

**TABLE OF CONTENTS**

	<u>Page</u>
1. The Franchisor, Its Predecessors and Affiliates .....	1
2. Business Experience .....	3
3. Litigation.....	4
4. Bankruptcy.....	4
5. Initial Franchise Fee.....	4
6. Other Fees .....	6
7. Initial Investment .....	9
8. Restrictions on Sources of Products and Services .....	12
9. Franchisee’s Obligations.....	14
10. Financing .....	16
11. Franchisor’s Obligations.....	17
12. Territory .....	24
13. Trademarks .....	26
14. Patents, Copyrights and Proprietary Information .....	28
15. Obligation of Franchisee to Participate in the Actual Operations of the Franchise Business .....	29
16. Restrictions on What the Franchisee May Sell.....	29
17. Renewal, Termination, Transfer and Dispute Resolution.....	30
18. Public Figures .....	35

19.	Earnings Claims .....	35
20.	List of Outlets .....	40
21.	Financial Statements .....	41
22.	Contracts .....	41
23.	Receipts of Offering Circular .....	front of document

**EXHIBITS**

Exhibit A to Offering Circular (Franchise Agreement).....	A
Exhibit B to Offering Circular (Disclosure Acknowledgement Statement).....	B
Exhibit C to Offering Circular (Confidentiality and Non-Competition Agreement) [Managerial].....	C
Exhibit C-1 to Offering Circular (Confidentiality Agreement).....	(C-1)
Exhibit D to Offering Circular (Financial Statements).....	D
Exhibit E to Offering Circular (List of HuHot Restaurants as of December 31, 2005) .....	E
Exhibit F to Offering Circular (List of State Agencies/Agents for Service of Process).....	F
Exhibit G to Offering Circular (Restaurant Operations Manual Table of Contents) .....	G
Exhibit H (Point-of-Sale Computer System and Other Computer Hardware and Software) .....	H
Exhibit I (Effective Dates in Registration States).....	I
Exhibit J (State Addenda and Agreement Riders).....	J
Exhibit K (Area Development Agreement) .....	K

APPLICABLE STATE LAW MAY REQUIRE ADDITIONAL DISCLOSURES RELATED TO THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR. THESE ADDITIONAL DISCLOSURES, IF ANY, APPEAR IN EXHIBIT J.

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

To simplify the language in this offering circular, the franchisor HuHot Mongolian Grills, L.L.C. will be identified as "HuHot" or "We." "You" means the person (or owners) individually and collectively, who buy the franchise to own and operate a HuHot Mongolian Grill Restaurant (the "Restaurant") under the mark "HuHot Mongolian Grill."

HuHot is a Montana limited liability company formed on August 30, 2001. HuHot conducts business and operates a franchise distribution system under the name "HuHot Mongolian Grill." The agent for service of process on HuHot is listed on Exhibit F. HuHot has no predecessors.

The principal place of business of HuHot is 223 East Main Street, Missoula, Montana 59802. Prior to 2005, its principal place of business was 777 Vintage Road, Missoula, Montana 59803.

**HuHot's Affiliates**

Montana Pizza, Inc. ("MTP") was formed in 1979 to operate Godfather's Pizza franchised restaurants in various locations in Montana. The shareholders of MTP are also minority shareholders in HuHot. MTP currently owns three Godfather's Pizza stores at various locations in Montana that it operates under franchise agreements with Godfather's Pizza, and a HuHot Mongolian Grill restaurant in Missoula, Montana, which it operates under a franchise agreement with HuHot. This Mongolian Grill restaurant is the prototype for the HuHot restaurant concept that is the subject of this franchise offering.

**Description of the Unit Franchise**

A HuHot Mongolian Grill Restaurant ("HuHot Restaurant") is a sit-down restaurant offering Asian-style cuisine cooked on a grill, using fresh meats, poultry, fish, seafood, vegetables, and sauces, individually selected by the customer. The typical HuHot Restaurant will offer non-alcoholic beverages, as well as beer, wine and full bar service, appetizers and a limited menu of dessert items. HuHot Restaurants feature distinctive, contemporary décor with an Asian flavor in a free-standing, mall or strip center location of approximately 4,000 to 6,500 square feet with seating for approximately 100 to 225 customers.

The HuHot Restaurants will be operated under the service mark "HuHot Mongolian Grill" plus design, and any other trademarks, service marks and commercial symbols (the "Marks") as HuHot authorizes.

You may be in competition with others offering comparable services and products to retail consumers. You will have to compete with other Mongolian grill-type and Asian-style restaurants and, to a lesser extent, with other outlets offering sit-down food service at a moderate

price point. You should realize that the restaurant industry is highly competitive and competition affects both HuHot and its franchisees.

There are no regulations specific to the operation of a Mongolian grill-type business. You must comply with all local, state and federal health and sanitation laws in operating your HuHot Restaurant. As a seller of food and beverage items, your activities are affected by regulations of the Food and Drug Administration and the United States Department of Agriculture and those federal and state laws and regulations relating to food and nutrition labeling and claims, including the Federal Food, Drug and Cosmetic Act, 21 U.S.C. 301 et seq. (the "Act"). For example, the Federal Food and Drug Administration has issued regulations affecting your use of the words "non fat," "fat free" and "low fat," 21 CFR Part 101, Subpt. D. In addition, your business will be subject to state and local liquor control laws, ordinances, rules and regulations and licensure requirements.

We will grant to certain qualified persons franchises to own and operate a HuHot Restaurant at a specific location, under the HuHot Marks in accordance with the terms of its standard franchise agreement (the "Franchise Agreement") attached as Exhibit A. HuHot grants a franchise to operate in a location leased or owned by you, completely improved and equipped in accordance with HuHot's décor (this décor may vary somewhat depending on whether the franchise is located in a strip center, a free-standing building, or other structure). Once established and approved by us, no changes in the interior or exterior design of a Restaurant or the equipment or fixtures used within may be made without our prior written consent. The HuHot Restaurant will offer its unique brand of Asian-style cuisine under the Marks in accordance with our standards as set forth in the Franchise Agreement and Operations Manual.

The food and drink products utilized in the HuHot Restaurant must meet established standards and specifications.

### **Area Development Rights**

We also grant to certain qualified persons ("Developers") the right, subject to certain terms and conditions set forth in our Area Development Agreement (the "Area Development Agreement"), to develop and operate multiple HuHot Restaurants within defined geographical areas.

A Developer must open certain cumulative numbers of HuHot Restaurants ("Minimum Development Quota") over a number of development periods, as set forth in Exhibit B to the Area Development Agreement ("Development Periods"). Minimum Development Quota and Development Periods are determined by us and the Developer on the basis of the market potential, size of the designated area, and through an analysis of the financial and operational capabilities of Developer. With respect to each HuHot Restaurant opened by Developer in his designated area, Developer must sign our then current form of Franchise Agreement. The amount of the initial franchise fee will be as set forth in Item 5, and will not be subject to increase. Subject to certain terms and conditions, Developer's right to own and operate

Restaurants within the designated area is exclusive so long as the Area Development Agreement is in effect. See Item 12 regarding development rights, obligations and exclusivity.

If Franchisee or Developer is a corporate entity, partnership, or limited liability company, all individuals who have an ownership interest in Franchisee or Developer must personally guarantee the obligations of Franchisee or Developer.

We have never conducted a business of the type to be operated by you. MTP, an affiliate of HuHot, owns and has operated a Mongolian grill-type restaurant in Missoula, Montana. From June 1999 to August 2002, it operated under the name "Mongos Mongolian Grill." In August 2002, it changed the restaurant's name to HuHot Mongolian Grill. It is the prototype for the HuHot restaurant concept being offered to you.

In addition, Hot Grills, Inc. ("HG") was formed in August 2002 to operate HuHot Mongolian Grill restaurants in various locations in Montana and Washington. The shareholders of HuHot are also minority shareholders in HG. The combined interest of HuHot shareholders in HG represents a minority interest in Hot Grills, Inc. HG has operated HuHot restaurants in Spokane, Washington since August, 2003 and Billings, MT since November 2003.

Neither HuHot nor MTP nor HG has offered franchises in this or other lines of business, other than the HuHot franchise.

## **Item 2** **BUSINESS EXPERIENCE**

### **President and Director - ANDREW W. VAP**

Andrew Vap has been President, Director of Training and Director of HuHot since its inception in August 2001. Since May 1997, he has been employed by MTP in Missoula, Montana as Director of Operations and Marketing. MTP operates several Godfather Pizza restaurants in Montana under franchise agreements with Godfather's Pizza, Inc. and the original HuHot Mongolian Grill that opened in June 1999. In addition, from 1997 to 1999, Mr. Vap was part owner of a retail business specializing in the sale of fresh baked bagels and related food and beverage items under the name "Charlie's Bagels," which was located in Helena, Montana.

