big O real estate department for consultation in regard to the construction, remodeling or conversion of your Big O Store, Big O (in its discretion) may charge you for actual costs directly associated with the consultation, such as travel, site and building plans and other out-of-pocket expenses.
Leasehold Guaranty Fee	Will vary based on risk and market conditions.	First day of each month	Payable, in our discretion, if we guaranty your lease. See Item 10.
Loan Guaranty Fee	Up to 2% to 5% of amount guaranteed	At time loan is made.	Payable, in our discretion, if we guaranty your loan. See Item 10.
Loan Origination Fee	Up to 2% of loan from Big O	At time loan is made.	We may, in our discretion, make a loan to you to help you establish or operate your Franchise Business. We may charge this fee for this assistance. (See Item 10 under "Other Financing")

Name of Fee (Note 1)	Amount	Due Date	Remarks
Training Fees	Will vary. See Item 11 under "Training"	As Incurred	The training fee for six weeks of initial training of one person is included in the initial franchise fee, but you will have to bear travel and living expenses and some lodging expenses. There are also charges for additional training and training of transferees. See Item 11 under "Training."
National Convention Registration Fees	Varies depending on location and cost of the national convention. Historically these fees have ranged from \$300 to \$400 per adult.	Before the Big O national convention to which it applies.	
Resale fee	\$5,000	Upon sale of your Big O franchise.	This fee is charged if the franchisee contracts with Big O in connection with the sale of its franchise.
Products and Services	Will vary (Note 7)	On delivery or as agreed	See Items 8 and 11. We charge you for products, equipment and services you purchase through us or our RSCs.
DST End User Software License Agreement Fees	<p>Amount per Store: License Fee: No charge to Business Format franchisees (absorbed by Big O)</p> <p>Installation fee: \$450 Conversion fee: \$450 Training and Onsite Support Fee: \$1,500-\$3,500 (\$650 per each additional day of training)</p> <p>Monthly Maintenance and support: \$199 per month (Note 8)</p>	<p>Installation, conversion and training fees: As negotiated</p> <p>Monthly Maintenance: monthly in advance of each month</p>	See Item 11 (under Computer Systems) for more information about the DST End User Software License Agreement

Name of Fee (Note 1)	Amount	Due Date	Remarks
Fees for miscellaneous assistance	Will vary	As agreed	Periodically, we may provide various types of assistance to you for which we charge a fee (for example, allocating extra storage space for your Big O email account or the provision of prototype floor plans, elevations and equipment layouts for your Store). See Item 11.
Indemnification	Will vary under circumstances	As incurred	You must reimburse us if we are held liable for claims resulting from your Store operations.
Costs and Attorneys' Fees	Will vary under circumstances	As incurred	Payable on your failure to comply with the Franchise Agreement.
Audit fees	Will vary under circumstances	As incurred	If our audit of your records discloses that you understated your Store's Gross Sales, you must reimburse us for the cost of the audit. If you fail to provide required quarterly financial statements and we perform an operational audit instead, you must reimburse us for the cost of that audit.
Bond	Minimum amount of \$10,000. Actual amount determined by your Local Group	As established by your Local Group	Some Local Groups require that new franchisees and existing franchisees that are not in good standing with the Local Group due to the failure to timely pay fees or advertising contributions obtain a bond until the Local Group is satisfied that the franchisee will pay fees and advertising contributions to the Local Group when due.
Rebill Cost Percentage	4% of the purchase price of any tires you purchase directly from the manufacturer or distributor and which Big O acts as rebilling agent. In our discretion, this fee may be reduced to as low as 1.5% if you prepay your account for these purchases prior to a time specified by us.	As incurred	Big O charges you 4% (or sometimes as low as 1.5% if you prepay your account for these purchases prior to a time specified by us) of the acquisition cost of any tires you purchase directly from the manufacturer or distributor who invoices Big O for the tires. Big O then bills you for the tires, including the Rebill Cost Percentage. See Item 11.

Name of Fee (Note 1)	Amount	Due Date	Remarks
Interest	We may charge you interest on various loans or other advances. (See Item 10 on Financing Programs)	See Item 10	See Item 10

**Explanatory Notes**

**Note 1:** Fees are imposed by and payable to us, except as otherwise noted. All fees are nonrefundable, unless otherwise determined at Big O's sole discretion.

