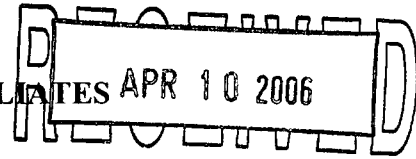


**HAMBURGER MARY'S® BAR & GRILLE**  
**CALIFORNIA UNIFORM FRANCHISE OFFERING CIRCULAR**

DEPARTMENT OF CORPORATIONS



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

**The Franchisor**

The franchisor is Hamburger Mary's® International, LLC, a California limited liability company that we refer to as HMI. HMI filed its Articles of Organization with the California Secretary of State on July 11, 1997. Its principal place of business is 4221 Dolphin-Striker Way, Newport Beach, Ca 92660. HMI does business under the name Hamburger Mary's®. HMI's agents for service of process are identified in Exhibit "D" to this Offering Circular.

HMI sells franchises for the operation of Hamburger Mary's® Bar & Grille. HMI's owner, Stan Sax, is currently the sole shareholder of Be Mary, Inc., a California corporation ("BMI"). BMI owns and operates a Hamburger Mary's® Bar & Grille franchise in Newport Beach, California ("Company Restaurant") which opened in December 2005. BMI did not pay an initial franchise fee for the franchise, but agreed, in exchange for not having to pay the initial franchise fee, to be the training facility for HMI. BMI will pay royalties related to its franchise operations and has executed HMI's standard franchise agreement. Neither BMI nor HMI presently intend to own or operate any additional Hamburger Mary's® Bar & Grille restaurants or any other business of the type being franchised, but they may in the future. HMI does not engage in any other business activity and has never offered franchises in any other line of business. HMI does not have any affiliates other than BMI. HMI started offering Hamburger Mary's® Bar & Grille franchises in January of 1999.

**The Franchisor's Predecessors**

HMI's predecessor is Stan Sax. Stan Sax owned Stadar, Inc., a corporation he formed to develop and operate a Hamburger Mary's® Bar & Grille in Palm Springs, California. Stadar, Inc. began operating a franchised Hamburger Mary's® Bar & Grille in Palm Springs in June 1993, but closed that restaurant in December 1995 when Mr. Sax sold the restaurant building where it was located while Stadar, Inc. was engaged in a dispute with its franchisor, the Trustee of the Jerald Ray Jones Trust dated October 4, 1989, referred to as the "Trustee." To settle the lawsuit, the Trustee signed a Release and Assignment Agreement (the "Settlement Agreement") with Mr. Sax and Stadar, Inc. In the Settlement Agreement, the Trustee assigned to Stadar, Inc. **all** the Hamburger Mary's® trade and service mark registrations, the existing Franchise Agreement for Hawaii, and various agreements the Trustee had entered into with other Hamburger Mary's® Bar & Grille operators to resolve disputes with those operators, all of which are described in greater detail in Items 13 and 20. Stadar, Inc. then assigned the various Hamburger Mary's® agreements and the Hamburger Mary's® marks to Stan Sax. Mr. Sax formed HMI to develop a system of franchised Hamburger Mary's® Bar & Grille and assigned the Hamburger Mary's® agreements and marks to HMI.

From 1988 to 1991 Mr. Sax was the master franchisee of Fantastic Sam's® haircutting franchises for Australia. Stadar, Inc. has never offered franchises in any other line of business. Neither Mr. Sax, as an individual, nor Stader, Inc. has ever offered franchises for the operation of a Hamburger Mary's® Bar & Grille.

### **The Hamburger Mary's® Bar & Grille History**

The first Hamburger Mary's® Bar & Grille was opened in San Francisco in 1972. At various times during the last 30 years, six (licensed) Hamburger Mary's® Bar & Grilles were operated or being developed at locations in San Francisco, San Diego, Palm Springs, and Sacramento, California; and Honolulu, Oahu and Lahaina, Maui, Hawaii. Restaurants using the Hamburger Mary's® name were opened in Portland, Oregon; Seattle, Washington; and San Jose, California, but were opened without any formal agreement. As is described in greater detail in Items 13 and 20, the operators of both the Hawaii and the Palm Springs units voluntarily closed their restaurants and/or abandoned their Franchise Agreements. The operators of the San Jose, Portland, and Seattle restaurants agreed to cancel their operations. The operator of the San Francisco restaurant closed her restaurant in June 2001. All franchising rights in the San Francisco area reverted to HMI. The operators of the Sacramento and San Diego restaurants entered into settlement agreements with HMI under which they have the right to continue to use the Hamburger Mary's® identity but are not required to participate in the Hamburger Mary's® franchise system until such time as they sell 50 percent or more of their operations.

### **You and the Hamburger Mary's® Bar & Grille Franchise**

In this Offering Circular "you" means the person who buys the franchise. If you are a corporation, partnership, or limited liability company ("LLC"), the word "you" includes all of your officers, directors, shareholders, general or limited partners, LLC members and managers. Generally, to qualify as a Hamburger Mary's® Bar & Grille franchisee you or your fellow owner or one of your fellow owners should have prior experience operating a sit-down restaurant with a full bar. If the prospective franchisee does not have such prior restaurant experience, then it must employ a General Manager with such experience and the General Manager must actively participate in the operations of the restaurant on a day-to-day basis. HMI rarely grants a franchise where the prospective franchisee will rely heavily on the expertise of its General Manager where such General Manager will not be a partial owner of the prospective franchise or where such General Manager is not granted at least a small percentage interest in the franchise operation within six months of the opening of the franchise location.

You will operate a Hamburger Mary's® Bar & Grille offering our standard menu of appetizers, entrees, desserts and beverages, with a full bar. Our standard menu is contained in our Recipe, Portion & Styling Manual® ("RPS Manual") and can be changed or altered by us from time to time ("Standard Menu"). Hamburger Mary's® will provide you with a list of items you must offer at your franchise location. You must offer all items on HMI's Standard Menu. No items may be deleted or added by you to your HMI Standard Menu without HMI's written approval, which may be withheld in its absolute discretion. After a 4-6 week trial period, a full Champagne Buffet Brunch will be offered on Sundays. In your "Mary's Special-Tease"™ portion of the menu, a substitution of six (6) items (maximum) may be allowed with **prior written** approval by HMI.

You will be given a copy of HMI's RPS Manual, its Operations Manual® ("Operations Manual®") and its opening and initial setup manual entitled "The Mary Show®" ("The Mary Show®"). The RPS Manual, Operations Manual® and The Mary Show® shall collectively be referred to as "HMI's Owner's Manuals". You will be required to comply with the provisions of HMI's Owner's Manuals in the setup and operation of your franchise. HMI may modify its

Owner's Manuals from time to time in its sole and absolute discretion, but the modifications will not alter materially your status and rights under the Franchise Agreement (Franchise Agreement Section 7.1).

A patio and/or an area for entertainment or dancing are suggested, but not required. Your Hamburger Mary's® Bar & Grille will operate in the well-developed and highly competitive full service restaurant market. Our Standard Menu is designed to appeal to persons of all ages in a wide range of socioeconomic classes throughout the year, regardless of season or climate, and to reflect local or regional tastes as well as traditional American cuisine. Although Hamburger Mary's® is a family restaurant, it is well known in the gay and lesbian market which has historically been the focus of its business and where it has an established reputation. **(No prospective franchisee will be denied a franchise based on sexual orientation)** You will compete with a wide range of full service restaurants, including restaurants that are part of national, regional, and local chains as well as single unit operators, and with stand alone bars and taverns in the local area, appealing to an adult neighborhood and tourist population.

All **Hamburger Mary's® Bar & Grill** franchisees must also support all national advertising and marketing promotions, purchase all private label merchandise only from HMI, carry all products from approved sources, display the private label merchandise in a well lighted display cabinet, carry the full line of private label merchandise and offer entertainment during the evening hours, along with a range of bar specials (each weeknight), when so permitted by your city's particular codes and regulations.

In addition to the usual business licenses required for all businesses and a conditional use permit for restaurant and bar operations, restaurants generally must have permits from the local health department or similar regulatory agency. You also **must obtain and maintain** a full liquor license permitting you to offer and sell an entire complement of alcoholic beverages for consumption at your Hamburger Mary's® Bar & Grille. Some localities require a special permit or license to operate a facility with dancing, a disc-jockey, and/or live entertainment. Those activities and/or liquor sales might be prohibited in certain locations.

## **ITEM 2. BUSINESS EXPERIENCE**

### **HMI's Chief Executive Officer, Manager and Director of Franchise Marketing - STAN SAX**

Stan Sax has been the Chief Executive Officer and Managing Director of HMI since its formation on July 11, 1997. From June 1993 until July 1997, Mr. Sax was President of Stadar, Inc. As the principal shareholder, he developed and operated a Hamburger Mary's® Bar & Grille in Palm Springs, California. In December of 1995, Mr. Sax sold the building where the restaurant was located. During the period from the closing of the Palm Springs restaurant until July 1997, Mr. Sax's employment with Stadar, Inc. continued, as he, along with the owners of Hamburger Mary's® franchise in Sacramento, California, pursued the company's claims against the Trustee of the Master Franchise. The litigation was settled by assignment to Stadar, Inc. of the Hamburger Mary's® marks and license agreements, as well as the franchise rights. Mr. Sax formed (and has been employed by) Hamburger Mary's® International, LLC ("HMI") to hold the Hamburger Mary's® marks, license agreements and franchise rights. He has overseen the

preparations for offering and selling of Hamburger Mary's<sup>®</sup> Bar & Grille franchises as well as the development of the new menu and training program.

HMI's Vice President and Director of Marketing - **DARREN WOOLSEY**

Mr. Woolsey has been HMI's Vice President of Marketing since June 2002. Mr. Woolsey attended Chapman College's Business School from 1999 to 2002 and graduated in 2002 with a major in Marketing. Mr. Woolsey spent the summer of 2000 and 2001 interning with HMI. Darren joined HMI as a Vice President and Director of Marketing in June 2002. Darren was a partner along with Stan Sax in the formation and running of the Palm Springs franchise and has developed the entire line of private label merchandise sold in all Hamburger Mary's restaurants.

HMI's Director of Operations - **CHETT HOLLANDER**

Chett Hollander was born into a restaurant family. He has worked for a multitude of dining establishments, from quick-serve to gourmet and has performed every operational position in both the front of the house as well as the back of the house. Mr. Hollander became Regional Director of Operations for Hamburger Mary's on January 1, 2006.

Mr. Hollander has also been invited to consult on many retail, as well as restaurant, projects ranging from building their business plan to shopping for funding, site selection to grand opening.