### **Vice President and Director - LINDA E. VAP**

Linda Vap has been Vice President and Director of HuHot since its inception in August 2001. Since 1979, Mrs. Vap also has been employed as President of MTP in Missoula, Montana.

### **Secretary-Treasurer - DANIEL J. VAP**

Daniel Vap has been Secretary-Treasurer of HuHot since its inception in August 2001.

Since 1979, Mr. Vap also has been employed by MTP in Missoula, Montana as its Secretary-Treasurer.

**Vice President of Operations – MICHAEL ELLINGHOUSE**

Michael Ellinghouse has been Vice President of Operations since June 2004. From November 2003 to June 2004 he was Restaurant Supervisor in our affiliate's Missoula, MT restaurant. From June 1999 to October 2003 Mr. Ellinghouse was employed by MTP as the manager of the HuHot in Missoula, MT. Mr. Ellinghouse is a shareholder in HG which operates HuHot restaurants in Spokane, Washington and Billings, MT.

**Vice President of Franchise Development – MOLLY VAP**

Molly Vap has been Vice President of Franchise Development since January 2005. From April 2004 to December 2004 she was a teacher in Prague. From September 2002 to March 2004 she worked for Clorox Corporation in San Francisco, California. Prior to September 2002 she was a full-time student.

**Item 3**  
**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 U.S. Bankruptcy Code required to be disclosed in this Item.

**Item 5**  
**INITIAL FRANCHISE FEE**

You must pay an initial franchise fee of \$35,000, payable upon signing the Franchise Agreement. The initial franchise fee shall be fully earned when you pay it to HuHot. If we determine following completion of its training program that you have not satisfactorily completed training, we may terminate the Franchise Agreement, and \$25,000 of the initial franchise fee will be returned to you. We do not give refunds of the initial franchise fee under other circumstances.

In our most recent fiscal year, we waived the initial franchise fee in connection with 3 franchised HuHot Restaurants, based on the developer's prior business experience in the restaurant business, their development of multiple franchised Restaurants, their contributions in the areas of research and development, their participation in refining the HuHot Systems and

procedures, and/or their common ownership with some of the principals of the franchisor.

#### Area Development Agreement

We charge a non-recurring and non-refundable Development Fee of \$10,000 per restaurant to be developed, which you must pay in a lump sum when you sign the Area Development Agreement. Developer is required, if he is not already a HuHot Mongolian Grill Restaurant Franchisee, to sign 1 franchise agreement and pay the \$35,000 franchise fee, simultaneously upon signing of the Area Development Agreement.

For each HuHot Restaurant Developer opens pursuant to the Area Development Agreement, the initial franchise fee will be \$25,000 (instead of \$35,000). The initial franchise fees for each HuHot Restaurant, up to the number of Restaurants required by Developer's Minimum Development Quota, are not subject to increase, even if we in the future increase the initial franchise fees for new franchisees. In the event you open more than the number of Restaurants required to meet your Minimum Development Quota, either within or outside his Exclusive Area, you will pay then-current initial franchise fee, which may be different than the \$35,000 initial franchise fee noted above.

#### Store Opening Materials

You must also purchase from us store opening materials prior to opening your Restaurant. These materials may vary from time to time, but typically include store VIP party invitations and envelopes, menus, takeout menus, table-top promotional materials, business cards, comment cards, food line labels, in-store banners, laminated prep sheets and recipe books, opening gift card supply, and gift card promotional materials. We will ship you these materials approximately 2 weeks before your scheduled store opening. The cost estimate for these items is \$2,000 and is due prior to store opening.

**Item 6**  
**OTHER FEES**

Unit Franchise Agreement

Name of Fee	Amount	Due Date	Remarks
Royalty Fee	5% of Gross Revenues or 6% of Gross Revenues if applicable law does not permit a royalty to be paid or received on sales of alcoholic beverages	Every Friday for the preceding Reporting Week (Monday through Sunday).	Gross Revenues is the entire amount of all gross sales and business receipts, including direct or indirect barter transactions, wholesale accounts (both on and off premises) from the operation of the Restaurant, whether for cash or credit. Does not include sales, use or service taxes or customer refunds and approved rebates, discounts and allowances, or revenues from the sale of alcoholic beverages if prohibited by law.
Marketing Fund Contribution	0.5% of Gross Revenues, subject to increase by us to not more than 3% of Gross Revenues when there are at least 500 HuHot Restaurants	Every Friday for the preceding Reporting Week.	Gross Revenues calculated in the same manner as for Royalty Fee.
Local Advertising	3% of Gross Revenues until Marketing Fund Contribution increases to 3%. Then 1% of Gross Revenues.	Ongoing requirement; written verification due to us upon our request.	Gross Revenues calculated in the same manner as for Royalty Fee. Fees paid for cooperative advertising, if any, will be credited to local advertising requirement.
Local Cooperative Advertising	Determined by cooperative but not more than 3% of Gross Revenues	Determined by cooperative.	Franchisees, HuHot-owned and/or affiliate-owned Restaurants may form an advertising cooperative and establish local advertising fees. You must participate in any cooperative that has been formed by a vote of a majority of HuHot Restaurants in your ADI. Company-owned restaurants will have a vote in these cooperatives. Amounts contributed to the cooperative will be credited towards the local advertising requirement.



Name of Fee	Amount	Due Date	Remarks
Transfer Fee	\$3500	Before transfer.	Payable if you sell a controlling interest in your franchise. If a proposed sale is not completed, you must reimburse us for our reasonable expenses relating to the transfer request.
Penalty for Default in Submitting Reports	\$100 per day	Beginning on 15 <sup>th</sup> day after default	You must pay a \$100-per-day penalty if you fail to submit required reports or furnish supporting data as specified in the Franchise Agreement and/or Operations Manual.
Audit	Cost of examination or audit, including charges of independent accountants and travel expenses, room and board, compensation of HuHot employees.	10 days after billing.	If audit is necessary due to your failure to furnish reports or if audit shows an under-reporting of 1.5% or more of Gross Sales.
Interest	Lower of 1.5% per month or highest contract rate allowed by law.	Upon billing.	On late payments.
Reimbursement of Local or State License Fees	Costs	10 days after billing.	Payable if HuHot pays for licenses required by the franchise agreement when you fail to do so.
Management Fee	\$250 per day. Subject to increase.	10 days after billing.	Payable if HuHot appoints a manager for the Restaurant when the Restaurant is not being managed by you or a qualified manager.
Attorneys' Fees and Costs	Varies	As incurred.	Payable to HuHot if we prevail in any legal action against you.
Additional Assistance	\$250 per day plus travel expenses, room and board	10 days after billing	Payable only if we provide operating assistance as a result of your failure to comply with any provision of the franchise agreement or any specification, standard or operating procedure prescribed by us, or if you request operating assistance in excess of what we normally provide.
Indemnification	Varies	As incurred.	You must reimburse us for any liability or cost we incur by reason of your operation of the Restaurant or your offer or sale of securities.
Testing	Varies but not more than \$250	10 days after billing.	To cover costs for testing products, supplies, or materials you request us to approve.
Evaluation of New Suppliers	Varies	10 days after billing	To cover costs for evaluating suppliers you request us to approve. See Item 8.
Relocation	Costs to us for site	10 days after billing.	Payable if you want to relocate your

Name of Fee	Amount	Due Date	Remarks
Expenses	approval varies		Restaurant.
Reimbursement for Insurance	Cost of insurance plus our expenses.	On demand.	Payable only if we pay your premium when you fail to do so.
New Manager Training	\$1,500	Due before training.	If you request us to train a new Restaurant Manager following the opening of your Restaurant, you must pay this fee.
Participation in Internet	Your proportionate share	60 days' notice	Payable only if we require you to participate in a HuHot website or other listing on the Internet.

All fees are imposed by and are payable to us except fees for local or cooperative advertising. All fees are non-refundable.

Area Development Agreement

There are no other fees Developers pay us under the Area Development Agreement.