**Note 2:** The royalty rate (that is, the percentage of Gross Sales) for the period from the date your Store begins operations until the end of the calendar year in which you begin operations is 6%, except that such initial royalty rate is 5.6% for Distribution Franchise Stores that converted to become Business Format Franchises. The royalty rate after that will be calculated in accordance with the Royalty Matrix, which is included as Schedule 9 to Exhibit B (the franchise agreement), but is subject to reductions in the form of rebates or modifications ("Royalty Reductions"). The Royalty Matrix is subject to change by Big O periodically in its sole discretion, provided that the royalty rate in the Royalty Matrix may not exceed 6.0%. The Royalty Matrix provides for a royalty rate of 6.0%, subject to reduction based on your gross sales at your Store or the Stores in your multi-Store group for the current year. Multi-Store groups have a lower per Store annual gross sales requirement to qualify for lower royalty rates than do single Store franchisees that are not part of a multi-Store group. You will need to apply to us for permission to become part of a multi-Store group. In our discretion, we may require, among other things, that Stores in a multi-Store group have 50% or more common ownership. Big O will update the Royalty Matrix annually so that the minimum amount of per Store gross sales in any calendar year for a single Store to qualify for a rebate is the greater of: (a) \$1.4 million, or (b) the average Store gross sales of all Big O Stores in the previous year, excluding the top 10% of Stores and the bottom 10% of Stores, and adding \$200,000,

Royalty Reductions may be established by agreement between Big O and Franchisee or by policies as determined by Big O periodically in its sole discretion. Under our current policies, Royalty Reductions may now include:

a. The royalty rate on sales to National Accounts proposed by a franchisee and approved by us may be set at two percent (2%). These sales are excluded when calculating the gross sales for application of the royalty rebate.

b. In the event that Big O fails to meet fill rates on certain categories of products for a certain fiscal quarter, the royalty rate on sales of products in such category in such quarter will be adjusted to two percent (2%) by means of a rebate applied to your accounts receivable. The "fill rate" requirement varies by product category and will be measured on a line by line, by warehouse basis. The "fill rate" refers to the rate at which we fulfill (or offer to fulfill) your orders with the product ordered or a substitute product and currently varies from 60% for low cost product to 85% for our core products.

**Note 3:** If you receive or anticipate receiving 25% or more of your Store's Gross Sales on an annual basis from the sale of farm tires, off road tires, medium truck tires and similar select tires, you may sign a Farm Class Rider attached as Schedule 8 to the Franchise Agreement and become a Farm Class Store. You will pay the same royalty on your Gross Sales. However, if we do not act in good faith and in a commercially reasonable and lawful manner to provide you with access to Farm Class Tires for 60 days following written notice of this failure from you, you may discontinue paying the royalty fees on the portion of Gross Sales which are derived directly from the sale of any Farm Class Tires until we begin or resume supplying you with access to a reasonably satisfactory supply of Farm Class Tires.

**Note 4:** The Local Fund contribution is non-refundable. Periodically, your Local Group may increase the amount you must spend for advertising (by contributions to the Local Fund or otherwise) over the 4%. Your Local Fund may not reduce this amount below 4%, but in certain cases, your Local Fund contribution may be reduced below 4% by agreement with Big O or by policies as determined by Big O periodically in its sole discretion. Under our current policies, these reductions may include:

a. The Local Fund contribution rate on sales to National Accounts proposed by a franchisee and approved by us may be set at two percent (2%). These sales are excluded when calculating the gross sales for application of the royalty rebate.

b. For each Business Format Store, advertising contributions to its Local Fund are capped for each calendar year at 4% of the greater of 2.5 million dollars or twice the system-wide average Store sales for the prior calendar year. The system-wide average Store sales for each calendar year will be communicated by Big O no later than January 31 of the following year. For purposes of the calculation of the advertising cap, National Account sales bearing a 2% Local Fund contribution rate are excluded.

**Note 5:** The Franchise Advisory Council is a group of representatives of our franchisees who meet regularly with our management, provide input to our strategic planning and present viewpoints on issues involving the franchise relationship. Each Local Group elects at least one representative to the Franchise Advisory Council.