Prior to joining Hamburger Mary's International as Director of Operations, Mr. Hollander was Director of Operations for Digital Design Communications ("Digital Design"), 8135 Capwell Drive, Oakland, California 94612. Mr. Hollander was with Digital Design from April 1995 to September of 2005. From September 2005 to January 2006, Mr. Hollander provided paid consulting services to Digital Design.

**ITEM 3. JUDGMENTS, PENALTIES AND LITIGATION**

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 United States Bankruptcy Code required to be disclosed in this Item.

**ITEM 5. INITIAL FRANCHISE FEE**

All Hamburger Mary's<sup>®</sup> franchisees pay HMI a \$65,000 initial franchise fee when the franchisee signs the Franchise Agreement. The initial franchise fee shall be made payable to the HMI escrow account at International City Bank, 249 East Ocean Boulevard, Long Beach, California 90802, and held in the escrow account ("Escrow") until your Hamburger Mary's<sup>®</sup> Bar & Grille is opened, in accordance with California Code of Regulations Sections 310.113 - 113.4

and in accordance with any orders issued by the Department of Corporations thereunder (the "Regulations"). HMI will provide you with a Purchase Receipt, in the form of Exhibit A-2 to the Franchise Agreement, to acknowledge receipt of the initial franchise fee. The Escrow account is a separate and distinct account from HMI's general operating account and HMI's access to the account is limited pursuant to the terms of the Franchise Agreement and the Regulations. The deposited funds shall be held in Escrow pursuant to the Franchise Agreement until a written order of the Commissioner of the Department of Corporations is obtained by HMI releasing the funds from Escrow. The initial franchise fee is fully earned upon payment, but if HMI cancels the Franchise Agreement because:

(a) you fail to select and obtain the right to occupy a location for your Hamburger Mary's<sup>®</sup> Bar & Grille to be approved by HMI within one hundred eighty (180) days of the date of the signing of your Franchise Agreement, and HMI has not, in its absolute discretion, agreed to extend that time, HMI will refund all but \$15,000 of the initial franchise fee paid to HMI;

(b) through no fault of HMI's, your Hamburger Mary's<sup>®</sup> Bar & Grille location has not opened for business three hundred and sixty (360) days after the date of the signing of your Franchise Agreement, and HMI has not, in its absolute discretion, agreed to extend that time, HMI may elect to, but is not required to, refund all but \$15,000 of the initial franchise fee paid to HMI; or

(c) during or upon completion of training, HMI in its sole discretion determines that you or your approved trainees have not demonstrated satisfactory ability to operate your Hamburger Mary's<sup>®</sup> Bar & Grille, HMI will refund all but \$10,000 of the initial franchise fee paid to HMI.

**ITEM 6. OTHER FEES**

FEE NAME	AMOUNT/OTHER	DUE DATE	REMARKS <sup>1</sup>
Royalty	5% of monthly revenue unless increased to 6% as a result of delinquent royalty payments <sup>2</sup> .	Every month based upon gross revenue for the prior calendar month, payable by automatic debit on the 10 <sup>th</sup> business day of each month.	Gross revenue encompass the total selling price of all goods and services generated at the local franchise location including income from catering, cover charges and all other income producing revenue at your location (i.e., gaming, ATM's, coin operated equipment), but it does NOT include: Employee discounts, sales tax, or sale of Private Label Merchandise.

<sup>1</sup> All fees are imposed by and are payable to HMI. All fees are nonrefundable. You must sign and deliver to HMI the documents HMI requires to debit your business checking account automatically for all fees due HMI. This includes royalty, advertising and any late payments or interest fees (See Exhibit G to this Offering Circular and Exhibit "C" to the Franchise Agreement). Any payments where HMI allows for payment, in its sole discretion, other than by automatic debit, should be sent to: **HMI, LLC, Post Office Box 456, Corona del Mar, CA 92625.**

<sup>2</sup> Royalties are payable monthly based upon the gross revenue for the prior month and are paid by automatic debit on the 10<sup>th</sup> business day of each month. If you do not report your Gross Revenue as required, or if the royalty is not available in your account for debiting when due, a late payment fee will be imposed of 5% of the royalty amount due or \$20.00, whichever is greater ("Late Royalty Payment"), for each week past due. Additionally,

Advertising and Promotion Fund Contribution	2% of gross revenue PLUS submission of ad copies and invoices during initial six months of operation.	Amount must be spent in <u>local city</u> UNTIL Regional Owners Assoc. is formed. Then, this fee will be paid by automatic debit on the 10 <sup>th</sup> business day of each month.	Payment to HMI is delayed until formation of Regional Owners Association. Monthly proof of ad expenses must be submitted to HMI by the 10 <sup>th</sup> day of the next month in which ad appears.
Site Inspection Fee	After 2 initial visits by HMI cost of airfare, auto rental, and hotel expenses must be <u>reimbursed</u> to HMI.	10 <sup>th</sup> day of the month following the 3 <sup>rd</sup> visit to a prospective site and following any additional visits thereafter.	Initial franchise fee includes all costs for first two visits for approval of a proposed restaurant location.
Additional Training	ONLY if franchisee's lead cannot provide training in-house at no additional expense to franchisee. Then cost is \$200/day plus other expenses.	In advance prior to additional training commences at store. Any opening oversights may create the need for HMI's corrections and training.	Prior to opening, HMI will provide training for owner, lead cook, and one other key person at its Company Restaurant. Initial staff training is also provided at the new location at <u>no</u> extra cost (new manager or lead cook may attend any scheduled class).
Audit	Additional royalties due plus interest and cost of audit. <sup>3</sup>	Within 15 days of mailing of bill.	See Footnote 3.
Transfer of ownership	\$20,000.00	Concurrently with request for approval	Payable <u>ONLY</u> if you transfer to someone other than existing owners within corporation or LLC (owner[s] at the time of the <u>initial</u> franchise purchase).
Renewal	No Charge if franchisee is in "good standing."	Written option must be mailed <u>no less than 6 months</u> prior to expiration of current agreement.	Franchisee may renew this contract for as many five-year options as agreed by <u>both</u> HMI and franchisee as long as Franchisee remains in the initial Franchise location.

interest will be imposed at the rate of 10% per annum or the maximum rate permitted by applicable law, whichever is greater, from the date such amounts were originally due until the date paid. HMI is authorized to debit your account for both the late payment and the interest fees. After three late payments in any calendar year ("Delinquent Payment Status<sup>3</sup>"), the royalty payment shall increase to 6% of the monthly revenue for the remainder of the calendar year in which Delinquent Payment Status is achieved. Beginning January 1st of the calendar year following the calendar year in which Delinquent Payment Status was achieved, the royalty fee shall be 5% unless and until you achieve Delinquent Payment Status again, at which time the royalty fee shall be increased to 6% until the next calendar year.

<sup>3</sup> HMI will audit your books at least annually or more frequently if you fail to maintain records (including, without limitation, the information required to be in its Computer System database) or furnish any report or statement as required and in the time specified in Section 6.4 and in Section 9 of the Franchise Agreement. Interest on any additional royalty payment owed may be charged at the maximum rate allowed by State law at the time the audit is conducted if there is a 2% difference between what was reported to HMI as the franchisee's gross revenue during the period under audit and the actual gross revenue as determined by Company's auditor in his, her or its reasonable discretion.

**ITEM 7. INITIAL INVESTMENT**

**ESTIMATED INITIAL INVESTMENT**

<b>ELEMENT</b>	<b>AMOUNT RANGE<sup>4</sup> LOW to HIGH</b>	<b>METHOD OF PAYMENT</b>	<b>DUE DATE</b>	<b>PAYABLE TO:</b>
Initial franchise fee <sup>5</sup>	\$65,000 fixed fee	Cashier's check to: PO Box 456 Corona del Mar, CA 92625 or *bank wire	When Franchise Agreement is signed	H.M.I., LLC
Lease <sup>6</sup>	\$5,000 to \$25,000	Check	Upon signing of lease	Landlord
Leasehold Improvements	\$150,000 to \$500,000	Cash or finance as incurred	After work finished	Contractor or vendors
Micros Point of Sale system and software <sup>7</sup>	Lease for between \$2,000 to \$3,000 per month. Purchase from Micros for approximately \$30,000	Lease or purchase with cash or finance	Monthly (lease) or upon purchase of equipment	Leasing company or Micros computer sales company
Opening inventory	\$15,000 to \$50,000	Cash or finance as incurred	Ask vendors for 30 day billing. Most require \$	Vendors of food, liquor and supplies
Compeat Accounting and Inventory System Software	\$5,000 to \$7,000 for the initial license, plus yearly license fee equal to 15% of initial license	Cash, credit card or finance	Upon purchase	Compeat Restaurant Accounting Systems
Furniture, fixtures, music, decorations and restaurant equipment <sup>8</sup>	\$20,000 to \$70,000	Monthly lease payments or direct cash purchase	Monthly with lease or upon delivery of furniture and equipment.	Vendor of equipment, music system and wall décor
Miscellaneous small tools and equipment	\$3,000 to \$5,000	Lump sum payment	As purchased prior to opening	Hardware store
Office computer, furniture and equipment	\$5,000 to \$10,000	Cash or finance	Upon delivery of merchandise	Vendor of office supplies and furniture
Signs <sup>9</sup>	\$5,000 to \$10,000	Cash or finance	Upon delivery of sign	Sign company

<sup>4</sup> These figures are only estimates with a 'low to high' range based upon other HMI restaurant franchisee expenses. Costs vary greatly depending on the city and location of the restaurant.

<sup>5</sup> This fee is fixed and payable by all franchisees to HMI. Fee can be paid by either cashier's check or \*wire transfer to: HMI, LLC c/o Citibank Bank Account #141-4227999 at 3021 E. Coast Highway, Corona del Mar, CA 92625. The routing code is #322271724. See Item 5 for conditions when this fee is partly refundable. HMI does not provide any financing for franchisees (please see Item 10).

<sup>6</sup> Landlord will typically charge a first and last months rent and (possibly) a security deposit. All **Hamburger Mary's® Bar & Grille** restaurants are between 3500 Sq. Ft. and 8400 Sq. Ft. Lease rents vary according to city and location. If a restaurant is outfitted with equipment and an existing liquor license, you will pay more than if one were to rent a vacant space without any of the foregoing items. HMI must approve all leases with specific language contained therein. The Franchise Agreement clearly explains this provision.

<sup>7</sup> Franchisees should lease to own, rather than purchase the Point of Sale Cash Register and computer system that every store must have. Leasing is expensive over the long run, but it allows you to save capital for other items.

<sup>8</sup> Restaurant equipment and (office and store) furniture may be either leased or purchased outright. Your first choice should be USED supplies. If you purchase new furniture and equipment or lease new merchandise, your costs will be much higher. ALL restaurants must be fully equipped and decorated in the 'eclectic' manner defined in the Owner's Manual with pictures hung at angles and a sound system.