**Item 7**  
**INITIAL INVESTMENT**

Unit Franchise Agreement

Expenditure	Estimated Amount or Estimated High-Low Range	Method of Payment	When Due	To Whom Paid
Initial Franchise Fee <sup>(1)</sup>	\$35,000	Lump Sum	When you sign the Franchise Agreement	HuHot
Training <sup>(2)</sup>	\$4,000 - \$6,000	As incurred	As incurred	Hotels; Transportation Lines; Restaurants
Leasehold Improvements <sup>(3)</sup>	\$400,000 - \$500,000	As agreed	As incurred	Suppliers
Furniture, Fixtures, Equipment, Signs <sup>(4)</sup>	\$150,000 - \$200,000	As agreed	As incurred	Suppliers
Opening Inventory, Supplies, Store Opening Materials <sup>(5)</sup>	\$30,000 - \$50,000	As agreed	As incurred	Suppliers
First Month's Rent and Security Deposit <sup>(6)</sup>	\$15,000 - \$30,000	As agreed in lease	As agreed in lease	Lessor
Insurance <sup>(7)</sup>	\$5,000 - \$10,000	Lump Sum	As incurred	Insurance Company
Prepaid Expenses, Deposits <sup>(8)</sup>	\$3,000 - \$6,000	Lump Sum	As incurred	Third Parties
Professional Fees <sup>(9)</sup>	\$20,000 - \$30,000	As Agreed	As incurred	Professionals
Additional Funds - 3 months <sup>(10)</sup>	\$30,000 - \$50,000	Varies	As incurred	Third Parties
<b>TOTALS</b>	<b>\$692,000 - 917,000</b>			

**Explanatory Notes:**

**Initial investment costs may be significantly higher if your restaurant location requires substantial exterior modifications or lacks access to sufficient and compatible electric service, natural gas, requires extraordinary plumbing (e.g. installation of bathrooms and plumbing sufficient for kitchen use), and/or lacks HVAC sufficient for restaurant use. These estimates of initial expense are based on our experience with a single similar restaurant and experience in the restaurant business over many years; however, you should carefully investigate the costs associated with the construction of a HuHot Restaurant at the location of your choice. This location may involve significantly higher initial investment expense depending on local market conditions and other factors.**

(1) Initial Franchise Fee. You will pay an initial franchise fee of \$35,000 when you sign your Franchise Agreement. See Item 5 concerning the refundability of the initial franchise fee.

(2) Training. You are not charged an additional fee for your initial training. You must pay for transportation and the expenses for your meals and lodging while you attend the program. The total cost will depend on how far you travel and the type of accommodations you choose. This estimate is based on 2 people attending the training.

(3) Leasehold Improvements. The leasehold improvements you must make include, but are not limited to, flooring, ceiling, lighting, plumbing (including compliance with the Americans With Disabilities Act), electrical upgrades and services, supplemental HVAC, custom exterior décor construction, exterior décor modifications, telephone line installation for the Restaurant and for the POS System, and cabinetry. The cost of leasehold improvements will vary depending upon the size, condition and location of the premises, price differences between suppliers, shipping costs, and terms negotiated with the lessor.

(4) Furniture, Fixtures, Equipment, Signs. You must purchase or lease furniture, fixtures and equipment that meet our specifications. This estimate is for the purchase of the following items: exterior signage, shelving, sneeze guards, POS System, booths, tables, chairs, light fixtures, window blinds, grill, steam kettle, vegetable dicers, meat slicer, walk-in freezer/cooler, dishwasher line, wok line cook top, wok line refrigeration, fryers, 3-door freezers, food line cold pans, kitchen table/shelving, bottle chiller, glass chiller, glycol system, salad make table, dessert refrigerator, ice machine. The cost of furniture, fixtures and equipment will vary depending on location and size of the premises, shipping costs, and price differences between suppliers.

(5) Opening Inventory, Supplies, Smallwares. This estimate is for initial basic inventory and miscellaneous supplies and smallwares necessary to begin operating the Restaurant, including food products, paper goods, alcoholic and non-alcoholic beverages, china, silverware, glassware, storage containers and food line pans. These expenses will vary depending on shipping costs, price differences between suppliers, and taxes on alcoholic beverages. This estimate also includes \$2,000 to be paid to HuHot for store opening materials provided by HuHot. These open materials may vary from time to time, but typically include store VIP party invitations and envelopes, menus, takeout menus, table-top promotional materials, business cards, comment cards, food line labels, in-store banners, laminated prep sheets and recipe books, opening gift card supply, and gift card promotional materials.

(6) First 3 Month's Rent and Security Deposit. The estimate is for the first month's rent and security deposit typically required to be paid when you sign a lease. The amount will vary depending on the location of the premises, the size of the Restaurant, and the then-current rental market. Alternatively, you may purchase the premises on which the Restaurant is to be operated.

(7) Insurance. You must purchase the insurance required by us (see Item 8). The estimate is for a semi-annual premium (exclusive of vehicle coverage). The cost of insurance will vary based on the types and limits of the insurance you purchase and other factors affecting risk exposure.

(8) Prepaid Expenses, Deposits. This estimate covers utility deposits and license and permit fees. This expense may be substantially greater if you purchase a liquor license.

(9) Professional Fees. This includes a \$6,000 design fee payable to our designated architect(s) (see Item 8); however, you will also need to employ a local architect, and may employ an attorney, accountant or other consultants.

(11) Additional Funds - 3 Months. This estimate covers a portion of your anticipated business operating costs including payroll, rent, other initial costs and expenses for the first 3 months. These figures are estimates, and we cannot guarantee that you will not have additional expenses starting the business. Your costs will depend on how much you follow our methods and procedures; your management skill, experience and business acumen; local economic conditions; the local market for your products and services; the prevailing wage rate; competition; and sales levels reached during the initial period of operation. Using a 3-month period is not a representation or guarantee that you will break even sometime during the first 3 months your restaurant is open, nor intended to provide a benchmark as to when you will break even. NOTE: These figures do not include draw or salary for you. You should have additional sources for payment of personal living expenses.

We have compiled these estimates based on the experience of a prototype restaurant in Missoula, Montana, as well as the general knowledge of HuHot's officers concerning establishment of restaurants of various kinds over the past 25 years. You should review these figures carefully with a business or financial advisor before making any decision to purchase a franchise.

#### Area Development Agreement

Other than the Development Fee of \$10,000 per HuHot restaurant to be developed, Developers incur no other initial investment expenses in connection with the Area Development Agreement.

**Item 8**  
**RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

You must obtain basic design services from a supplier we approve, including basic store plans and specifications that currently must be obtained from Collaborative Design Architects for a fee of \$3,500. You must also obtain kitchen design and specification services from High Country Design Architects for a fee of \$2,500. You must also purchase your decorative resin flooring, cabinetry, POS system and restaurant furniture, equipment and smallwares from suppliers we approve. As of the date of this Offering Circular, the cost of these additional services is approximately \$250,000. We also require that you purchase your HuHot approved food items from a food vendor that we specify. Expenditures on these food items vary based on location volume. We do not currently derive revenue or other material consideration from your expenditure for services obtained from these approved suppliers of services for HuHot Restaurants; however, we reserve the right to do so in the future. In addition to the services that you must obtain from the approved supplier of architectural services, you must hire your own local architect and contractors in connection with the build-out of your HuHot Restaurant in accordance with plans and specifications to be approved by us.

As of the date of this Offering Circular, there are no other goods, services, supplies, fixtures, equipment, inventory, computer systems or real estate which you must purchase from us, any designees, or approved or recommended suppliers. However, we reserve the right to require you to purchase items from us or our designated source in the future. We or our affiliates may derive revenue or other material consideration from your purchases from us or our designated source in the future.

We do not currently derive any direct revenue or other material consideration from your other purchases or leases.

We may in the future negotiate arrangements with suppliers for the purchase of food products, supplies and equipment. We reserve the right to arrange with suppliers to pay a rebate or marketing fee to the Marketing Fund from purchases made by you.

In order to maintain the high standards of the HuHot Restaurants, you must use in the development and operation of the Restaurant only those brands and models of equipment, fixtures, furniture, POS System, other computer hardware and software, decor items, tableware, merchandise, materials food and drink products which meet our specifications and quality standards. We reserve the right to require that some or all of those items be purchased exclusively from us, our affiliates or other designated sources or approved suppliers in the future.

Neither HuHot nor any affiliate is currently an approved supplier of any equipment, fixtures, furniture, decor items, tableware, merchandise, material, supplies or food or drink products. Neither HuHot nor any affiliate has derived revenue or other material consideration from these required purchases.

Purchases and leases which must be made in accordance with our specifications or from suppliers approved by us represent approximately 60% of your total purchases in establishing your Restaurant and approximately 60% of your total expenses in operating the Restaurant.

We will provide you standards and specifications upon request. We may modify the standards and specifications. If you propose to purchase or lease any equipment, fixtures, furniture, POS System, signs, decor items, tableware, merchandise, materials, products, supplies or services not previously approved by us, you must submit a written request to us for approval before your use of the item. We will consider any request by you for approval of a modification of a standard or specification. If we request you to do so, you must also submit to us sufficient specifications, photographs and/or other information or samples for examination and/or testing. We will communicate to you within a reasonable time our determination on whether we approve the item for your use. We may charge you a reasonable amount to cover our expenses in testing or inspecting any item, which shall not be more than \$250.