**Note 6:** The current fees are:

Corporate Office and/or Field Staff	\$10,000
Professional/Managers	
Manager	\$ 7,500
Assistant Manager	\$ 3,500
Service Technician	\$ 3,500
Salesperson	\$ 2,500
Alignment Technician only	\$ 2,000
Speed Lane Captain	\$ 1,500
Tire Technician	\$ 500

**Note 7:** You must maintain an inventory of Big O brand tires, other approved brands of tires and other products in amounts and variety as we may reasonably require. Your initial inventory will cost between \$45,000 and \$75,000.

**Note 8:** These fees reflect Big O's arrangement with Distribution Services Technologies, Inc. ("DST"). The software license fee will be paid by Big O and Big O will retain the License but, if you are in full compliance with your franchise agreement and our policies, we will grant you the right to use the License during the term of your Franchise. However, fees for installation, conversion and training and onsite support will be paid by you to DST, and monthly fees for maintenance and support will be paid by you to Big O, or as otherwise directed by DST and Big O. Of the current \$199 monthly maintenance and support fee paid to us, we will pay DST \$130 and retain the other \$69. These fees may change periodically; the monthly maintenance and support fees will be adjusted in October 2007 to reflect changes in the Consumer Price Index. The maintenance and support fee also provides you with access to the Activant suite of automotive repair and service catalogues. DST may also charge hourly rates and long distance telephone toll charges for services (such as installation, training and consulting) not included in the contracted maintenance and support services. See Item 11 (under Computer Systems) for more information.

**ITEM 7  
INITIAL INVESTMENT**

<b>Expenditures</b>	<b>High</b>	<b>Low</b>	<b>When Due</b>	<b>Method of Payment</b>	<b>Refundability</b>	<b>To Whom Payment Made</b>
Initial Franchise Fee (See Note 1)	\$30,000	\$0	See Item 5	See Item 5	See Item 5	Big O
Real Estate Leases (First Three Months' Rent Plus Security Deposit) (See Note 2)	\$64,000	\$16,000	As Specified in Lease	As Agreed	Some or all of the security deposit may be refundable at the end of the lease term	Big O or Third Parties
Equipment and fixtures (See Note 3)	\$195,000	\$50,000	See Note 3	As Agreed	Nonrefundable	Big O and Third Parties
Signs	\$30,000	\$10,000	As Incurred	As Agreed	Nonrefundable	Third Parties
Grand Opening Advertising	\$15,000	\$10,000	As Incurred	As Agreed	Nonrefundable	Third Parties
Initial Inventory	\$75,000	\$10,000	As Incurred	As Agreed	Nonrefundable	Big O and Third Parties
Insurance and Other Security (3 months) (See Note 4)	\$5,000	\$3,000	As Incurred	As Agreed	Nonrefundable	Third Parties
Initial Training-Fees, Travel & Lodging Expenses (See Note 5)	\$7,800	\$3,800	As Incurred	As Agreed	Nonrefundable	Third Parties
Computer Hardware and Software (See Note 6)	\$15,500	\$7,500	As Agreed	As Agreed	Nonrefundable	Big O or Third Parties
Non-recurring Preopening Costs (See Note 7)	\$35,000	\$10,000	As Agreed	Cash	Nonrefundable	Third Parties
Additional Funds (up to 12 months) (See Note 8)	\$50,000	\$25,000	As Incurred	As Agreed	Nonrefundable	Third Parties

Expenditures	High	Low	When Due	Method of Payment	Refuncability	To Whom Payment Made
<b>TOTAL ESTIMATED INITIAL INVESTMENT (See Note 9)</b>	\$522,300	\$145,300				

**Explanatory Notes**

**Note 1: Initial Franchise Fee.** The initial franchise fee will vary according to whether you are an existing franchisee, a Pioneer, MUD, new franchisee or Conversion Franchisee. See Item 5 for discussion of initial franchise fee rates and terms under which we will refund a portion of the initial franchise fee.