Training, travel and meals for grand opening	\$1,000 to \$2,000	Cash or credit card	Upon incurring of expense.	Airlines, hotels and restaurants only. Training by HMI
Varied opening expenses (deposits, licenses, printing costs, computer discs, decor materials & advertising)	\$8,000 to \$50,000	Cash, credit card or finance	Upon delivery	City utility, thrift shops, computer companies and various suppliers
Insurance premiums	\$10,000 to \$18,000	Cash or finance	Upon receipt of invoice	Insurance company (HMI to be listed as an "additional insured")
Additional Funds <sup>10</sup>	\$75,000 to \$150,000	As incurred	Upon demand	Employees, suppliers, and other servicemen
<b>TOTAL<sup>11</sup></b>	<b>\$370,000 up to \$1,000,000+</b>			

These estimates were compiled by HMI using the actual and projected cost data for the opening of various Hamburger Mary's® Bar & Grille franchises throughout the U.S. Costs could be significantly different in your particular city. **You should review these figures carefully with a business advisor before you decide to purchase a Hamburger Mary's® franchise.**

#### **ITEM 8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

Your Hamburger Mary's® Bar & Grille can be operated only from a location pre-approved by HMI. You may either lease or purchase the location. If you lease the location, the lease must be for an initial term of at least five years with at least one five-year renewal term. The lease **must** require the landlord to give HMI notice of default and the right to cure defaults and the right to take over the lease or negotiate a new lease if you default, as determined by HMI. The lease must also give HMI the right to take an assignment of the lease upon termination of the Franchise Agreement, if HMI chooses to do so. HMI does not derive revenue from franchisees' lease payments.

<sup>9</sup> You may either lease or purchase the required sign. HMI will supply franchisee with the style of sign. Sign approval is required prior to installation and opening of the franchise location.

<sup>10</sup> HMI strongly suggests that you put aside three months of expenses for unexpected or additional working capital. This is for rent, supplies, employee payroll, emergency repairs, or other unexpected expenditures. This will assist you through downturns in business. The amount of the additional funds you will need is based upon the actual experience of our existing franchisees over the last 4 years. The actual amount you will need varies, as explained in footnote 11 below, but a significant factor as to how much additional funds you will use is whether your chosen site is an existing operating restaurant with a liquor license, a closed restaurant, or a building that has not been built-out as a restaurant. HMI's experience has been that a franchisee will need twice as much additional funds if it builds out a restaurant from scratch than where a franchisee takes over an existing operating restaurant.

<sup>11</sup> **THESE FIGURES ARE ONLY ESTIMATES!** HMI cannot predict what your actual expenses will be. Many factors enter this formula. Some contingencies include your management skill, customer care, past work experience, business acumen, quality of food served, prevailing wage rate in your city, the competition you encounter, volume of business you generate, the quality as well as the ability of your staff. Another important part of this equation is how well you apply the **Hamburger Mary's®** operating methods and procedures.



When you have preliminarily selected a location, you shall seek HMI's approval by submitting a copy of the **proposed** form of lease and a completed site-approval request packet, provided to the franchisee by HMI. An HMI representative will visit the location you propose. The initial franchise fee includes the costs incurred by HMI for two visits to your city to inspect one or more proposed locations. You must reimburse HMI for the costs connected with any **additional** site visits. (See Item 6.) HMI does not have fixed criteria for location approval, but bases its approval on subjective criteria and market factors. Factors HMI looks at when considering whether to approve a site include, but are not limited to, existing restaurant and bar configuration of the proposed site, visibility, size, location, available parking for customers, nature and suitability of the neighborhood and location of competing businesses (such as bars and restaurants).

HMI's approval of a location does not constitute a guarantee or warranty of the suitability, condition, viability, success or any other matter pertaining to the franchise location or the operation of the proposed Hamburger Mary's® Bar & Grille. It merely means that the location meets HMI's minimum criteria. Many other factors and many variables apart from the subjective factors and what is known about a location when it is submitted can affect the success of the location.

HMI will provide sign criteria for all signs you use in or around your restaurant. All signs used must be approved by HMI. HMI will provide you with the name of its preferred HMI sign supplier. However, you may purchase or lease signs from any source if the quality of the signs produced by that source meet HMI's subjective quality criteria. HMI does not derive revenue from franchisees' purchases from sign suppliers.

You **must** carry all menu items included in the **standard** Hamburger Mary's® menu list and all bar drinks included in the Hamburger Mary's® bar list. All menu and bar items must be prepared using Hamburger Mary's® RPS Manual only! You must purchase specified foodstuffs, liquor and restaurant equipment and supplies from designated HMI suppliers as set forth in the RPS Manual or otherwise in writing by HMI. If HMI has not designated a specific supplier for a food item or restaurant supply, you may purchase ingredients and foodstuffs from any supplier whose products meet HMI's subjective quality standards. HMI does not derive revenue at this time from franchisees' purchases from suppliers of ingredients or foodstuffs, but may elect to do so in the future. HMI has negotiated special pricing discounts from certain preferred suppliers such as Sysco Foods and Micros Systems, Inc. ("Micros") for your Point of Sale cash register/computer system and software. You should contact HMI for a current list of those suppliers and for details on how to obtain the special pricing. HMI does not derive revenue at this time from franchisees' purchase from preferred suppliers.

HMI does not presently sell any menu items, ingredients, or foodstuffs itself, but HMI may require you to purchase from HMI or from a supplier it designates any proprietary ingredient or foodstuff or any menu item made according to HMI's unique recipes. **HMI may derive revenue from those purchases by charging more for the ingredients and foodstuffs than its production or acquisition cost.** In the event of such circumstances, the volume of purchases which you may be required to purchase through HMI will not exceed five (5) percent of your overall purchases of foodstuffs and menu items in establishing or operating this franchise.

The purchase of items from HMI approved suppliers will account for between 30% and 45% of your overall purchases in establishing the franchise and of your overall purchases in operating your franchise.

HMI, at its discretion, may introduce new items for inclusion in the Standard Menu. You **must** add those items to your menu. You must obtain any equipment necessary to prepare or serve those items, but you do not have to purchase any new fixture or item of equipment that costs more than three percent (3%) of your gross revenue for the prior calendar year. HMI does not, at the present time, derive revenue from franchisees' purchases of menu items or fixtures or equipment, but may do so in the future at its sole discretion.

Some menu and bar items will be the subject of introductory promotions or advertising specials in which you will be required to participate. Those promotions will include menu ads, table cards, and similar mechanisms.

In addition to your required participation in the above-described introductory promotions, each franchisee is required to actively participate in HMI promotions including, but not limited to, promoting certain menu and/or bar items each month as identified by HMI and actively participate in HMI's "Very Important Mary" ("VIM") program as described in the HMI Owner's Manuals. HMI may specify a particular food or drink item to be featured each month. You must feature the specified item on your menu and promote it using advertising slicks and other banners that you must purchase from HMI at HMI's actual cost for those items.

Your menus must use the format and content designated by HMI as shown in its Standard Menu. All items on this menu must be featured at all times. "Mary's Special-Tease™" items may either be listed on a detached sheet or in the printed menu identified as a Special-Tease™ that is a feature of the city in which the restaurant is located. The menu must include a list of the location and telephone number of all other franchised or company operated Hamburger Mary's® Bar & Grilles. All proposed menus, and revisions thereto, must be submitted to HMI for final review and approval, which may be approved, in writing, in HMI's sole and absolute discretion. No menu should go to print without HMI's written approval. HMI may require you to immediately replace any menu printed without HMI approval at your sole cost and expense.

HMI may require you to purchase from HMI, or a designated supplier, paper or other goods or materials that bear a Hamburger Mary's® mark. All the paper goods you use must comply with HMI's requirements. HMI may require you to use bar napkins with the HMI trade name and marks and matchbooks with the Hamburger Mary's® name and logo and the address and telephone number of your Hamburger's Mary's® Bar & Grille. HMI does not derive revenue at this time from franchisees' purchases of paper goods or other materials that have a Hamburger Mary's® mark or logo, but may elect to do so in the future.

You must acquire a point of sale cash register/computer system and software from an approved Micros dealer in your (local) city that meets HMI's specifications (for a more detailed description of the system, see Item 11) and use only that system to process all orders and revenue, including, but not limited to, all food and bar sales, cover charges, merchandise sales, and catering sales, at your Hamburger Mary's® franchise ("Point of Sale System"). You may obtain that system from any local supplier that can provide the system, and the necessary

training, as long as the system meets HMI's specifications in its sole and absolute discretion. HMI does not derive revenue from franchisees' purchases from computer hardware or software suppliers including from Micros. The Micros system allows HMI to review your sales revenue and produce a report related to those sales electronically without your participation or consent ("Micros (Export) Report System"). Your Micros (Export) Report System must be in operation at all times and HMI must be granted access to the system at all times. The Micros (Export) Report System is part of your reporting requirement to HMI pursuant to the Owner's Manuals and the Franchise Agreement, including but not limited to, Section 9.4 therein. You must also acquire and utilize the Compeat Accounting and Inventory System Software with your Micros system.

You **must** equip your Hamburger Mary's® Bar & Grille with such equipment on the Hamburger Mary's® Fixtures and Equipment List that are part of HMI's Confidential Operations Manual®, all of which must meet the specifications, features, or capabilities designated by HMI. HMI will give you a copy of a Specification Sheet within 15 days after your franchise location is approved. (Specifications include standards for capacity and performance.) You may obtain those fixtures and equipment from **any** retailer or supplier who carries them. HMI does not derive revenue from franchisees' purchases from suppliers of furnishings, fixtures, or equipment. (There is no pre-established restaurant layout.)

You must display (in an approved display cabinet with adequate lighting and visible pricing) and sell at your Hamburger Mary's® Bar & Grille, merchandise with the Hamburger Mary's® logo, including, but not limited to, beer glasses, t-shirts, hats, mugs, and other small goods identified by HMI as "Private Label Merchandise." You **must** purchase the Private Label Merchandise from HMI only, which is the exclusive supplier of these items. You may not buy Private Label merchandise from any other supplier nor may you buy any merchandise bearing any HMI trade or service mark from anyone other than HMI or an HMI-approved supplier. HMI will derive revenue from your purchase of Private Label Merchandise because it will sell the Private Label Merchandise at a higher price than HMI's cost of acquiring these items. The percentage of your operating costs that your purchases of promotional items from HMI comprise will depend entirely on the volume of purchases you choose to make, but generally will not exceed 3% of your overall purchases in operating the franchise. **No royalty fees are payable to HMI on sales of Private Label Merchandise.**

Your employees who come in contact with the public must wear the uniform HMI designates in the Operations Manual® and as set forth in The Mary Show®. Presently, that uniform consists of a dark colored T-Shirt with your city name, with the word "Crew" and with the Hamburger Mary's® logo, to be worn with clean Levis, any approved pants, khaki slacks, shorts or skirts. You **must** purchase the (uniform) shirts from HMI. HMI will derive revenue from the sale of the shirts to you because the purchase price will be more than HMI's cost of acquiring these items. Your purchases of uniform shirts from HMI will represent less than 1% of your overall purchases in establishing and operating this franchise.