We reserve the right in the future to require that you purchase other goods, services, supplies, fixtures, equipment, inventory, computer hardware and software or real estate relating to establishing or operating the HuHot Restaurant only from suppliers we approve. In the event we designate approved suppliers in the future, and if you propose to purchase or lease any equipment, fixtures, furniture, POS System, other computer hardware and software, signs, décor items, tableware, merchandise, materials, products, supplies, real estate, or services from suppliers not previously approved by us, you must submit a written request to us and obtain our written approval before your purchase from that supplier. If we request you to do so, you must obtain from a potential supplier information concerning that supplier's financial and other capabilities. We will communicate to you within a reasonable time our determination whether we approve the supplier for your use. If we choose to designate approved suppliers, we will issue you our criteria for approving suppliers upon your written request. We may charge you a reasonable amount to cover its expenses in reviewing a proposed supplier's qualifications.

We reserve the right to revoke our approval of any food or drink products at any time and upon written notice to you, provided that you may continue to offer and sell all remaining on-hand or ordered inventory of your products as of the date of receipt of written notice from us.

The insurance policies you must purchase and maintain throughout the term of the franchise must be issued by an insurance carrier approved by us. You must maintain Workers Compensation including Employers Liability insurance in the limit of no less than \$500,000; Comprehensive General Liability with a General Aggregate of no less than \$1,000,000 including "Hired and Non-Owned" auto liability coverage; Products Liability of \$1,000,000; dramshop or host liquor liability coverage if and to the extent required by local law; and Business Interruption insurance in an amount equal to at least 6 months of your gross revenue. We can require you to obtain different or additional kinds of insurance and may increase the amount of coverage required. You must name, on each insurance policy, HuHot Mongolian Grills, L.L.C., 223 East Main Street, Missoula, Montana 59802 as an additional insured on a primary basis. The policy must provide for 30 days' prior written notice to HuHot of any material modification,

cancellation or expiration of the policy.

### Area Development Agreement

The Area Development Agreement does not contain any provisions requiring you as Developer to purchase or lease in accordance with specifications or from approved suppliers. As to each HuHot Restaurant you open, you will have the obligation to purchase or lease in accordance with our specifications or from approved suppliers as are in the then current standard form of franchise agreement. The obligations under the current Franchise Agreement are discussed above.

## **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.

### Unit Franchise Agreement

Obligation	Section in Franchise Agreement (unless otherwise specified)	Item in Offering Circular
a. Site Selection and acquisition/lease	3.a.	11
b. Pre-opening purchases/leases	3.b., 3.c., 9.b	7, 8
c. Site development and other pre-opening requirements	3.b., 3.c.	7, 11
d. Initial and ongoing training	4.a., 4.b.	6, 11, 15
e. Opening	3.e.	11
f. Fees	3.b, 4.a, 8.a., 8.b., 9.e, 14.b, 14.c	5, 6, 7, 8, 11
g. Compliance standards/Operations Manual	4.c., 9	8, 11, 14, 16
h. Trademarks and proprietary information	5, 6	11, 13, 14
i. Restrictions on products/services	9.a., 9.b., 9.c.	8, 16
j. Warranty and customer service requirements	9.c., 9.d.	16
k. Territorial development	None	None
l. Ongoing product/service purchases	9.a., 9.b.	8, 16
m. Maintenance, appearance and remodeling	3.b, 3.d., 9.a., 9.b., 9.c., 12.a	8, 11, 16, 17



Obligation	Section in Franchise Agreement (unless otherwise specified)	Item in Offering Circular
n. Insurance	9.g.	6, 7, 8
o. Advertising	9.d., 10	6, 7, 11
p. Indemnification	5.e., 7.d., 7.e.	6, 13
q. Owner's participation management/staffing	4.a., 4.b., 9.e., 14.c, 17.f	15
r. Records/reports	11	6
s. Inspections/audits	12	6, 11
t. Transfer	14	6, 17
u. Renewal	2.b.	6, 17
v. Post-termination obligations	17	17
w. Non-competition covenants	9.f., 17.d.	17
x. Dispute resolution	18.d, 18.e, 18.f, 18.g, 18.l	6, 17

#### Area Development Agreement

Obligation	Section in Area Development Agreement (unless otherwise specified)	Item in Offering Circular
a. Site Selection and acquisition/lease	2.A	11, 12
b. Pre-opening purchases/leases	None	None
c. Site development and other pre-opening requirements	2.B	7, 11
d. Initial and ongoing training	None	None
e. Opening	2.B.	11
f. Fees	6	5, 6, 7, 8, 11
g. Compliance standards/Operations Manual	None	N/A
h. Trademarks and proprietary information	None	N/A
i. Restrictions on products/services	None	N/A
j. Warranty and customer service requirements	None	N/A
k. Territorial development	3.C.	12
l. Ongoing product/service purchases	None	8, 16
m. Maintenance, appearance and remodeling	None	N/A

Obligation	Section in Area Development Agreement (unless otherwise specified)	Item in Offering Circular
n. Insurance	None	N/A
o. Advertising	None	N/A
p. Indemnification	None	N/A
q. Owner's participation management/staffing	None	15
r. Records/reports	None	N/A
s. Inspections/audits	None	N/A
t. Transfer	None	N/A
u. Renewal	None	N/A
v. Post-termination obligations	9	17
w. Non-competition covenants	9.C	17
x. Dispute resolution	None	N/A

## **Item 10** **FINANCING**

We do not typically offer direct or indirect financing.

However, we reserve the right, at our sole option, to consider on a case by case basis, extending financing to an existing franchisee in connection with that franchisee's establishing his business. Such financing would be limited to the franchisee's expenditures for equipment. At such time that we consider extending financing, we will negotiate financing terms with the franchisee on an individual basis. The limit of the loan amount would be \$50,000, interest would be 10%, payments would be amortized over 3 to 5 years, and we would take a security interest in the equipment purchased as a purchase money security interest. We would not require a personal guaranty, a waiver of defenses, waiver of notice, or confession of judgment. We would not sell, assign or discount to a third party all or part of the financing arrangement. We would not receive a direct or indirect payment for placing financing.

As of the date of this Offering Circular, we have not entered into any financing arrangement with a franchisee.

Other than the limited circumstances above, we do not offer direct or indirect financing. We do not guarantee your note, lease or obligation.

**Item 11**  
**FRANCHISOR'S OBLIGATIONS**

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

**Before Opening of the Restaurant**

We will provide the following services and guidance in connection with the establishment of your Restaurant:

We will assist you in selecting a site for the Restaurant (Paragraph 3.a, Franchise Agreement). However, you must locate and obtain our approval of your site.

We will provide you specifications for the development of a HuHot Restaurant including a décor package, equipment package and fixture package. When you have located a site and obtained our approval of that site, you must obtain a basic store layout from our designated architect (see Item 8). You must take these drawings and specifications to a licensed or registered architect of your selection who will modify them to meet applicable ordinances, building codes or permit requirements for the Restaurant location. We must approve any modifications to the basic layout and specifications (paragraph 3.b., Franchise Agreement).

We will lend you a HuHot Restaurant Operations Manual, consisting of 3 binders (collectively, the "Operations Manual"), any other manuals we may develop, and related types of materials and charts (Paragraph 4.c., Franchise Agreement). A Table of Contents of the Restaurant Operations Manual is attached as Exhibit G. As of the date of this Offering Circular, the total number of pages in the 3 binders comprising the Operations Manual was 367.

We will sell you store opening materials (see Items 5 and 7).

We furnish an initial training program that is described in more detail later in this Item 11 (Paragraph 4.b, Franchise Agreement).

**After the Opening of the Restaurant**

During the operation of the Restaurant, we will provide the following:

We will provide additional training and opening assistance at your location around the time of the Restaurant opening. This training will be given by an employee of HuHot or by a third party by HuHot (Paragraph 4.a, Franchise Agreement).

We will continue to lend you the Operations Manual and any other manuals we may develop. We may provide you with modifications to the manual to reflect changes in

specifications, standards and operating procedures (Paragraph 4.c, Franchise Agreement).

We will furnish guidance to you on: (1) specifications, standards and operating procedures used by HuHot Restaurants, and any modifications thereof; (2) approved equipment, furniture, POS System, signs, operating materials and supplies; (3) methods of food preparation and sale and improvements thereon; and (4) the establishment and maintenance of administrative, bookkeeping, accounting and general operating and management procedures. This guidance may be in the form of the Operations Manual, bulletins, written reports and recommendations, other written materials, or by consultations by telephone or consultations in person at your Restaurant, our corporate offices, or at meetings, conventions and conferences (Paragraph 4.b., Franchise Agreement).

We will advise you of operational concerns at or in your Restaurant as disclosed by reports submitted to or inspections made by us (Paragraph 4.b, Franchise Agreement).