**Note 2: Real Estate Leases.** If you do not own adequate space, you will need to lease the land and building for your Store. Typically locations for a Store are prime retail sites. You will generally need a facility of 5,000 to 6,000 square feet to operate your store. The base monthly rent is estimated to range from \$4,000 to \$16,000 per month, depending on geographic location, size of the premises and other economic factors. Typically, these leases are triple net leases, which require the tenant to pay all taxes, insurance and maintenance expenses over and above the base rent amount. The estimate provided assumes that you will rent the facility and that you will be required to provide a security deposit of one month's base rent to the landlord. In a build-to-suit lease, the landlord may include some or all of the improvements, fixtures, equipment and signs in the cost to build the building and factor these costs into your lease payments. We provide a number of Store lease programs for which you may be eligible. These programs are described in Item 10 below. You may elect to purchase the land and building rather than renting. If you purchase the land and building for your store, your estimated combined costs for the land and building may range from \$900,000 to \$1,600,000 if you construct a new building, based on market conditions. If you purchase an existing building and remodel it, your costs may be less. You will not incur the premises rent costs listed above, but will have to factor in additional costs for acquisition and construction of the building. We are in the process of developing a program in which Big O may seek to bank vacant property (by purchase, obtaining an option to purchase or otherwise) in order to obtain favorable pricing and then selling that property or the right to purchase that property to the franchisee. We anticipate that, under this program, the franchisee must pay not only land costs, but also interest costs, closing costs, due diligence costs and/or project costs.

**Note 3: Equipment and Fixtures.** These estimates are based on purchase of new equipment and fixtures. Generally, full payment of the equipment order will be required at the time the order is placed or, in the alternative, you may be required to provide an irrevocable letter of credit to secure payment of the equipment order. Another alternative is to lease equipment, in which case we require proof of the equipment lease agreement.

**Note 4: Insurance.** You must maintain insurance described in Article 21 of the Franchise Agreement and in our Manual. The amounts set forth in the table represent three months of initial commitment costs with additional premiums at or just before opening. Premiums for these coverages will vary greatly because of location, amounts of coverage, values being insured, annual sales, number of employees, experience ratings, and other factors. A transferee of a Franchised Business or Conversion Franchisee may, at our discretion, be required to obtain a surety bond or letter of credit of not less than \$10,000 (or such other amount as we may periodically designate) to secure payment of contributions to the National Marketing Program and the Local Fund. Fees for these bonds or letters of credit will vary based on a variety of factors, including the transferee's or Conversion Franchisee's creditworthiness.



**Note 5: Initial Training – Fees, Travel and Lodging Expenses.** We may charge you training fees, except that the training fees for six weeks of initial training of one person are included in the initial franchise fee. In addition, you will have to bear expenses arising in connection with your training, such as travel, lodging and other living expenses. See Item 11 under "Training" for more details.

**Note 6: Computer Hardware and Software.** You must acquire, install and use the DST computerized information, communication and management system. The software license fee will be paid by Big O and Big O will retain the License but, if you are in full compliance with your franchise agreement and our policies, we will grant you the right to use the License during the term of your Franchise. Fees for installation, conversion and training and onsite support will be paid by you to DST and monthly fees for maintenance and support will be paid by you to Big O, or as otherwise directed by DST and Big O. You will also be responsible for all hardware and management costs. See Item 6 under DST End User Software License Agreement Fees and Item 11 under "Computer Systems" for more information.

**Note 7: Non-recurring Preopening Costs.** This estimated amount includes deposits for utilities, fees for city, state and local business licenses, any loan origination fees, any bank fees, and other non-recurring expenses.

**Note 8: Additional Funds.** This amount includes estimated pre-operational expenses not listed above, as well as estimated additional funds necessary to pay on-going expenses not covered by sales revenues for the first twelve months of operations, including payroll costs. You may have additional expenses starting or converting your business. Your costs depend on several factors, including how much you follow our methods and procedures, your management skill, experience and business acumen, local economic conditions, the local market for our products and services, the prevailing wage rate, competition, your competitive advertising and promotion, and the sales level reached during the initial period. Also, if you wish to become a franchisee of a new Store with an anticipated "high" real estate project cost (as periodically set by Big O), we may require you to meet certain higher net worth and liquidity requirements (as periodically set by Big O) before we approve you as a franchisee. The current standards for these high real estate costs are \$1.5 million or more for purchased real estate or lease payments of \$11,875 per month or more for leased real estate. The current net worth and liquidity requirements are a net worth of \$600,000 or more, and liquid assets (that is, cash and cash equivalents) of \$300,000 or more.