HMI selects its suppliers based on its subjective quality standards. HMI does not have or distribute any specific written criteria for the selection of its approved suppliers. However, in general, criteria for selection of food ingredients include, but are not limited to, taste, appearance, quality, availability and price. Criteria for selection of non-food items include, but are not

limited to, quality, availability, pricing and support services. HMI will modify specifications and grant or revoke approval for suppliers by issuing revised specification sheets or approval lists for inclusion in the RPS Manual. HMI has negotiated purchase arrangements with suppliers for the benefit of franchisees. No fees are paid by you to secure supplier approval. HMI has negotiated special pricing discounts from its preferred suppliers and maintains a list and details of the discounts at its headquarters. You should contact HMI for a current list of the suppliers and discounts. HMI does not currently derive any revenue from franchisee's purchases from HMI's preferred suppliers, but may elect to do so in the future. If you would like to add a supplier to HMI's approved list, you must notify HMI, in writing, by sending the written request to HMI's Director of Operations and Training. HMI will evaluate the request based on its subjective quality standards as set forth above. Particular attention will be paid to the ability of the proposed supplier to supply products to HMI's franchisees on a nationwide basis. If HMI approves your request, it will notify you, in writing, and add the supplier to its approved list. If HMI revokes such approval, HMI will remove the supplier from its approved list and give you written notification of such removal.

Your books and records shall be available to HMI or its designated agent, upon HMI's request, on a monthly basis. This includes HMI's having the right to electronically or to officially access each franchisee's Point of Sale System (whether through the Micros (Export) Report System or otherwise), which access shall be allowed on a 24 hour electronic basis and to access each franchisee's sales/tax reports, and examining all documents submitted to the State and Federal Government.

**ITEM 9. FRANCHISEE'S OBLIGATIONS**

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

Obligation	Section in Franchise Agreement	Item in Offering Circular
a. Site selection and acquisition/lease	3.0	6, 11
b. Pre-opening purchases/leases	3.0, 4.0	8
c. Site development and other pre-opening requirements	3.0, 4.0	6, 7, 11
d. Initial and ongoing training	5.0	11
e. Opening	3.2(B), 10.9	11
f. Fees	6.0	5, 6
g. Compliance with standards and policies/Owner's Manual	1.3, 1.4, 3.5, 3.8-3.9, 4.0, 7.0, 11.4	11
h. Trademarks and proprietary information	1.0, 7.0, 10.7	13, 14
i. Restrictions on menu items/services offered	1.0, 7.0	16
j. Warranty and customer service requirements	None	None
k. Territorial development and sales volumes	11.5	12
l. Ongoing product/service purchases	4.0	8
m. Maintenance, appearance and remodeling requirements	3.0	11
n. Insurance	12.0	6, 8
o. Advertising	10.0	6, 11
p. Indemnification	13.0	6
q. Owner's participation/management/staffing	11.0	11, 15
r. Records and reports	9.0	6
s. Inspections and audits	3.9, 9.0	6
t. Transfer	15.0, 16.0, 18.0	17
u. Renewal	2.0	17
v. Post-termination obligations	21, 22	17
w. Noncompetition covenants	8.0	17
x. Dispute resolution	27.9	17
y. Other:		
Taxes and Permits and Licenses Assessments	14.0	
Disability or Death	17.0	
Late Charges, Finance Charges, Service Charges	24.0	
Attorneys' Fees and Collection Costs	25.0	

## ITEM 10. FINANCING

HMI **does not** provide any financing for franchisees. HMI cannot predict whether you will be able to obtain any financing for all or any part of your investment nor what the cost or terms of that financing might be if it is available. HMI will not guarantee any note, lease, or other obligation you make. Certain qualified individuals might conceivably qualify for a Small Business Administration ("SBA") loan as HMI has previously been pre-qualified on their "Fast Track" Program which means that if you have adequate assets to qualify for an SBA loan, our corporate system has met the SBA's requirements for an operating franchise in good standing.

## ITEM 11. FRANCHISOR'S OBLIGATIONS

Except as listed below, HMI need not provide any assistance to you.

Pre-opening Obligations:

Before you open your Hamburger Mary's® Bar & Grille, HMI will:

- (1) Designate your exclusive territory (Franchise Agreement Section 1.1);
- (2) Provide you a site approval request packet (if your location has not already been selected and approved) (Franchise Agreement Section 3.1 (A));
- (3) Provide you a suggested Hamburger Mary's® kitchen layout and restaurant specifications for you to use as a guide in conforming your restaurant to HMI's requirements and consult with each franchisee and advise you regarding the plans and specifications (Franchise Agreement Section 3.5) on an individual basis;
- (4) Consult with you regarding the appropriate site for your Hamburger Mary's® Bar & Grille (Franchise Agreement Section 3.1). The location must have at least 3,500 square feet of space, include adequate parking for customers, including handicapped spaces as required by law, handicapped spaces in the restrooms and access walkways as required by law, and be licensed for sale of alcoholic beverages. HMI must approve or disapprove the site you select within 14 days after HMI receives your completed site-approval request package, including all the information HMI requires. HMI will visit each site you propose. The initial franchise fee includes the costs incurred by HMI to visit your city twice to review one or more proposed restaurant sites. **Site approval is solely within HMI's discretion**, but HMI will not unreasonably withhold such approval. You will purchase or lease the site from independent third parties. You must select and obtain approval of a site within 180 days after the date the Franchise Agreement is signed by HMI and open your Hamburger Mary's® Bar & Grille for business within 360 days after the date the Franchise Agreement is signed (Franchise Agreement Section 3.5) If you fail to select and obtain the approval from HMI as set forth above, and HMI has not in its absolute discretion agreed to extend that time, HMI will refund all but \$10,000.00 of the initial franchise fee paid to HMI;
- (5) Review and approve or disapprove the plans you have prepared for the build-out or remodeling of your franchise location (Franchise Agreement Section 3.5 (A));

(6) Within 31 days after the Franchise Location is approved, give you a list of foodstuffs and inventory items required to stock your Hamburger Mary's® Bar & Grille and prepare the standard Hamburger Mary's® menu items, all of which you must purchase (Franchise Agreement Section 4.2);

(7) Assist you in making contact with any suppliers identified in the RPS Manual (Franchise Agreement Section 4.2);

(8) Consult with you regarding the results of the dry run you are required to conduct before your grand opening and assist you in identifying any appropriate adjustments in your operations (Franchise Agreement Section 5.3);

(9) Consult with you regarding your grand opening and give you reproducible copies of the latest grand opening advertising material produced by HMI that you may use to produce flyers or brochures promoting your Hamburger Mary's® Bar & Grille (Franchise Agreement Section 10.9);

(10) Lend you one copy of the Operations Manual<sup>©</sup>, RPS Manual and The Mary Show<sup>©</sup>. HMI's Owner's Manuals contain mandatory and suggested specifications, standards and procedures. HMI may, in its sole and absolute discretion, modify these manuals, but the modifications will not alter materially your status and rights under the Franchise Agreement (Franchise Agreement Section 7.1). The Owner's Manuals contain confidential proprietary information that you **must** keep confidential. You cannot make copies or disclose its contents to unauthorized persons. When your Franchise Agreement expires or is terminated or you leave the Hamburger Mary's® Bar & Grille system for any other reason, you must return the Owner's Manuals to HMI (Franchise Agreement Section 7.1);

(11) Review and approve or disapprove the overall appearance and interior decor of your franchise location (Franchise Agreement Section 3.5 (D)). All walls should be decorated with an assortment of framed pictures (hung at angles) and posters (mirrors, etc.) to create an "eclectic" atmosphere;

(12) **At no additional charge** (other than your travel, hotel and food expenses), HMI will train you and up to two qualified individuals who will be the lead cook and manager at your Hamburger Mary's® Bar & Grille for one (1) to two (2) weeks, in a combination of classroom and on-the-job training, at its Company Restaurant at 4221 Dolphin-Striker Way, Newport Beach, California 92660, using the following basic training schedule which may vary slightly depending on the experience of the Franchisee (Franchise Agreement Section 5.1):

SUBJECT	INSTRUCTIONAL MATERIAL	VARIOUS INSTRUCTORS	CLASSROOM + "ON-THE-JOB" TRAINING
Orientation & Décor	Operations Manual <sup>®</sup> and The Mary Show <sup>®</sup>	See following text	1 day
Opening/Closing Procedures and Customer Service	Operations Manual <sup>®</sup> and The Mary Show <sup>®</sup>	See following text	3 days
Daily Procedures and Administrative Practices	Operations Manual <sup>®</sup> and The Mary Show <sup>®</sup>	See following text	3 days
Training Staff and Management Equipment Care and Store Cleaning	Operations Manual <sup>®</sup> and The Mary Show <sup>®</sup>	See following text	3 days
Weekly/Monthly/Quarterly Reports, Financial costing, Franchisee Responsibilities and setting up a Reserve Fund	Operations Manual <sup>®</sup> and The Mary Show <sup>®</sup> and RPS Manual <sup>®</sup>	Operation Manager	3 days
Advertising and Business Promotion	Operations Manual <sup>®</sup> And The Mary Show <sup>®</sup>	See following text	2 days
Recipes and Food Preparation	RPS Manual <sup>®</sup>	See following text	2 days
Pricing your Menu	RPS Manual <sup>®</sup>	See following text	1 day
Computer Operation	Micro's Instructional Materials	Vendor	2 days
Working with Vendors Set up licenses, etc.	Operations Manual <sup>®</sup> and RPS Manual <sup>®</sup>	See following text	1 day
Final Review/Questions	Operations Manual <sup>®</sup> and The Mary Show <sup>®</sup>	See following text	As needed

HMI does not charge for this training for up to three people, including one approved manager, a lead cook, and one owner. You must pay **all** travel and living expenses for your trainees. You and at least one HMI approved manager and one lead cook must complete the training to HMI's satisfaction before you can open your Hamburger Mary's<sup>®</sup> Bar & Grille. All training is a combination of classroom-type instruction and "on-the-job" training, all of which takes place at HMI's Company Restaurant. HMI tailors training to the particular needs of the trainees, so the amount of classroom type instruction versus "on the job" training will vary. During initial training HMI gives you proprietary information and recipes for use in training your employees and operating your Hamburger Mary's<sup>®</sup> Bar & Grille. The materials HMI provides remain its sole property. HMI's Director of Operations and Training (see Item 2) will provide all



training, except the computer training. The computer manufacturer provides the computer training and the computer training manuals. The instructional materials for all the rest of the training are in the Operations Manual<sup>®</sup>, RPS Manual and The Mary Show<sup>®</sup>. HMI conducts training programs at least once a quarter for new franchisees and conducts mandatory refresher courses no more than once a year (see Paragraph 10 below).