We will defend you in any legal proceeding brought against you by reason of your proper use of the Marks (Paragraph 5.c, Franchise Agreement).

We may conduct market research and testing to determine consumer trends and the salability of new menu items (Paragraph 9.a, Franchise Agreement).

We will conduct testing and review as it deems necessary to determine whether a product or supplier proposed by you should be approved (Paragraph 9.b, Franchise Agreement).

We will establish and administer a Marketing Fund to conduct marketing and promotional programs (Paragraph 10.a., Franchise Agreement).

We will review all local advertising and promotional materials which you propose to use and determine whether the advertising should be approved for use (Paragraph 10.b.iii., Franchise Agreement).

We will interview and evaluate any proposed purchaser of your Restaurant to determine whether the transferee meets its then-current qualifications for franchisees (Paragraph 14.c, Franchise Agreement).

Some or all of the above services may be performed by a third party designated by HuHot, who may or may not be an employee of HuHot.

### **Marketing and Promotion**

You must contribute 0.5% of your Gross Revenues to the Marketing Fund (“Marketing Fund Contribution”), which is intended to enhance recognition of the Marks and patronage of HuHot restaurants, generally. When there are 500 HuHot Restaurants, we can increase your Marketing Fund Contribution, but the increased amount will not exceed 3% of your Gross

Revenues. We are not required to spend any amount in your market. Restaurants owned by HuHot or its affiliates will contribute to the Marketing Fund on the same basis as you.

Three of the initial franchisees do not contribute to the Marketing Fund. They are, however, able to purchase marketing materials for a reasonable fee established by HuHot.

We will direct all marketing programs financed by the Marketing Fund with sole discretion over the creative concepts, materials and endorsements and the geographic market and media placement and allocation. The Marketing Fund is intended to enhance recognition of the Marks and the HuHot Restaurants. HuHot is not obligated to make expenditures for you which are equivalent or proportionate to your Marketing Fund Contribution or to ensure that you or any particular franchisee benefits directly or proportionately from expenditures by the Marketing Fund.

The Marketing Fund may be used to pay the costs of preparing and producing video, audio and written advertising and promotional materials; administering multi-regional advertising programs, including purchasing direct mail and other media advertising and employing advertising agencies; and supporting public relations, market research and other advertising and marketing activities.

In fiscal year ending December 31, 2004, the Marketing Fund was used as follows: 40% on printed marketing materials; 6% on production of radio and TV; 19% on Web Site; 3% on shipping, and 32% on the Production of Franchise Materials. We reserve the right to expend a portion of the Marketing Fund on advertising that is principally a solicitation for the sale of franchises. However, we will not expend an amount for this use that is greater than amounts contributed to the Marketing Fund by company-owned or affiliate-owned HuHot Restaurants. The amount represented by this 32% was not greater than these contributions.

The Marketing Fund will be accounted for separately from the other funds of HuHot and will not be used to defray any of our general operating expenses, except for reasonable salaries, administrative costs and overhead as we may incur in activities reasonably related to the administration of the Marketing Fund and its marketing programs, including conducting market research, preparing advertising, promotional and marketing materials and collecting and accounting for contributions to the Marketing Fund.

We are not required to have the Marketing Fund audited. We will furnish you an unaudited annual report of the Marketing Fund upon written request.

If all Marketing Fund Contributions are not spent in the fiscal year in which they accrue, the monies are simply rolled over for use in the next year. We may terminate the Marketing Fund by giving 30 days written notice of termination. We will have the right to reinstate the Marketing Fund under the same terms and conditions as herein set forth by giving you 30 days prior written notice of reinstatement.

In addition to your Marketing Fund Contributions, you must spend at least 3% of your Gross Revenues on local advertising and promotion, and to submit verification of these expenditures to us each calendar year.

If your HuHot Restaurant is located in an Arbitron Area of Dominant Influence (“ADI”) in which other Franchisees, HuHot or HuHot affiliate-owned Restaurants are located, a local advertising cooperative may be established by the vote of a majority of Restaurants in your ADI. The amount which you may be required to contribute to a local advertising cooperative is determined by the cooperative but may not exceed 3% of the Gross Revenues of your HuHot Restaurant. If at the time you sign a franchise agreement, a local advertising cooperative is in existence, or if after you sign a franchise agreement, a local advertising cooperative is formed in the area where your HuHot Restaurant is located, you must participate. All aspects of the formation and operation of the cooperative are determined by the members of the cooperative; these aspects include the budget, members' contribution, membership of the cooperative, voting rights, responsibility for administration, the governing documents, the preparation of financial statements, and the availability of those statements for review by you. We do not have the power to require cooperatives to be formed or to change, dissolve, or merge existing cooperatives. HuHot or its affiliate-owned Restaurants must participate in any local cooperatives in their ADI. Amounts you contribute to the local advertising cooperative are credited against your local advertising requirement.

You are permitted to use your own advertising material only after receiving approval of the text from us. Additionally, these materials must be provided to the Marketing Fund where they may then be used by HuHot or other franchisees.

### **Computer Hardware and Software**

You must purchase computer hardware and software for use in your HuHot Restaurant. Included in your configuration are a processor, monitor, printer, back up drive, and the following software: Aloha and Microsoft Office. The approved manufacturers and vendors of the hardware and software are listed on Exhibit H to this Offering Circular.

You also will need software to manage your database and handle your bookkeeping and accounting. For these functions we recommend, but do not require, File Maker Pro and Peachtree Accounting, respectively.

Use of the hardware and software allows you the capability of running the specified POS System and also ensures that your system is compatible with the computer operating systems of the entire organization.

The primary function of the required computer and printer is to generate customer bills and reports; and the primary functions of the POS System are customer invoice generation and processing, tracking of type of payment and date payment is received, cost management, inventory control and perpetual inventory management capability, and multiple manipulation of

all purchase and customer sales transactions.

Although we do not have the contractual right or obligation to provide ongoing maintenance, repairs, upgrades, or updates for the computer hardware or POS System, we may periodically contract with third parties to update the POS System and other software. The estimated annual cost of any optional or necessary maintenance and support contracts, upgrades, and updates for computer hardware and software ranges from \$100 - \$1,500.

Due to the rapid speed at which technology changes, we reserve the right to require you to replace any of the components of your computer system if, in the future, we deem the component to be: (a) undersized or otherwise insufficient for the efficient operation and management of your Restaurant; or (b) incompatible with our computer hardware or software or the computer hardware or software that we designate for System-wide use. The contractual limitations regarding how often we may require you to replace or update the various components of your computer system are included in the limitations on how often we may require you to refurbish your Restaurant, as discussed in Paragraph 3.e. of the Franchise Agreement. These limitations are: you are not required to make aggregate expenditures for refurbishing in excess of 1% of the accumulative gross revenues of the Restaurant of the 6 preceding years to the date of any required refurbishing; we may not require refurbishing more often than every 6 years; and you are not required to effect any refurbishing of the Restaurant during the last 3 years of the initial or any term of a successor franchise except in connection with acquisition of a successor franchise.

### **Site Selection and Restaurant Opening**

We must approve the site for your HuHot Restaurant. You must locate the site using a licensed real estate broker who specializes in commercial real estate. You must submit a complete site report to us. We may consider the following factors in approving a site: the demographic characteristics, traffic patterns, parking, character of neighborhood, competition from other businesses within the area, the proximity to other businesses (including other HuHot Restaurants), and the size, appearance and other physical characteristics of the site. The lease for the site must include certain provisions required by us and stated in the Franchise Agreement.

We cannot and do not guarantee the viability and ultimate profitability of any site which you select and which we approve.

If an approvable site is selected and submitted by you to us at the time the Franchise Agreement is signed, the length of time to the opening of your Restaurant is estimated at 4 to 6 months. If an approvable site is not selected and submitted by you to us at the time the Franchise Agreement is signed, the length of time to the opening of your Restaurant is estimated at 5 to 9 months. Factors affecting these estimates include site selection, local ordinance compliance questions, obtaining financing, build-out and leasehold improvements, contractor delays, delivery of inventory and equipment and successful completion of the initial training program.

By the terms of the Franchise Agreement, you must open your Restaurant no later than 16 months after signing the Franchise Agreement.