**Note 9: Total Estimated Initial Investment.** We have relied on our experience since 1962 in the retail tire store and automotive service business in compiling these estimates. You should review these figures carefully with a business advisor before making any decision to purchase a franchise. Other than the limited situations discussed in Item 10 of this Offering Circular, we do not offer financing directly or indirectly for any part of the initial investment. The availability and terms of financing depend on several factors, including the availability of financing generally, your creditworthiness, collateral you may have and lending policies of financial institutions.

## **ITEM 8**

### **RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

You must establish and operate your Big O Store in compliance with your Franchise Agreement and the standards and specifications contained in our confidential operating manual ("Manual"). Our Manual consists of various written, audio, video, and Internet instructions, including Big O Tires' A Blueprint for Success ("Blue Book"), which describes the philosophy of how to operate your business; our Franchise Compliance and Procedures Manual (which is likely to be retired in 2006), consisting of standards, policies, procedures, technical bulletins or other written materials; our Steps for Success, which describes various merchandising and display methods; and our Franchise Policies & Standards Manual – Best Practices, consisting of our policies and standards on various matters. The Manual also includes any training tapes, guides and any training module or any other proprietary information and other materials stating Big O's standards, policies, procedures, technical bulletins or other information. Our Manual may be modified by us periodically.

We have standards and specifications for your Store, the premises where your Store is located, equipment, furniture, fixtures, wearables, supplies, forms, inventory, advertising materials, computer software and hardware, and most products and other items used in or sold through your Big O Store. Standards and specifications include standards for delivery, performance, warranties, design, appearance, quality and other matters. You must purchase or lease all products, equipment, supplies, and services used in or sold through your Big O Store in accordance with our standards and specifications only from us or other sources approved by us. When you sign the Franchise Agreement, we will loan the Manual to you. Included in the Manual is a list of our approved suppliers. We have the right to change the standards and specifications included in the Manual, including the list of approved suppliers. You must comply with all standards and changes which are deemed, by their terms, to be mandatory; provided that the changes are applied in a reasonable and nondiscriminatory manner among comparable Big O franchisees. The Franchise Agreement also provides that you must comply with Big O's national fleet account policies and to participate in Big O's national fleet account programs, which are described in Item 11 (see paragraph 7 under "Continuing Obligations"). Also, periodically, we may institute pricing or discount programs in which the availability of lower prices or of discounts may depend, in whole or in part, on your meeting certain requirements established by us.

We sell to our franchisees lines of private label tires, which are manufactured by unaffiliated manufacturers, and you must purchase and maintain minimum inventory levels of these lines. We may look to other manufacturers to produce tire products in the future. We also authorize and provide major brand tires for sale by franchisees. We do not manufacture tires. Most products are delivered to franchisees from the RSC servicing their area at a minimum of twice weekly. We commit to supply you with the Big O branded tire lines but we do not guarantee to supply you with any specific numbers or sizes of tires or with any other specific tire brands.

To differentiate our products in a commodity market, except for certain non-recreational vehicle light truck tires, all Big O brand tires are sold with limited warranties periodically prescribed by us. You must offer and honor these limited warranties, including terms providing for free replacements. You must also honor warranties for certain products and services sold by non-Big O Stores in accordance with policies we may establish periodically; our current policies require you to honor certain warranties for products and services sold by designated non-Big O, T&C affiliated retailers.

At the discretion of your Local Group, you may offer the Premium Tire Service Policy which provides certain services and products as part of the purchase price of the new tires, which are generally provided at an additional charge by our competitors. These include mounting and balancing of the new tire, wheel weights and new rubber valve stems, flat tire repair, rotations and any necessary rebalancing for a maximum of three years.