During the operation of your franchised business, HMI will:

1. Administer the Advertising and Promotion Fund (when it is established) and expend fees for development of market support, public relations, research, and promotional campaigns designed to promote and enhance the value of the Hamburger Mary's<sup>®</sup> trade and service marks and their general public recognition and acceptance. (Franchise Agreement Section 10.5) Because there has not previously been a Hamburger Mary's<sup>®</sup> Regional Advertising and Promotion Group, there is no history of use of the fees. HMI anticipates using the fees for print and regional electronic media advertising as well as for production of in-restaurant promotional materials. Initially HMI will accumulate most of the fees to build a reserve fund adequate to fund regional advertising on cable and/or local television channels and radio as well as in print publications such as national publications directed at our target market, at HMI's discretion.

HMI has not yet determined whether it will use in-house advertising personnel or engage the services of advertising and public relations firms to assist in the advertising and promotion program. HMI is entitled to reimbursement for its actual administrative expenses for the advertising and promotion program up to an amount equal to 15% of the annual aggregate advertising fees, plus the actual cost of advertising and public relations services.

Except for reimbursement of administrative expenses, HMI will use all the fees for marketing, promotion, and advertising. HMI will not commingle the advertising fees with HMI's general operating account. No interest is credited to funds in the Advertising and Promotion Fund. The Advertising and Promotion Fund will not be audited. However, once the Advertising and Promotion Fund is established, within 120 days after the end of each calendar year, HMI shall deliver to franchisee a statement covering the preceding year certified by HMI's chief financial officer or chief executive officer to be true, correct, and complete. The statement will show the amounts collected by HMI for the advertising and promotion fund, the amount actually spent, the amount rebated, if any, and the amount remaining, which shall be carried over for use during the following year. (Franchise Agreement Section 10.5).

HMI will determine all matters involving statewide or regional advertising, public relations, and promotional campaigns. You will place your own neighborhood advertising. All print advertising must include your street address and phone number and must include Hamburger Mary's<sup>®</sup> Bar & Grille as part of the advertisement. You may develop advertising materials for your own use, at your own cost. But you **must** obtain HMI's **written approval** of advertising material before you use it. HMI must approve any Internet site or web page you propose to create or use and may disable any unapproved Internet site or web page or approved site or web page that uses objectionable or unapproved material in its absolute discretion. All websites must contain a link to "[HamburgerMarys.net](http://HamburgerMarys.net)" for franchise sales information.

HMI is not required to spend any Advertising and Promotion Fund money on advertising or promotion in your exclusive area; however, all Advertising and Promotion Fund monies (after establishment of ad promogroup) will be spent to benefit all franchisees nationally. If HMI does not expend all the advertising and promotion fees collected during a particular year, the remaining monies are retained for future years. Advertising and promotion fees are not refundable. HMI will not use advertising and promotion funds specifically to solicit franchise sales but advertising may include a telephone number and a website to call about franchising.

HMI's affiliate, BMI, presently owns and operates the Company Restaurant (see Item 20). BMI will contribute funds to the Advertising and Promotion Fund in connection with its operation of the Company Restaurant on the same terms as other franchisees.

2. Provide you with a statement of annual receipts and expenditures of advertising and promotion fees during the prior calendar year on or before each May 1. (Franchise Agreement Section 10.5).

3. Provide a telephone help request line, e-mail address and a facsimile line where you may leave or send an assistance request at any time. An HMI representative will respond to your request as promptly as practicable, but no later than the end of the second business day after your message is left. (Franchise Agreement Section 5.5).

4. Select featured menu and beverage items and prepare featured item promotional materials. (Franchise Agreement Section 7.3).

5. Make available for a fee additional training for you or your employees, if such training is **not** available from within the individual franchise. (Franchise Agreement Section 5.4).

6. Reimburse you for the costs you incur if HMI requires you to modify or discontinue use of the Hamburger Mary's<sup>®</sup> name or marks during the term of your Franchise Agreement, unless the discontinued use results from HMI's termination of the Franchise Agreement pursuant to Section 20 of the Franchise Agreement.

7. Indemnify and hold you harmless if you are made a party to a lawsuit as a result of your authorized and proper use of the Hamburger Mary's<sup>®</sup> name and marks. (Franchise Agreement Section 1.4 (D)).

8. After ad/promotion group selects one food item and/or one beverage to feature by advertising each month, HMI will give you at least 30 days' notice of the featured item(s). You must feature the special items in your Hamburger Mary's<sup>®</sup> Bar & Grille during the feature period, unless any applicable ordinance, law, or statute prohibits you from doing so. (Franchise Agreement Section 7.3 (B)).

9. Provide periodic supervision and assistance as its franchise Operations Director finds appropriate. The nature, frequency, and duration of this assistance will be in HMI's sole discretion; some franchisees may not receive any such supervision or assistance, and some franchisees may receive more supervision than others (see Franchise Agreement, Section 5.4).

10. Occasionally (but no more than once a year) conduct mandatory refresher courses at its Company Restaurant that you and one or more managers of your Hamburger Mary's® Bar & Grille must attend. You will be responsible for all travel costs. (Franchise Agreement Section 5.1).

11. HMI may, at its option, hold annual training conferences to discuss sales techniques, personal training, bookkeeping, accounting, performance standards, advertising programs and merchandising procedures. There is no conference fee, but you must pay all travel expenses to the conference. All other costs will be your responsibility (see Franchise Agreement, Section 5.1(C)).

12. HMI requires that you purchase a point of sale system from Micros. The system can be purchased directly from Micros<sup>12</sup> or a local supplier as long as the system meets HMI's specifications. HMI started requiring the Micros System for its Franchisees in 2003. The hardware for the system generally consists of a host terminal, a back office terminal, one or more workstation terminals (the work station terminals are the modern version of cash registers), and one or more Epson® printers. The system comes with Micros' proprietary software<sup>13</sup>. Micros or its local supplier will install the system and provide training on its use (Franchise Agreement, Section 9.1). The system comes with a one year onsite warranty and one year of telephone support on a 24 hour, seven day a week basis. You are not required to purchase maintenance and/or support contracts from Micros. You are required to keep your Micros system in good working order during the term of the franchise, but HMI does not currently require you to contract with Micros or any other company for maintenance or upgrade of your system. You do not have any contractual obligation to upgrade the Micros system or related hardware. The Micros system will be used to track food and beverage orders and the payment by the customer

---

<sup>12</sup> Micros Systems, Inc., 7031 Columbia Gateway Drive, Columbia, MD 21046-2289, (443) 285-6000.

<sup>13</sup> The following is a list of the specific items that make up the basic Micros System for a franchisee:

- \*\* Front-of-house workstation (Workstation 4 or Eclipse model)
- \*\* Micros 3700 Point-of-Sale Software Client License
- Credit Card processing software
- 2 modems (1 as backup for credit cards, 1 for support)
- \*\* Epson TM-T88 thermal guest check printer
- \*\* One AC power conditioner
- \*\* Epson TM-U200B impact kitchen printer
- \*\* Cash drawer
- Dell GX270 back office computer with Windows 2000, 15" flat panel, Pentium 4, two 40GB hard drives, 1 GB RAM, network card
- One AC battery backup for back office computer
- HP LaserJet 1300 report printer
- Micros 3700 Point-of-Sale Foundation Software
- Micros 3700 Time and Attendance software
- Micros Report Communicator Software
- PC Anywhere software
- Diskeeper software
- Norton Antivirus Software
- One year onsite warranty
- One year 24/7/365 toll-free Help Desk support
- comprehensive programming, setup, training, installation, live support and follow-up for system
- \*\* Quantity of these items depends on size of restaurant.**

for those orders. The system can also be used to track the time and attendance of employees. HMI will have independent and unlimited access to the data contained on your Micros system.

13. HMI also requires that you purchase a proprietary accounting and inventory control system from Compeat Restaurant Accounting Systems, Inc. ("Compeat"). The system can be purchased directly from Compeat and will work in connection with your Micros system. You will be required to pay a yearly license fee of 15% of the initial license fee (which is estimated to be between \$5,000 and \$7,000, depending on the size of your Hamburger Mary's® Bar & Grille) for the continued use, maintenance and any upgrades of the software. The system will supplement your Micros system and will help you keep track of and better manage the cost and amount of your inventory.

Your Hamburger Mary's® Bar & Grille can be operated only from a location that has been pre-approved by HMI. When you have preliminarily selected a location, you shall seek HMI's approval by submitting a copy of the **proposed** form of lease and a completed site-approval request packet, provided to the franchisee by HMI within three business days after HMI signs your Franchise Agreement. An HMI representative will visit the location you propose. HMI does not have fixed criteria for location approval, but bases its approval on subjective criteria and market factors. Factors HMI looks at when considering whether to approve a site include, but are not limited to, the existing restaurant and bar facilities, size, location, available parking, visibility, neighborhood, as well as other restaurants, bars and businesses in the area.

HMI's approval of a location does not constitute a guarantee or warranty of the suitability, condition, viability, success or any other matter pertaining to the franchise location or the operation of the proposed Hamburger Mary's® Bar & Grille. It merely means that the location meets HMI's minimum criteria. Many other factors and many variables apart from the subjective factors and what is known about a location when it is submitted can affect the success of the location.

If you fail to select and obtain the approval to occupy a location for your Hamburger Mary's® Bar & Grille to be approved by HMI within 180 days of the date of the signing of your Franchise Agreement, and HMI has not in its absolute discretion agreed to extend that time, HMI will refund all but \$10,000 of the initial franchise fee paid to HMI.

The typical length of time between the signing of the Franchise Agreement and beginning operation of the Hamburger Mary's® Bar & Grille 90 to 180 days. Factors that may affect this include the completion of training, site selection, compliance with governmental regulations, and build-out of the restaurant interior.

## **ITEM 12. TERRITORY**

When HMI approves your restaurant location, HMI will designate a defined area as your exclusive territory (the "Territory"). HMI will not establish a company operated or franchised Hamburger Mary's® Bar & Grille in that Territory. Most cities are exclusive territories (except for Atlanta, Chicago, Los Angeles and New York City).

HMI grants you a franchise for a particular physical location only. You do not have any options or rights of first refusal or similar rights adjacent to your Territory or anywhere else. Your franchise agreement does not convey, vest, or provide any rights to you to acquire additional franchises.