### Training

You or a HuHot-approved manager (or, if you are a corporation, partnership or limited liability company, its controlling shareholder, managing partner, member or a HuHot-approved manager) must complete the HuHot Restaurant training program to our satisfaction. You may also bring 1 additional person, as a spouse or employee, to the training program. The first phase of the training program will take place at our corporate headquarters and/or a HuHot company, affiliate or franchisee-owned Restaurant in Missoula, Montana. We will hold training periodically, as we determine necessary and desirable. The training program will be for a minimum of 10 days and, generally, a maximum of 20 days, at a location we designate, which location is subject to change. We will also furnish training at your Restaurant around the time you open your Restaurant for as long as we believe necessary -- generally for a minimum of 5 days for you and your staff before the time of the Restaurant opening and for a minimum of 5 days immediately following the Restaurant opening. Training will consist of all phases of the operation including unit operations, bookkeeping, inventory management, and local marketing. Training in your Restaurant will consist of operational management, with emphasis on customer service, follow up procedures, customer relations, and sales reporting procedures.

Although there are no additional fees for the training program, you must pay your own travel and living expenses incurred attending the training program. This training will occur at times scheduled by us and may not be available immediately upon request.

The following table summarizes the training program:

Subject	Instructional Material (1)	Hours of Classroom Training (2)	Hours of Training at Training Store (2)	Hours of Training at Franchisee Store (2)	Instructors (3)
Cash Register	Operations Manual	1	8	4	Manufacturer's Representative and Training
Store Equipment	Operations Manual	0	8	4	Training Staff
Introduction to Ingredients	Operations Manual	0	4	1	Training Staff
Starch Product Preparation & Presentation	Operations Manual	0	4	3	Training Staff



Subject	Instructional Material (1)	Hours of Classroom Training (2)	Hours of Training at Training Store (2)	Hours of Training at Franchisee Store (2)	Instructors (3)
Meat & Seafood Product Preparation and Presentation	Operations Manual	0	4	3	Training Staff
Vegetable Preparation & Presentation	Operations Manual	0	4	3	Training Staff
Sauce Preparation and Presentation	Operations Manual	0	4	3	Training Staff
Appetizer and Dessert Preparation and Presentation	Operations Manual	0	4	3	Training Staff
Beverage Preparation and Presentation	Operations Manual	0	4	3	Training Staff
Grill Operation, Cooking Procedures and Presentation	Operations Manual	0	12	6	Training Staff
Customer Service Procedures	Operations Manual	4	25	16	Training Staff
Insurance	Operations Manual	1	0	0	Training Staff
Back of House Accounting	Operations Manual	2	6	2	Training Staff
Daily Administration	Operations Manual	1	6	2	Training Staff
Marketing	Operations Manual	2	6	3	Training Staff
Store Closing Procedures	Operations Manual	2	6	4	Training Staff
Internal Theft Prevention	Operations Manual	1	2	2	Training Staff
Budgeting	Operations Manual	1	3	4	Training Staff
Inventory Procedures and Ordering	Operations Manual	1	6	4	Training Staff
Training and Evaluations	Operations Manual	2	8	2	Training Staff
Franchisee/Franchisor Relationship	Operations Manual	1	0	1	Training Staff

Subject	Instructional Material (1)	Hours of Classroom Training (2)	Hours of Training at Training Store (2)	Hours of Training at Franchisee Store (2)	Instructors (3)
Sanitation and Health Safety Procedures	Operations Manual	1	6	2	Training Staff

**Explanatory Notes**

- (1) The materials used to teach these subjects are a combination of tools including the Operations Manual and supplemental handouts.
- (2) The subjects are in a modular format and subject to varying start and stop time. Additionally, all of the subjects are integrated.
- (3) The training program is supervised by Michael Ellinghouse, Director of Operations. Michael has been Director of Operations since June 2004. He served as the manager of the original HuHot in Missoula from its inception in June 1999 until June 2003. Michael is also Vice-President of Hot Grills, Inc., an affiliate entity that owns and operates 2 franchised HuHots, one in Spokane, Washington and the other in Billings, Montana.

The training subjects are taught by various employees of HuHot who provide instruction in the areas in which they have experience with HuHot and in the industry. The other training personnel will be the current employees of the Restaurant used for training, including the Restaurant Manager and other personnel as needed. The instructors will have a minimum of 4 weeks experience in the area they will be teaching.

**Additional Training Programs.** We may also provide refresher and supplemental training programs; however, none are planned at this time. You must attend the refresher or supplemental training programs. You must pay for your own transportation and living expenses in attending training.

**Regional or National Conventions.** We may conduct regional or national conventions, which may or may not include refresher or supplemental training. You must pay for your own transportation and living expenses in attending conventions.

**Item 12**  
**TERRITORY**

**Unit Franchise Agreement**

The Franchise Agreement will provide you with an exclusive area or territory as agreed upon by you and HuHot, within which we may not establish or franchise another HuHot Restaurant without your prior written consent (the "Protected Area"). The Protected Area will be a minimum of a 1 mile radius from the location of your HuHot Restaurant. You are granted the right to conduct a HuHot Restaurant from 1 specified location only. You have no options, rights of first refusal or similar rights to acquire additional franchises in any other locations. You may not re-locate your HuHot Restaurant to another location without our prior written consent, which shall not unreasonably be withheld provided that the proposed new location is within the Protected Area granted to you under the Franchise Agreement. We may consider the same factors in approving a relocation as in the initial site selection.

HuHot (on behalf of itself and its affiliates) retains the right, in its sole discretion:

(1) to itself operate, or to grant other persons the right to operate, HuHot Restaurants at locations, other than in your Protected Area, and on terms and conditions as we deem appropriate; and

(2) to sell the products and services authorized for HuHot Restaurants under the Marks or other trademarks, services marks and commercial symbols through similar and dissimilar channels of distribution, within and outside your Protected Area, and pursuant to terms and conditions as we deem appropriate.

HuHot and its affiliates may in the future establish franchised or company-owned or affiliate-owned restaurants selling similar products or services under different service marks and trademarks, and may sell products at retail or wholesale through the Internet, by mail order or through other channels of distribution. As of the date of this Offering Circular, we have not established other channels of distribution using the HuHot trademark.

Continuation of your operation at the franchised location is not dependent upon you attaining any particular volume or other contingency.

**Area Development Agreement**

(1) **Size of Exclusive Area**

The Area Development Agreement grants Developer certain rights (as described below) within a designated geographical area (the "Exclusive Area") to be described in Exhibit A attached to the Area Development Agreement. The size of the Exclusive Area will vary, based

on the market potential and our analysis of the financial and operational capabilities of Developer. It may be 1 or more counties in rural areas or a portion of a metropolitan statistical area in heavily populated major cities. The Exclusive Area is not based upon a minimum population.

(2) Rights During Development Periods

Provided Developer: (a) is in full compliance with the terms and conditions contained in the Area Development Agreement, including, without limitation, the development obligations contained in Paragraph C of Section 3 thereof; and (b) is in full compliance with all obligations under existing Franchise Agreements entered into between us and Developer pursuant to the Area Development Agreement (including being current on all accounts payable to us); then during the Development Period, we: (1) will grant to Developer, in accordance with the provisions of Section 5 of the Area Development Agreement (described in Item 11 hereof), franchises for the ownership and operation of HuHot Restaurants located within the Exclusive Area; (2) will not operate (directly or through an affiliate), nor grant to any other franchisee a franchise for the operation of, any HuHot Restaurant to be located within the Exclusive Area. We and our affiliates specifically reserve the right to operate (directly or through an affiliate), or grant to others a nontraditional site.

(3) Development Obligations

During the term of the Area Development Agreement and any extensions thereof, Developer must at all times faithfully, honestly, and diligently perform his obligations thereunder and continuously exert his best efforts to promote and enhance the development of HuHot Restaurant within the Exclusive Area. Without limiting the foregoing obligation, Developer must have open HuHot Restaurants at the end of each Development Period ("Minimum Development Quota") and must have each Store open and operating within 120 days from the date Developer acquires possession of the site. The Development Periods and Minimum Development Quota will be determined by us on the basis of the market potential, size of the Exclusive Area, and our analysis of the financial and operational capabilities of Developer, and will be inserted in Exhibit B to the Area Development Agreement before it is signed. We may on occasion, in our sole discretion and on terms and conditions we determine, grant extensions to the development schedule. The continuation of Developer's area exclusivity as described above is not dependent on the achievement of a certain sales volume or market penetration or other contingency except as described in Item 12 above.

(4) Store Closings

A HuHot Restaurant owned by Developer which is permanently closed with our approval after having been open shall be deemed open and in operation for purposes of the Minimum Development Quota if a substitute HuHot Restaurant is open and in operation within 6 months from the date of closing. The replacement Restaurant shall not otherwise count toward your quotas.

**Item 13**  
**TRADEMARKS**

Under the Franchise Agreement, we grant you the right to use the service mark “HuHot Mongolian Grill” plus design, and other trademarks, service marks and commercial symbols as we authorize (collectively, the “Marks”).

The service mark “HuHot Mongolian Grill” was registered on the Principal Register of the U.S. Patent and Trademark Office ("USPTO") on July 30, 2002, Registration #2602631.