If you want to purchase or lease any products, equipment, supplies, or services, or use a supplier not listed in the Manual as previously approved by us, you must first obtain our approval. We will determine whether to approve a supplier selected by you using the following procedures:

- (1) You must submit a written request to us for approval of the supplier and provide us evidence of the need for the products or services and that the products do not conflict with existing marketing program products;
- (2) The supplier must demonstrate to our reasonable satisfaction that it is able to supply the product or service to you which meets our standards and specifications, and that it is able to do so on a timely basis;
- (3) The supplier must demonstrate to our reasonable satisfaction that it is financially sound and in good standing in the business community with respect to the reliability of its products and services;
- (4) The supplier must indemnify and hold you and us harmless from and against any claim or liability based on the supplier's products or services, including claims of defects in materials and workmanship, and the supplier must provide to us certificates or other evidence of insurance coverage

with limits sufficient to cover the risks associated with its products and services, and with an endorsement naming you and us as additional insureds; and

- (5) Any supplier of tire products must meet the then current requirements under the TREAD Act.

We will notify you of our approval or disapproval in writing as soon as practicable after we have received all of the information requested by us. We may withhold our approval of any product, service equipment or supplier as we determine in our sole discretion. For instance, we would withhold our approval if in our opinion the product conflicts with existing marketing program products or the product cannot be adequately warranted and serviced by other Big O franchisees. We may also withhold our approval of any services as we determine in our discretion. We do not charge a fee to consider a new supplier or service for approval. We can revoke approval of an approved supplier at any time at our sole discretion. We will notify you if we revoke approval of an approved supplier or service that you have told us you are using.

We may require that new franchisees use some or all of the services of a retail accounting center ("RAC"), which may be a cooperative or association of franchisees or another entity owned by Big O franchisees or third parties, or an operation that is part of Big O, for the generation of financial statements and for providing accounting, payroll and related services. In the event you utilize the services of a RAC, you must provide sufficient financial information to a RAC to enable it to prepare on an accurate and timely basis financial statements that you must deliver to us and must authorize that RAC to deliver these financial statements directly to us. We may require that you join a RAC specified by us, which may be a regional RAC or a RAC operated by Big O on a system-wide or other basis. The services offered by each RAC may vary by region. The RAC or preferred vendor will assess you a fee for the services you use. See Item 6.

All specialty items, wearables, merchandising and display materials bearing the Big O trademark must be purchased only from or through our subsidiary O Advertising, Inc. or a licensee approved by us.

We are the only approved supplier of Big O private brand tires and other private brand products which are manufactured exclusively for us or TBC. We may add or change private brands of tires and other products periodically. We are also an approved supplier of various major brand tires. You must purchase your tires bearing the Big O and other brands identified in the marketing plan from the RSC in your area or, with our approval, other RSCs. In addition, you may purchase other lines of tires through the RSC or from any other approved source. From the date at the end of the 180 day period from the date you open your Store (or in the case of a transferee or Conversion Franchisee, from a date we designate), for the rest of the calendar year after this date and for each calendar year after that, 50% or more of all your tire unit sales at the Store must be Big O brand products or other brand products (if any) periodically designated by us, excluding sales of snow tires and farm class tires. Currently, we have a major brand program ("Major Brand Program") in which certain vendors may sell tires or other automotive accessories to Big O franchisees. We anticipate that purchases you make from us and our designated or approved sources will comprise 90% of your initial tire inventory investment and 80% of your ongoing purchases of tire products and supplies. You are not eligible to participate in any promotional programs offered by us to Distribution Franchisees, including the Big O 2006 Monthly Volume Bonus Program. Participation in future promotional programs will be announced on a program by program basis.

One Stop (which is identified in Item 1) is an approved supplier of replacement automotive parts, excluding tires and wheels. These replacement parts include Big O brand parts manufactured specifically for and marketed solely by One Stop. If you are in an area serviced by One Stop, you may, but are not required to purchase replacement automotive parts from One Stop.

You must acquire, install and use the DST computerized information, communication and management system (which is further described in Item 11). The software license fee will be paid by Big O and Big O will retain the License but, if you are in full compliance with your franchise agreement and our policies, we will grant you the right to use the License during the term of your Franchise. Fees for installation, conversion and training and onsite support will be paid by you to DST; and monthly fees for

maintenance and support will be paid by you to Big O, or as otherwise directed by DST and Big O. You are required to obtain all the necessary computer hardware that meets our specifications (as more fully described in Item 11). You will also be responsible for all hardware and management costs.