You may solicit customers from outside your Territory and provide food or services to customers from other Territories who come to or call your restaurant location, but you may operate only from your approved location. HMI and other franchisees may solicit customers and sales in your Territory and sell food or services to customers from your Territory who come to or call upon their restaurant. You may not solicit employees from another HMI franchise!

HMI may sell Hamburger Mary's® products in other channels of trade like supermarkets and specialty stores. Those outlets may be in your Territory.

HMI may use or allow others to use HMI's marks (Hamburger Mary's®) within your Territory. (Franchise Agreement Section 1.2). HMI is not restricted from establishing other franchised or company-owned outlets or other channels of distribution selling similar products or services under a different trademark. HMI has not established and at this time has no intention of establishing other franchises, company-owned outlets, or other channels of distribution that will conduct a business similar to your Hamburger Mary's® Bar & Grille business under a different trademark.

You must promote, market, and engage in the business of operating your Hamburger Mary's® Bar & Grille diligently and effectively, develop the full potential of the business, and devote and focus sufficient attention and efforts to its promotion and operation to achieve those results. If you do not maintain average monthly sales volume and visibility that HMI deems adequate for your Territory based **solely upon your** restaurants previous quarterly sales figures (or the prior years quarterly sales figures for those Restaurants operating for more than a year), HMI may terminate your franchise. HMI is unable to specify a required average monthly sales volume until you are in operation for at least one month. (See Franchise Agreement Section 11.5). Prior to terminating the Franchise Agreement, HMI shall give Franchisee a period of 90 days to increase sales volume to a level consistent with your restaurant's prior year's sales volume for the quarter reflected during the 90-day period. Since HMI began offering franchises in 1999, HMI has **not** terminated any franchisees for failure to maintain sales volumes.

### **ITEM 13. TRADEMARKS**

HMI licenses you to operate one restaurant at the approved location using the name Hamburger Mary's®, and to use at that location the trademark Hamburger Mary's® Bar & Grille, which is registered on the Principal Register of the United States Patent and Trademark Office under registration number 1224441 issued January 18, 1983, the specific design of Hamburger Mary® which is registered on the Principal Register of the United States Patent and Trademark Office under registration number 76-482,622, and other trademarks, service marks, trade names, logos, and proprietary marks HMI may authorize or require you to use to identify your restaurant and/or its products and services, such as "EAT, DRINK ...and be MARY!"™

The registered mark is for restaurant foods, namely grilled hamburgers, rotisserie chicken, various sandwiches, salads, and specialty drinks.

You must follow HMI's limitations, requirements and restrictions when you use the marks. You cannot use any name or mark belonging to HMI, including the Hamburger Mary's® name and marks, as part of your business name, whether your business is a corporation or other entity without HMI's express written permission. You cannot use modifying words, designs, or symbols with any of HMI's trade names or trade or service marks except those HMI designates. You may not use HMI's registered marks or name in connection with the sale of any product or service other than those designated or approved by HMI or in a manner not authorized in writing by HMI. You may not authorize or contract for anyone to utilize HMI's trade or service mark on any item, or in connection with the marketing or sale of any item, unless authorized or approved by HMI, in writing, in its sole and absolute discretion.

There are presently two restaurants operating under the Hamburger Mary's® name and marks that are not part of the franchise system. Those restaurants are located in San Diego, and Sacramento, California. Under a signed agreement between HMI and the owners of these restaurants, each affected restaurant shall come under the control of HMI and the operators of the affected restaurant(s) will be required to pay all royalty fees in accordance with the terms of the Franchise Agreement and, in addition, will be bound by the terms and conditions set forth in the Franchise Agreement upon the sale of fifty (50) percent or more of the ownership interest in the affected restaurants.

The San Diego, California restaurant continues to operate under the Hamburger Mary's® name and marks but is now operated under License Agreements and General Releases entered into with the Trustee to resolve disputes between those operators and the Trustee regarding the enforceability of the original License Agreements for that restaurant. The San Diego License Agreement is for a single location, permits relocation only with consent, and prohibits the opening of any Hamburger Mary's® Bar & Grille within a 10 mile radius of the existing location. The signing of a Franchise Agreement and the payment of all required fees for any additional Hamburger Mary's® Bar & Grille is required.

The License Agreement for San Diego imposes standards for cleanliness and menu. The License Agreement for the San Diego restaurant cannot be transferred without HMI's prior written consent, which may not be withheld unreasonably. Any change in ownership of 50% or more of the corporate licensee's stock is a change in ownership. The San Diego agreement expires in 2009.

The operator of the Sacramento restaurant sued the Trustee asserting claims of violation of applicable franchise registration laws, fraud, and breach of contract. The operator of the Sacramento restaurant settled its litigation with the Trustee by entering in to a License Agreement that gives it a license to continue to use the Hamburger Mary's® trade name and the registered Hamburger Mary's® marks but does not obligate it to pay fees or to participate in the Hamburger Mary's® franchise system. If the licensee's interest in the License Agreement is transferred (including a transfer of any shares of the corporate licensee), a monthly fee becomes payable.

As a result of a lawsuit between Stadar, Inc. and the Trustee, a settlement agreement was entered into on October 9, 1995 whereby the Trustee assigned to Stadar, Inc. the Hamburger Mary's® trade and service mark registrations, the existing Franchise Agreement for Hawaii, and various agreements the Trustee had entered into with other Hamburger Mary's® Bar & Grille operators to resolve disputes with those operators. Stadar, Inc.'s settlement included an assignment of all the registered trade and service marks, both federal and state (California and Hawaii), subject to the obligations to and rights of the other settling operators, and an assignment to Stadar, Inc. of the outstanding agreements with the operators of the San Diego and Sacramento restaurants.

On July 11, 1997, Stan Sax formed HMI for the purpose of selling Hamburger Mary's® Bar & Grille franchises. On September 17, 1997, Stadar, Inc. assigned the various Hamburger Mary's® agreements and the Hamburger Mary's® marks to Mr. Sax, who then assigned the Hamburger Mary's® agreements and marks to HMI.

Two existing restaurants (Sacramento and San Diego, California) use the same marks and similar menu your franchised Hamburger Mary's® Bar & Grille and other franchised Hamburger Mary's® Bar & Grilles will use and will benefit from the growth of the Hamburger Mary's® franchise system and the advertising you, HMI, and other Hamburger Mary's® franchisees will do. The two Hamburger Mary's® Bar & Grilles are not bound by the form of Franchise Agreement you will be bound by, do not pay fees to HMI for the use of the marks and menu, and are not subject to the other requirements and restrictions to which you will be subject at this time (until certain actions take place).

The settlement agreement between HMI and the Trustee requires HMI to honor the License Agreements between the Trustee and the operators of the San Diego and Sacramento restaurants. Those agreements limit HMI's right to license use of the Hamburger Mary's® name and marks in these cities as described in detail in Item 1. There are no other agreements that limit HMI's rights to use or license the use of the Hamburger Mary's® name or marks.

HMI cannot prevent the two Hamburger Mary's® Bar & Grilles operating under agreements with the Trustee from continuing their use of the Hamburger Mary's® name and marks.

Under a settlement agreement with HMI, the operators of the restaurants in San Jose, California; Portland, Oregon; and Seattle, Washington agreed to stop using the Hamburger Mary's® name and marks. These operators had **never** signed a Franchise Agreement. Pursuant to the terms of the settlement agreement, the operators posted notice in various newspapers that they had "ceased and desisted" using the Hamburger Mary's® name and admitted that they were never registered franchisees.

The operator of a Vancouver, British Columbia restaurant has been using the Hamburger Mary's® name and registered the name and a mark in Canada, creating a presumptive exclusive right to use the name and marks throughout Canada despite the pre-existing United States mark registrations that now belong to HMI. That operator could preclude HMI from using the name and marks in Canada and could develop a system of Hamburger Mary's® Bar & Grilles in Canada that would not be subject to the same obligations and controls as the HMI franchise system.

However, the Vancouver restaurant has recently changed its name to "Mary's Hamburgers of Canada."

HMI does not know of any other prior rights or other infringing uses or material determinations of the Patent and Trademark Office, Trademark Trial and Appeal Board, trademark administrator of any state or any court, or any pending infringement, opposition or cancellation proceeding that could materially affect your use of HMI's marks.

You must notify HMI immediately when you learn about an infringement of or challenge to your use of HMI's name or marks. HMI will take the action it deems appropriate and will defend your authorized use of the HMI marks against any claim of infringement made by a third party against you.

You must modify or discontinue the use of any of HMI's marks HMI modifies or discontinues. You must not directly or indirectly contest HMI's right to its marks, trade secrets, or business techniques.

#### **ITEM 14. PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION**

You do not receive the right to use any item covered by a patent. You will receive the right to use some Hamburger Mary's® menu artwork developed and designed by HMI. You will also receive the right to use HMI's proprietary Operations Manual®, RPS Manual® and "The Mary Show™" HMI has filed an application for a copyright registration for the Mary character artwork and the HMI Operations Manual®, the RPS Manual and® The Mary Show® and claims copyrights in each of them.

You agree not to contest HMI's interest in any of its proprietary information. If you learn about unauthorized use of any of HMI's proprietary information you must promptly report it to HMI. HMI is not obligated to take any action. HMI will indemnify you for losses recovered by a third party against you because of claims of infringement or misappropriation of proprietary information, patents, or copyrights based on your authorized use of its proprietary information.

#### **ITEM 15. OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS**

You or a manager approved and trained by HMI must personally operate your Hamburger Mary's® Bar & Grille at all times that your restaurant is open. If you are a corporation, partnership, or limited liability company, "you" as used here means the person designated as the principal responsible party. (Franchise Agreement Section 11.4) Either you or the approved manager should be present at and work in your Hamburger Mary's® Bar & Grille no less than 40 hours per week 48 weeks per year and supervise, oversee, administer, and manage operation of the restaurant to ensure the viability and success of the franchise. The designated person who fulfills this requirement cannot have any other employment during normal business hours. You (meaning the entire corporation, partnership, or limited liability company and all of its stockholders, partners, or members) may participate in other business ventures or in personal passive investments for your own account if those investments or ventures **do not** include other restaurants, unless you have obtained HMI's prior written consent and those pursuits do not



prevent you from devoting sufficient time to the oversight and administration of your Hamburger Mary's® Bar & Grille.

You or, if you are an entity, your designated representative, must successfully complete HMI's training, as more fully described in Item 11 of this Offering Circular and Franchise Agreement Section 5.1.