The face design accompanying the service mark “HuHot Mongolian Grill” was registered on the Principal Register of the USPTO on July 30, 2002, Registration #2602630.

We filed application for the HuHot stylized chopstick design accompanying the service mark “HuHot Mongolian Grill” to be registered on the Principal Register of the USPTO on May 11, 2005, serial number 78627647. This application is in process.

There are no other agreements currently in effect that significantly limit the rights of HuHot or you to use the Marks.

There are no presently effective determinations of the USPTO, the trademark trial and appeal board, the trademark administrator of any state or any court, nor are there any pending infringement, opposition or cancellation proceedings or any pending material litigation involving the Mark which is relevant to its use in this or any other state.

Except as otherwise stated above, there are no agreements currently in effect which significantly limit the our rights to use or license the use of the above-mentioned trademark, service mark, trade name, logotypes, or other commercial symbols in any manner material to the franchise.

There are no infringing uses actually known to us which could materially affect your use of the service mark, trade name, logotypes or other commercial symbols in the state in which your Restaurant is to be located.

We have the right to require you to use new marks and to discontinue or modify your use of any name or commercial symbol. If it becomes advisable at any time, in our sole discretion, for you to modify or discontinue use of any Mark and/or use one or more additional or substitute trademarks or service marks, you must do so within a reasonable time after notice by us. In the event we require you to discontinue the use of any name or commercial symbol and to use a substitute mark or commercial symbol, our sole obligation will be to reimburse you your out-of-pocket expenses of complying with this obligation.

Under the Franchise Agreement, you acknowledge that your right to use the Marks is derived solely from the Franchise Agreement and is limited to the conduct of the Restaurant pursuant to and in compliance with the Franchise Agreement and all applicable standards and operating procedures prescribed by us. Any unauthorized use of the Marks by you constitutes an infringement of our rights in and to the Marks. You agree that your use of the Marks and any goodwill established thereby inure to the exclusive benefit of HuHot, and you acknowledge that the Franchise Agreement does not confer any goodwill or other interests in the Marks upon you. You may not at any time during the term of the Franchise Agreement, or after its termination or expiration, contest the validity of ownership of any of the marks or assist any others in contesting the validity or ownership of any of the Marks.

You must use the Marks as the sole identification of the Restaurant, but you must identify yourself as the independent owner in the manner prescribed by us. You may not use any mark as part of any corporate or trade name or with any prefix, suffix or other modifying words, nicknames, terms, designs or symbols, or in any modified form (including, without limitation, any local or special adaptations or artistic variations of any of the Marks), nor may you use any Mark in connection with the sale of any unauthorized product or service or in any other manner not expressly authorized in writing by us. We have obtained the rights to the domain name "HuHot.com." You agree not to register the Marks on the Internet or any other computer on-line service, and you must obtain our prior written approval before your use of the Marks on the Internet or on-line service. You must display the Marks prominently and in the manner prescribed by us on signs, forms, and other materials and articles. Further, you must give notices of trademark or service mark ownership or registration and copyrights as we specify and to obtain fictitious or assumed name registrations as may be required under applicable law. Any and all uses of the Marks will be subject to our prior written approval, and a request for approval will include information and samples as we may require. You may not use the name "HuHot Mongolian Grill," "HuHot" or a derivative thereof in your corporate or other formal name.

Under the Franchise Agreement you must notify us immediately in writing of any apparent infringement of or challenge to your use of any of the Marks, or claim by any person other than HuHot or its affiliates or franchisees of any rights in any of the Marks or any similar trade name, trademark or service mark of which you become aware. You may not communicate with any person other than HuHot and its counsel in connection with an infringement challenge or claim. We have sole discretion to take whatever action we deem appropriate and the right to control exclusively any litigation, USPTO proceeding or any other administrative proceeding arising out of any infringement, challenge or claim or otherwise relating to any Mark. You further agree under the Franchise Agreement to sign any and all instruments and documents, render assistance and do whatever may be necessary or advisable to protect and maintain the interests of HuHot in any litigation, USPTO proceeding or other administrative proceedings or otherwise to protect and maintain the interests of HuHot in the Marks.

We will indemnify you against and to reimburse you for all direct, but not consequential (including loss of revenue and/or profits), damages for which you are held liable in any proceedings arising out of the use of any Mark pursuant to and in compliance with the Franchise Agreement, and

for all costs reasonably incurred by you in the defense of any claim brought against it or in any proceeding in which you are named as a party, provided that you have duly notified us of the claim or proceeding and have otherwise complied with the Franchise Agreement.

#### **Item 14**

### **PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION**

Except as noted below, we do not own any rights in or to any patents or copyrights which are material to the Franchise. We claim copyrights in its Operations Manual and any other manuals we furnish (currently in progress is our Development Manual), and related materials used in the operation of the Franchise. Our copyrights have not been registered with the United States Registrar of Copyrights but have been protected under the copyright laws of the United States by virtue of HuHot and its affiliates placing the appropriate notice of copyright on these items. You may use the Manuals and materials during the term of your Franchise Agreement.

There are currently no effective determinations of the U.S. Copyright Office or any court, regarding any of our copyrights. Nor are there any agreements currently in effect that significantly limit our rights to use or license the copyrighted materials in any manner material to the Franchise. Furthermore, there are no infringing uses actually known to us that could materially affect your use of the copyrighted materials in any state where the Franchise is to be located. We are not obligated under any agreement to protect or defend our copyrights.

To preserve and enhance the reputation and goodwill associated with our Marks, and to maintain uniform standards of operation for franchisees, you must operate the Franchise in full compliance with the Operations Manual and Development Manual, as amended. You also understand that the Manuals and other training and operational aids contain certain proprietary and confidential information and remain our property. There will be no duplication or any disclosure of the proprietary and confidential information, except to your employees on a need-to-know basis, and you must take all reasonable precautions we prescribe to prevent unauthorized use or disclosure of our proprietary information. You must keep copies of the Manuals current by inserting the updates we furnish on an ongoing basis, and, in the event of any dispute as to Manuals' contents, our master copy shall control.

#### **Item 15**

### **OBLIGATION OF FRANCHISEE TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS**

#### **Unit Franchise Agreement**

We require you to supervise the overall operation of your franchised business, but not necessarily personally manage or directly supervise the Restaurant. The Restaurant must be directly supervised "on-premises" by a manager who has completed our training program and who has significant restaurant experience. The on-premises manager may not have an interest in

or business relationship with any of our business competitors. The manager need not have an ownership interest in the Franchise or in a corporate or partnership franchisee. The manager must sign a Confidentiality and Non-Competition Agreement (attached as Exhibit C) to maintain confidentiality of the trade secrets described in Item 14 and to conform with the covenants not to compete described in Item 17. If the direct supervisor of the Restaurant does not have an ownership interest in Franchisee or the Restaurant, someone with an ownership interest must complete our owner's training program that incorporates portions of our initial training program.

#### Area Development Agreement

We do not require Developer to exert his full-time efforts to his obligations under the Area Development Agreement. Developer must supervise the development and operations of HuHot Restaurants franchised pursuant to the Area Development Agreement, but need not be engaged in the day-to-day operations of any specific Restaurant.

#### **Item 16**

#### **RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL**

You are not permitted to sell, distribute or use any products or other items not approved by us for the uniform operation of all HuHot Restaurants, and your premises may not be used for any business purpose other than the operation of the Restaurant as authorized by us, except as we permit in writing. We have the right to add additional authorized services and products that you must offer. There are no limits on our rights to make product or service changes.

You must conduct your franchise solely from the specified location and may not advertise, sell, distribute or promote any products or services authorized for the Restaurant without our prior written consent, which consent may be withdrawn upon written notice to you. You further must be open for business for the minimum hours and days as we specify in the Operations Manual, unless prevented by significant adverse weather conditions, other acts of God, applicable governmental action, or if we in our sole discretion allow the Restaurant to have shorter hours. As further described in Item 8 of this Offering Circular, you must use only signs, materials and supplies conforming to our minimum specifications and quality standards.

You must also comply with all mandatory specifications, standards and operating procedures relating to the function and operation of a Restaurant including those relating to: (1) hours during which you shall operate the Restaurant (as described previously); (2) methods and procedures relating to the acquisition, storage, preparation and service of products offered by you in the operation of your Restaurant; (3) advertising and promotion; (4) use of standard forms; (5) the handling of customer inquiries and complaints; and (6) use of approved POS System and other required computer hardware and software.