Except as noted in this Item 8, you are not required to purchase or lease any other goods, services, supplies, fixtures, equipment or inventory from us or any other specific designated source, although this requirement may change as our marketing program is modified.

You must maintain in force at your expense the insurance coverages set forth in Section 21 of the Franchise Agreement and in our Manual, under the terms and conditions set forth therein.

We derive revenue from your purchases through certain designated or approved sources of certain equipment, products, wearables, services and signs. We receive from many of our suppliers of equipment annual volume bonuses ranging from 1.0% to 5.0%, which range could vary, depending upon our volume of sales to you and other customers or as may be negotiated periodically with vendors. Also, as a result of the combined volume of purchases by TBC and Big O, the amount of annual volume bonuses available to TBC on its purchases of certain products (such as tires) is greater than it would be without Big O. Periodically we may participate in other programs in which suppliers of products or services to franchisees make payments to us in the form of rebates, commissions, endorsement fees or other payments or make payments to the National Marketing Fund (described in Item 11) for authorizing, promoting or otherwise facilitating franchisee purchases of certain goods or services. During the 15 month period ended March 31, 2006, the amount of these supplier payments to Big O (not including volume rebates and National Marketing Program fund contributions) was approximately \$384,000. Also, we may derive revenues from your licensing of certain approved software, which partially offsets the costs we incurred to develop, support and maintain such software (See Item 6, note 8).

We derive revenues from National Fleet Account transactions processed by you through Comdata Corporation. Under the terms of our agreement with Comdata, you will pay Comdata 4% of the Gross Sales from transactions processed through Comdata's system. Out of this amount, Big O will receive marketing fees equal to 1% of the Gross Sales from all franchisees' transactions processed by Comdata, increasing to 1.5% when 95% of all franchisees process transactions via the Internet.

We and certain of our affiliates also derive revenues from purchases made through us. During the 15 month period ended March 31, 2006, we and our affiliates had total consolidated revenues of \$297,213,000 (this amount does not include revenues of TBC, TBC Private Brands, SCOA and Sumitomo Corporation and their non-Big O subsidiaries). Of this amount, \$280,075,000 (approximately 94%) consisted of revenues from items (other than real estate sales or leases) sold by us or our affiliates to franchisees. In addition, during this period, our affiliate, Big O Development, Inc. ("Development"), sold real estate to existing franchisees. Development received total revenues of \$1,229,000 which, when netted against total costs of \$1,138,000, resulted in a net gain of \$91,000 for the 15 month period ended March 31, 2006. In addition, we and our affiliates leased or subleased real estate to some of our franchisees. Total revenues from leases or subleases with franchisees were \$5,725,000, which when netted against our lease expenses of \$5,319,000, resulted in net income of \$406,000 for the 15 month period ended March 31, 2006.

On occasion we negotiate purchase arrangements with suppliers for the benefit of our franchisees. You may receive benefits from these purchase arrangements for your use of any particular designated or approved source. These benefits include the right to sell Big O brand products, to sell other branded products, to receive competitive pricing and to receive promotional support, warehousing, delivery and other services from our designated and approved sources.

We consider a variety of factors when determining whether to renew or grant additional franchises. Among the factors we consider is compliance with the requirements described in this Item 8.

**ITEM 9**  
**FRANCHISEE'S OBLIGATIONS**

THIS TABLE LISTS YOUR PRINCIPAL OBLIGATIONS UNDER THE FRANCHISE AND OTHER AGREEMENTS. IT WILL HELP YOU FIND MORE DETAILED INFORMATION ABOUT YOUR OBLIGATIONS IN THESE AGREEMENTS AND IN OTHER ITEMS OF THIS OFFERING CIRCULAR.