You must review and comply with the requirements and guidelines contained in the Owner's Manuals, as amended from time to time, at all times during the operation of your franchise. HMI's Owner's Manuals are designed to, among other things, assist its franchisees in the day-to-day operation of their franchises, to insure consistency in the quality of food, dining service and appearance at each franchised restaurant and to provide for the efficient management of HMI's franchise system. HMI may modify the Owner's Manuals in its sole and absolute discretion, but the modifications will not alter materially your status and rights under the Franchise Agreement. HMI will provide you with written copies of any such amendments.

#### **ITEM 16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL**

You must prepare and offer at your Hamburger Mary's® Bar & Grille **all** of the items on the Hamburger Mary's® Standard Menu list and bar list and only those other items approved by HMI. The required items include beer, wine, alcoholic drinks, appetizers, desserts, salads, cold sandwiches, hamburgers and other hot sandwiches, and a variety of other entrees. HMI can add additional items to or delete any items from the menu, but it must permit you to use up your remaining stock of goods or unique ingredients and it cannot require you to add any menu item that would require you to purchase any new fixture or item of equipment costing more than three percent of your prior year's gross revenue.

You will be permitted to prepare and serve up to six (6) substitute "Mary's Special-Tease"™ (HMI's name for regional food dishes characteristic of the geographical area where your Hamburger Mary's® Bar & Grille is located), as approved by HMI, in writing, in its sole and absolute discretion. You must describe all "Mary's Special-Tease"™ on a single card or sheet that is inserted into a slot on the menu or by use of a clearly recognizable designation on your menu which identifies the special item(s) as a "Mary's Special-Tease"™ of [your city]. You shall not offer any item that is not on HMI's Standard Menu list unless it has been approved by HMI as a "Mary's Special-Tease"™ item or unless you have obtained HMI's written approval, which may be withheld in its absolute discretion.

After establishment of a regional advertising group, they along with HMI will select one food item and/or one beverage to feature by advertising during a particular month. HMI will give you at least 30 days' notice of the featured item(s). You will be required to feature the special items in your Hamburger Mary's® Bar & Grille during the feature period, unless any applicable ordinance, law, or statute prohibits you from doing so.

Your Hamburger Mary's® Bar & Grille **must** have a full bar, which **shall** remain open during normal cocktail hours (e.g. 12:00 p.m. until 12:00 a.m.). You **shall** obtain all licenses and permits required to operate a bar at your franchise location.

## ITEM 17. RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

This table lists certain important provisions of the franchise and related agreements. You should read these provisions in the Franchise Agreement attached to this Uniform Franchise Offering Circular.

Provision	Section in Franchise Agreement	Summary
a. Length of Term of the franchise	2.1	Term is 5 years.
b. Renewal of extension of the term	2.2	If you have not received three or more default notices during any 12-month term period or other notices of default throughout the preceding term, have not breached the Franchise Agreement, and are not in default (“ <b>Good Standing</b> ”), you can renew your franchise for up to two consecutive additional terms, but any renewal term cannot exceed the term of your lease, to include any options to extend the term of the lease.
c. Requirements for you to renew or extend	2.2	Cure all defaults; sign new agreement; pay fee; renovate and refurbish to HMI’s current standards.
d. Termination by you	19	30 days after notice of default if HMI does not perform.
e. Termination by HMI without “Cause”	None	
f. Termination by HMI with “Cause”	3.2, 5.1, 20	<p>HMI may terminate the Franchise Agreement if: (i) you do not hire and continue to employ an <b>experienced general manager</b> (as approved by HMI), or your lead cook does not demonstrate satisfactory ability during training; (ii) you do not select and obtain a right to occupy a location approved by HMI within 180 days after HMI signs the Franchise Agreement; (iii) the franchise location has not opened for business within 360 days after HMI signs the Franchise Agreement; (iv) you are in default of <b>required</b> payments; (v) you fail to consider all Gross Revenue from your operations (for example, cover charges, catering fees, etc.) in the calculation of your royalty payments to HMI; and (vi) the Franchisee violates the terms and conditions of the Franchise Agreement or the Offering Circular.</p> <p>HMI may, but is not required to, terminate a Franchise Agreement if an individual Franchisee fails to maintain his average monthly sales volume (based <b>solely upon that franchisee’s</b> reported prior year’s sales volume). Where a Franchisee fails to meet prior year average monthly sales volume, HMI may terminate the Franchise Agreement only after the Franchisee has been given 90 days to increase the sales volume to a level consistent with <u>that restaurant’s</u> prior year’s sales volume for the quarter reflected during the 90-day period.</p>
g. “Cause” defined - curable defaults	20	You have 3 days to cure mark violations or violations of menu requirements, operating standards or methods, specifications, rules, and regulations, <b>as set forth in writing in HMI’s Owner’s Manuals</b> . You have 5 days to cure nonpayment of fees, failure to make reports, keep records, maintain insurance, or comply with legal and tax requirements. You have the time allowed for cure in any other agreement involving your franchise or related fixtures, equipment, or location to cure those defaults. You have 60 days to cure any involuntary insolvency or bankruptcy filing. You have 5 days to obtain a release from any levy against your franchised business or the fixtures, equipment, inventory, or other property you use in it, 30 days to satisfy any judgment, and 45 days to pay debts for equipment, fixtures, goods, or services. You have 10 days to replace insurance that is canceled or cure any other curable default.

h. "Cause" defined - defaults which cannot be cured	20	Non-curable defaults: conviction of felony, conduct that reflects unfavorably on goodwill or marks, misrepresentation, loss of right to occupy premises, repeated defaults even if cured, loss of insurance or licenses, ceasing operation for more than two days in succession, trademark misuse, disclosure of HMI Owner's Manuals contents or proprietary information, failure to devote no less than 40 hours per week to franchised business for more than two weeks in any calendar year, unapproved transfers, underreporting revenues by 5% or more, an assignment for benefit of creditors, a receiver or trustee in a bankruptcy or similar officer is appointed for you or your franchise business, or a dissolution action is commenced by or against you if you are a corporation, limited liability company, or partnership.
i. Your obligations on termination/nonrenewal	21, 22	Obligations include removal of HMI marks (see r below), cease use of proprietary information, payment of all amounts due, assignment of telephone number, assignment of lease and sale of assets to HMI if it chooses, and return of all proprietary material and information previously provided to the franchisee. In addition, if the Franchise Agreement is terminated as a result of a default by you, then you must pay to HMI estimated royalties through the remainder of the term calculated by taking the average monthly royalty paid by you over the preceding 12 months and multiplying that average monthly royalty by the months remaining in the term as if the Franchise Agreement had not been terminated but in an amount no less than \$5,000.
j. Assignment of contracts by HMI	15.5	HMI may assign to financially responsible and economically capable person who assumes obligations.
k. "Transfer" by you - definition	15.2	Includes transfer of contract or assets or controlling ownership change. You must give HMI notice of any proposed transfer.
l. HMI approval of transfer by you	15.1	HMI has the exclusive right to approve all transfers but will not unreasonably withhold such approval. HMI may condition transfer to an entity on transferor's personal guaranty.
m. Conditions for HMI approval of transfer	15.1, 15.3, 18	New franchisee qualifies and acquires right to occupy restaurant premises, transfer fee paid, purchase agreement approved, training arranged, release signed by you, and current agreement signed by new franchisee (also see r below).
n. Our right of first refusal to acquire your business	16.1	HMI can match any offer for your business.
o. Our option to purchase your business	None	
p. Your death or disability	17	HMI may require sale to third party, subject to right of first refusal, and can require interim manager. If sale not required, heir or successor must complete initial training.
q. Non-competition covenants during the term of the franchise	8.1	No involvement in another restaurant.
r. Non-competition covenants after the franchise is terminated or expires	8.1	No involvement in sit down specialty restaurant within 10-mile radius of boundaries of exclusive territory for one year. You must also totally de-identify when your franchise rights have ended and may be required to assign the location to HMI.
s. Modification of the Agreement	27.3	No modifications generally, but HMI Owner's Manuals are subject to change.
t. Integration/merger clause	27.4	Only the terms of the franchise agreement and HMI Owner's Manuals are binding (subject to state law). Any other promises may not be enforceable.
u. Dispute resolution by arbitration or mediation	None	
v. Choice of forum	None	
w. Choice of law	27.9	Federal law applies to trademark issues. California law applies to all other issues.

These states have statutes that may supersede the franchise agreement in your relationship with HMI, including the areas of termination and renewal of your franchise: ARKANSAS [Stat. Section 70--807], CALIFORNIA [Bus. & Prof. Code Sections 20000-20043], CONNECTICUT

[Gen. Stat. Section 42-133e et. seq.], DELAWARE [Code, tit.], HAWAII [Rev. Stat. Section 482E-1], ILLINOIS [815 ILCS 705/19 and 705/20], INDIANA [Stat. Section 23-2-2.7], IOWA [Code Sections 523H.1--523H.17], MICHIGAN [Stat. Section 19.854(27)], MINNESOTA [Stat. Section 80C.14], MISSISSIPPI [Code Section 75-24-51], MISSOURI [Stat. Section 407.400], NEBRASKA [Rev. Stat. Section 87-401 ], NEW JERSEY [Stat. Section 56:10-1], SOUTH DAKOTA [Codified Laws Section 37-5A-51], VIRGINIA [Code 13.1-557-574-13.1-564], WASHINGTON [Code Section 19.100.180], WISCONSIN [Stat. Section 135.03]. These and other states may have court decisions that may supersede the franchise agreement in your relationship with HMI, including the areas of termination and renewal of your franchise. Further, see the cover page of this Offering Circular and the Appendix at page 32 of this Offering Circular for specific California statutes that apply to you.

#### **ITEM 18. PUBLIC FIGURES**

HMI does not presently use any public figure(s) to promote Hamburger Mary's® Bar & Grille. It may elect to do so at any future time.

#### **ITEM 19. EARNINGS CLAIMS**

HMI does not furnish or authorize any salespersons to furnish any oral or written information concerning the actual or potential sales, costs, income, or profits of a Hamburger Mary's® Bar & Grille franchise. Actual results may vary from restaurant to restaurant, from state to state, and among restaurants located within the same state. HMI cannot estimate the results of any particular franchise.

**ITEM 20. LIST OF OUTLETS**

**LIST OF HAMBURGER MARY'S® FRANCHISED  
AND LICENSED RESTAURANTS<sup>14</sup>  
FOR YEARS 2003/2004/2005**

<b>STATE</b>	<b>NEW STORES SOLD</b>	<b>STORES CURRENTLY FRANCHISED OR LICENSED</b>	<b>CEASED OPERATIONS IN YEAR<sup>16</sup></b>	<b>RESTAURANTS<sup>15</sup> OPERATING AT YEAR'S END</b>
Arizona	1/0/0	2/1/1	1/0/0	2/1/1
California	1/0/0	4/5/4	0/0/1	4/5/4
Colorado	0/0/1	0/0/1	0/0/0	0/0/0
Florida	0/0/0	1/1/1	0/0/0	1/1/1
Illinois	0/0/1	0/0/1	0/0/0	0/0/0
Minnesota	0/0/1	0/0/1	0/0/0	0/0/0
Nevada	0/0/0	1/1/1	0/0/0	1/1/1
Ohio	0/0/1	1/1/1	0/0/0	1/1/1
Washington, DC	0/0/0	1/1/0	0/0/1	1/1/0

<sup>14</sup> Hamburger Mary's® name and registered trademarks are currently being used by two California licensed restaurants. They are using Licensed Agreements entered into between them and the former owner of the Master Franchise. HMI cannot prevent these two operators from using our trade name. However, in the event that either Sacramento or San Diego, CA sells 50% or more of the ownership interest, that store shall then come under the control of HMI. This new entity shall pay royalties, use HMI's standard menu and follow the terms and conditions of our Franchise Agreement and UFOC.

<sup>15</sup> Four additional franchises will open in 2006 which are located in Denver, CO, Chicago, IL, Minneapolis, MN and Columbus, OH. All numbers are as of HMI's fiscal year end of December 31, for each year referenced. A complete list of existing franchisee's is contained in Exhibit E hereto.

<sup>16</sup> On December 31, 2003, Creative Fine Dining LLC ("CFD") voluntarily closed its Hamburger Mary's® restaurant in Scottsdale, Arizona. The owners of CFD are also the owners of I.M.R.V., Inc. which currently owns and operates a Hamburger Mary's® Franchise in Phoenix, Arizona. The owners of CFD can be contacted at 5111 N. 7th St., Phoenix, Arizona 85014, Attention Curtis Steinhoff, (602) 240-6969, if you have any questions. On or about January 31 2005, Fiddlehead Enterprises, LLC voluntarily closed its Hamburger Mary's® restaurant in Dallas, Texas. The owners of Fiddlehead Enterprises, LLC can be contacted at 4140 Lemmon Ave., Suite 134 Dallas, Texas 75219, Attention Dan Bujold, (214) 528-6279, if you have any questions. In September of 2005, the operator of the Hamburger Mary's® Bar & Grille franchise in Washington, D.C., Glenn Mlaker, elected not to renew his franchise at the end of the initial five year term. Mr. Mlaker can be reached at 1337 14<sup>th</sup> Street, N.W., Washington, D.C. 20005, (202) 232-7010. In July of 2005, Libra Partners, LLC, the operator of the Hamburger Mary's® Bar & Grille in Long Beach, CA decided not to renew its franchise beyond the initial five year term, which met with HMI's approval. The initial term was to end in the early Fall of 2005. Libra Partners, LLC and HMI also mutually agreed to terminate the franchise relationship early, as of July 1, 2005. Libra Partners, LLC can be reached at 740 East Broadway, Long Beach, CA 90802, Attention: Jon Quevedo, (562) 983-7001. In August of 2005, Hairless Foods, LLC, the operator of the Hamburger Mary's® Bar & Grille in Philadelphia, PA voluntarily ceased operations. Hairless Foods can be reached at 176 Chestnut Street, Philadelphia, PA 19103, Attention: Thomas Rigg, (215) 568-6969. The operator of the Hamburger Mary's® Bar & Grille franchise in Phoenix, Arizona, I.M.R.V., Inc., has elected not to renew its franchise at the end of the initial term on April 1, 2006. The owners of I.M.R.V., Inc. can be contacted at 5111 N. 7th St., Phoenix, Arizona 85014, Attention Curtis Steinhoff, (602) 240-6969, if you have any questions. The purchaser of the Hamburger Mary's® Bar & Grille franchise in the Columbus, Ohio area decided not to open the franchise and requested that the franchise relationship be terminated. HMI agreed to the proposal. The former owner of the franchise right can be contacted at HMC Limited of Ohio, 202 E. Long Street, Columbus, Ohio, Attention Patrick McCarthy, (614) 679-1747. Other than as set forth above, HMI has not had any franchisee outlets terminated, cancelled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during the most recently completed fiscal year ended December 31, 2005 or who has not communicated with HMI within 10 weeks of March 1, 2006.

Pennsylvania	1/0/0	1/1/0	0/0/1	0/1/0
Texas	1/0/0	1/1/0	0/1/0	0/1/0
<b>TOTALS</b>	4/0/4	12/13/11	1/1/3	10/12/8

**STATUS OF COMPANY OWNED STORES  
FOR YEARS 2003/2004/2005**

STATE	STORES CLOSED DURING YEAR	STORES OPENED DURING YEAR	TOTAL STORES OPERATING AT YEAR END <sup>17</sup>
Arizona	0/0/0	0/0/0	0/0/0
California	0/0/0	0/0/1	0/0/1
Colorado	0/0/0	0/0/0	0/0/0
Florida	0/0/0	0/0/0	0/0/0
Illinois	0/0/0	0/0/0	0/0/0
Minnesota	0/0/0	0/0/0	0/0/0
Nevada	0/0/0	0/0/0	0/0/0
Ohio	0/0/0	0/0/0	0/0/0
Pennsylvania	0/0/0	0/0/0	0/0/0
Texas	0/0/0	0/0/0	0/0/0
Washington, D.C.	0/0/0	0/0/0	0/0/0
<b>TOTALS</b>	0/0/0	0/0/0	0/0/1

**PROJECTED OPENINGS AS OF DECEMBER 31, 2005**

State	Franchise Agreements – Executed (But Store Not Open)	Projected Franchised New Stores in the Next Fiscal Year	Projected Company owned Openings in Next Fiscal Year
California	0	0	0
Colorado	1	1	0
Illinois	1	1	0
Maryland	0	0	0
Minnesota	1	1	0
Ohio	1	1	0
Texas	0	0	0
<b>TOTALS</b>	4	4	0

**ITEM 21. FINANCIAL STATEMENTS**

HMI's audited financial statements for the years ending December 31, 2005, December 31, 2004 and December 31, 2003 are attached as Exhibit "B".

**ITEM 22. CONTRACTS**

A copy of the form of HMI Hamburger Mary's<sup>®</sup> Franchise Agreement is Exhibit "A".

<sup>17</sup> Hamburger Mary's Bar & Grille franchise in Newport Beach, California, is owned by Be Mary, Inc., a California corporation ("BMI"). BMI is wholly-owned by Stan Sax. Mr. Sax also owns HMI.

**ITEM 23. RECEIPT**

THE LAST PAGE OF THIS OFFERING CIRCULAR IS A DETACHABLE RECEIPT ACKNOWLEDGING YOUR RECEIPT OF THE OFFERING CIRCULAR.

Please be aware that the signing of the receipt acknowledges only that HMI has provided you with a copy of its Franchise Offering Circular, with the attachments thereto, and does not bind HMI to sell a franchise to you, nor are you committed to buy a franchise from HMI.

## APPENDIX FOR CALIFORNIA FRANCHISEES

- The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 et seq.).
- The Franchise Agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California law.
- The Franchise Agreement contains a liquidated damages clause. Under California Civil Code Section 1671, certain liquidated damages clauses are unenforceable.
- **OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF CORPORATIONS. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF CORPORATIONS AT [www.corp.ca.gov](http://www.corp.ca.gov).**



**RECEIPT OF THE OFFERING CIRCULAR OF  
HAMBURGER MARY'S® INTERNATIONAL, LLC**

**THIS OFFERING CIRCULAR SUMMARIZES CERTAIN PROVISIONS OF THE  
FRANCHISE AGREEMENT AND OTHER INFORMATION IN PLAIN LANGUAGE.  
READ THIS OFFERING CIRCULAR AND ALL EXHIBITS CAREFULLY.**

If HMI offers you a franchise, HMI must provide this Offering Circular to you by the earliest of:

- (1) The first personal meeting to discuss our franchise; or
- (2) 10 business days before the signing of a binding agreement; or
- (3) 10 business days before any payment to HMI.

You must also receive a Franchise Agreement containing all material terms at least 10 business days before you sign any Franchise Agreement.

If HMI does not deliver this Offering Circular on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580.

By signing below, you acknowledge receipt, on the date indicated, of the Hamburger Mary's International, LLC Offering Circular dated April 20, 2006 and the following exhibits:

- EXHIBIT A: FRANCHISE AGREEMENT AND EXHIBITS
- EXHIBIT B: FINANCIAL STATEMENTS
- EXHIBIT C: LIST OF STATE FRANCHISE ADMINISTRATORS
- EXHIBIT D: LIST OF AGENTS FOR SERVICE OF PROCESS
- EXHIBIT E: LIST OF EXISTING FRANCHISES
- EXHIBIT F: TABLE OF CONTENTS FOR HMI FRANCHISE MANUALS
- EXHIBIT G: BANK ACCOUNT DEBIT AUTHORIZATION

DATED: \_\_\_\_\_

\_\_\_\_\_  
(Signature of recipient)

\_\_\_\_\_  
(Printed name of recipient)

**[YOUR COPY]**

**RECEIPT OF THE OFFERING CIRCULAR OF  
HAMBURGER MARY'S® INTERNATIONAL, LLC**

**THIS OFFERING CIRCULAR SUMMARIZES CERTAIN PROVISIONS OF THE  
FRANCHISE AGREEMENT AND OTHER INFORMATION IN PLAIN LANGUAGE.  
READ THIS OFFERING CIRCULAR AND ALL EXHIBITS CAREFULLY.**

If HMI offers you a franchise, HMI must provide this Offering Circular to you by the earliest of:

- (1) The first personal meeting to discuss our franchise; or
- (2) 10 business days before the signing of a binding agreement; or
- (3) 10 business days before any payment to HMI.

You must also receive a Franchise Agreement containing all material terms at least 10 business days before you sign any Franchise Agreement.

If HMI does not deliver this Offering Circular on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580.

By signing below, you acknowledge receipt, on the date indicated, of the Hamburger Mary's International, LLC Offering Circular dated April 20, 2006 and the following exhibits:

- EXHIBIT A: FRANCHISE AGREEMENT AND EXHIBITS
- EXHIBIT B: FINANCIAL STATEMENTS
- EXHIBIT C: LIST OF STATE FRANCHISE ADMINISTRATORS
- EXHIBIT D: LIST OF AGENTS FOR SERVICE OF PROCESS
- EXHIBIT E: LIST OF EXISTING FRANCHISES
- EXHIBIT F: TABLE OF CONTENTS FOR HMI FRANCHISE MANUALS
- EXHIBIT G: BANK ACCOUNT DEBIT AUTHORIZATION

DATED: \_\_\_\_\_

\_\_\_\_\_  
(Signature of recipient)

\_\_\_\_\_  
(Printed name of recipient)

**[SIGN AND RETURN TO HMI]**