Obligation	Section in Agreements	Item in Offering Circular
a. Site selection and acquisition/lease	Section 6.02 and Schedule 4 to Franchise Agreement; Section 4 and Schedule 3 to Multi-Unit Development Agreement; Section 1 of Franchise Deposit Receipt Agreement; Sublease; Lease Agreement	Items 7 and 11
b. Pre-opening purchases/leases	Sections 6.02, 6.03, 6.04, 14.02, 14.05, 14.06 and Paragraph 4 of Schedule 7 of Franchise Agreement; Section 4 of Sublease; Section 3 of Lease Agreement; Sign Agreement	Items 7, 8 and 10
c. Site development and other Pre-opening requirements	Sections 6.01, 6.03 and 6.04 and Paragraph 4 of Schedule 7 of Franchise Agreement; Section 4 of Multi-Unit Development Agreement	Items 6, 7, 10 and 11
d. Initial and ongoing training	Sections 7.01, 11.01 and 11.02 of Franchise Agreement; Section 6(c) of Multi-Unit Development Agreement; Certification Program Agreement	Items 5, 6, 7, 11 and 15
e. Opening	Sections 6.03 and 6.05 and Schedule 7 of Franchise Agreement; Schedule 1 of Multi-Unit Development Agreement	Item 11
f. Fees	Section 10.03, Articles 8 and 15 and Schedule 7 of Franchise Agreement; Section 2 and Summary Pages of Multi-Unit Development Agreement; Sections 3, 4 and 16 of Sublease; Sections 2, 3, and 28.9 of Lease Agreement; Section 5.1 of End User Software License Agreement	Items 5, 6, 7 and 11
g. Compliance with standards and policies/ Operations Manual	Articles 6, 10, 11, 12 and 13 and Schedule 7 of Franchise Agreement; Section 5 of Sublease and Sections 4 and 5 of Lease Agreement	Items 8, 11, 14 and 16
h. Trademarks and proprietary information	Article 9, Sections 13.02 and 17.02 and Schedules 6 and 7 of Franchise Agreement; Section 7 of the Multi-Unit Development Agreement	Items 13 and 14
i. Restrictions on products/services offered	Article 14 and Schedule 7 of Franchise Agreement; Section 5 of Sublease; and Sections 4 and 5 of Lease Agreement	Items 8 and 16

Obligation	Section in Agreements	Item in Offering Circular
j. Warranty and customer service requirements	Sections 14.01 and 14.04 of Franchise Agreement; Paragraph 12 of Schedule 7 of the Franchise Agreement	Item 8
k. Territorial development and sales Quotas	Articles 2 and 6 of Franchise Agreement; Schedule 1 of Multi-Unit Development Agreement; Market Reservation Agreement	Items 5 and 12
l. On-going product/service purchases	Sections 14.01, 14.02, 14.03 and 14.06 and Schedule 7 of Franchise Agreement	Item 8
m. Maintenance, appearance and remodeling requirements	Sections 5.02(b) and 10.01 of Franchise Agreement; Section 7.2 of the Asset Purchase Agreement	Items 7, 10, 11 and 16
n. Insurance	Article 21 of Franchise Agreement; Section 5 of Sublease; Section 9 of Lease Agreement; and Section 9.6 of Security Agreement	Items 6, 7 and 8
o. Advertising	Article 15 of Franchise Agreement	Items 6, 7 and 11
p. Indemnification	Section 23.01 and Paragraph 12 of Schedule 7 of Franchise Agreement; Section 12 of Multi-Unit Development Agreement; Section 7 of Sublease; Section 15 of Lease Agreement; Section 10 of Comdata Merchant Agreement; Section 11 of Franchise Deposit Receipt Agreement; Article 8 of the Asset Purchase Agreement; Section 6 of End User Software License Agreement; Email Agreement	Items 6, 11 and 16
q. Owner's participation/ management/staffing	Article 11 of Franchise Agreement; Section 6(b) and (c) of Multi-Unit Development Agreement	Item 15
r. Records/reports	Article 16 of Franchise Agreement; Section 6(e) of the Multi-Unit Development Agreement; Sections 3 and 4 of Technology Agreement	Items 6, 8 and 11
s. Inspections/audits	Article 12 and Sections 16.02 and 16.04 of Franchise Agreement	Items 6 and 11
t. Transfer	Article 18 of Franchise Agreement; Section 3 of Multi-Unit Development Agreement; Section 11 of Sublease; Section 16 of Lease Agreement	Items 6 and 17
u. Renewal	Article 5 of Franchise Agreement; Section 2 of Sublease; Section 1.3 of Lease Agreement	Items 6 and 17