As a general matter, you must secure and maintain in force in your name all required licenses, permits and certificates relating to the operation of the Restaurant in full compliance



with all applicable laws, ordinances and regulations including, without limitation, regulations relating to alcoholic beverages, food preparation, worker's compensation insurance, unemployment insurance and withholding and payment of federal and state income taxes, social security taxes and sales taxes. All advertising by you must be completely factual, in good taste in our judgment, and must conform to the highest standards of ethical advertising. You shall in all dealings with your customers, suppliers, HuHot, and public officials adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct.

### Item 17

### RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

The following tables list certain important provisions of the Franchise Agreement. You should read these provisions in the agreement attached to this offering circular.

#### Unit Franchise Agreement

Provision	Provision in Franchise Agreement	Summary
a. Length of the term of Franchise	Paragraph 2.a	15 years.
b. Renewal or extension of the term	Paragraph 2.b	If you are in good standing, you can acquire a successor franchise for successive 5 year terms on the then-current terms
c. Requirements for you to renew or extend	Paragraph 2.b	Maintain premises or secure substitute premises, remodel, sign new agreement and other documents and sign release, and upgrade to then-current standards of décor, equipment, and product offerings
d. Termination by you	Section 15	Breach by us, you in compliance
e. Termination by us without cause	None in Franchise Agreement	We cannot terminate your Franchise Agreement without cause
f. Termination by us with cause	Section 16	We can terminate only if you commit any 1 of several listed violations
g. "Cause" defined - defaults which can be cured	Section 15	You have 10 days for monetary defaults, and 30 days for all defaults not listed in Paragraph 16.a.

Provision	Provision in Franchise Agreement	Summary
h. "Cause" defined defaults which cannot be cured	Section 15	You have no right to cure the following defaults for which your franchise may be immediately terminated: Failure to open Restaurant within 16 months of agreement; failure to complete initial training, abandonment; conviction of felony; unauthorized transfers; unauthorized use or disclosure of confidential information or Operations Manual; unauthorized use of Marks, creation of a threat to public health or safety; repeated defaults (even if cured); unapproved transfer upon your death or permanent incapacity; failure to comply with covenants in Paragraph 9.f; termination of other agreement between HuHot and you.
i. Your obligations on termination/non-renewal	Section 17	Pay outstanding amounts, complete de-identification, return confidential information, covenant not to compete, continuing obligations, HuHot's option to purchase.
j. Assignment of contract by us	Paragraph 14.a	No restrictions on our right to assign
k. "Transfer" by you – definition	Paragraph 14.b	Includes transfer of any interest in Franchise Agreement, assets or ownership change in your corporation, partnership or limited liability company
l. HuHot's approval of transfer by you	Paragraph 14.b	We have right to approve all transfers, but will not unreasonably withhold consent.
m. Conditions for our approval of transfer	Paragraph 14.b	Transferee qualifies, all obligations assumed by transferee, all amounts due us are paid, transferee completes training, transfer fee paid, general release signed, you must guarantee performance and obligations of transferee at our election, transferee signs, at our sole discretion, either: (a) our assignment and assumption agreement or (b) our then-current franchise agreement, which may contain materially different terms than your Franchise Agreement
n.. Our right of first refusal to acquire your business	Paragraph 14.e	We can match any offer for your business or an ownership interest in you
o. Our option to purchase your business	Paragraph 17.f	We can purchase tangible assets, assignment of all licenses and permits, on termination or expiration for the formula price described in the Franchise Agreement
p. Your death or disability	Paragraph 14.c	Franchise or ownership interest in you must be assigned to approved buyer within 6 months

Provision	Provision in Franchise Agreement	Summary
q. Non-competition covenants during the term of the franchise	Paragraph 9.f	No involvement in competing business anywhere
r. Non-competition covenants after the franchise is terminated or expires	Paragraph 17.d	No competing business for 2 years within 50 miles of your Restaurant or within 10 miles of any other HuHot Restaurant (same restrictions after assignment)
s. Modification of the agreement	Paragraph 18.b and 18.i	No modifications generally, but Operations Manual, and standards and specifications subject to change
t. Integration/merger clause	Paragraph 18.j	Only terms of Franchise Agreement (including exhibits, attachments, Operations Manual and other written materials) are binding (subject to state law). Any other promises not included in a valid enforceable written contract between you and us may not be enforceable.
u. Dispute resolution by arbitration or mediation	Paragraph 18.1	In accordance with the commercial arbitration rules of the American Arbitration Association in Missoula, Montana
v. Choice of forum	Paragraph 18.1	Arbitration must be in Montana (subject to state law)
w. Choice of law	Paragraph 18.e	Governed by Montana law except when U.S. Trademark Act or other federal law governs

#### Area Development Agreement

Provision	Provision in Area Development Agreement	Summary
a. Length of the term of Franchise	Paragraph 3.a	Length of Development Period, varies
b. Renewal or extension of the term	None	None
c. Requirements for you to renew or extend	None	None
d. Termination by you	None	None
e. Termination by us without cause	None	We cannot terminate your Franchise Agreement without cause
f. Termination by us with cause	Section 8	We can terminate only if you commit any 1 of several listed violations

Provision	Provision in Area Development Agreement	Summary
g. "Cause" defined - defaults which can be cured	Section 8	You have 10 days for monetary defaults, and 30 days for all defaults not listed in Paragraph 8.
h. "Cause" defined defaults which cannot be cured	Section 8	You have no right to cure the following defaults for which your franchise may be immediately terminated: Breach of Franchise Agreement; failure to meet Minimum Development Quota
i. Your obligations on termination/non-renewal	Section 9	Loss of Rights to open multiple Restaurants, loss of exclusive territory
j. Assignment of contract by us	None	None
k. "Transfer" by you – definition	None	None
l. HuHot's approval of transfer by you	None	None
m. Conditions for our approval of transfer	None	None
n. Our right of first refusal to acquire your business	None	None
o. Our option to purchase your business	None	None
p. Your death or disability	None	None
q. Non-competition covenants during the term of the franchise	None	Covered in Franchise Agreement
r. Non-competition covenants after the franchise is terminated or expires	Paragraph 9.C.	No competing business for 2 years within Exclusive Area
s. Modification of the agreement	None	None
t. Integration/merger clause	None	None

Provision	Provision in Area Development Agreement	Summary
u. Dispute resolution by arbitration or mediation	None	None
v. Choice of forum	None	None
w. Choice of law	None	None

These states have statutes which may supersede the Franchise Agreement and Area Development Agreement in your relationship with HuHot, including the areas of termination and renewal of your franchise:

- ARKANSAS. [Code Sections 4-72-201 to 4-72-210]
- CALIFORNIA. [Bus. & Prof. Code Sections 20000 to 20043]
- CONNECTICUT. [Gen. Stat. Sections 42-133e to 42-133h]
- DELAWARE. [Code Sections 2551 to 2556]
- FLORIDA. [Stat. Section 542.335]
- HAWAII. [Rev. Stat. Section 482E-6]
- ILLINOIS. [815 ILCS 705/18 to 705/20]
- INDIANA. [Stat. Sections 23-2-2.5-1 and 23-2-2.7]
- IOWA. [Code Sections 523 H.1 to 523H.17]
- MICHIGAN. [Stat. Section 19.854(27)]
- MINNESOTA. [Stat. Section 80.C.14]
- MISSISSIPPI. [Code Sections 75-24-51 to 75-24-63]
- MISSOURI. [Rev. Stat. Sections 407.400 to 407.410]
- NEBRASKA. [Rev. Stat. Sections 87-401 to 87-410]
- NEW JERSEY. [Rev. Stat. Sections 56:10-1 to 56:10-12]
- SOUTH DAKOTA. [Codified Laws Section 37-5A-51]
- VIRGINIA. [Code Sections 13.1-557 to 13.1-574]
- WASHINGTON. [Code Section 19.100.180 and 19.100.190]
- WISCONSIN. [Stat. Sections 135.01 to 135.07]

These and other states may have court decisions that may supersede the Franchise Agreement in your relationship with HuHot, including the areas of termination and renewal of your franchise.

### Item 18

#### PUBLIC FIGURES

We do not use any public figure to promote its franchise.

## Item 19

### EARNINGS CLAIMS

#### Statement of Actual Earnings

The following represents the actual sales, expenses and net income for the HuHot Mongolian Grill Restaurant, operated in Missoula, Montana by MTP, an affiliate of HuHot for 2005. The revenues and expenses are actual numbers from this store, but we did not include interest, depreciation, amortization, income taxes, and owner's draw. We are not saying that you can expect to achieve these sales or profits in your first year, or at any time. Your revenues and expenses will vary significantly depending on a number of factors, including the location of your store and how you operate your business.

The HuHot Mongolian Grill Restaurant in Missoula, Montana, for which the earnings data is provided, is substantially identical to the HuHot Restaurant concept being offered to you. The restaurant for which earnings data is being furnished is located in a free-standing building in Missoula, Montana, a county of approximately 90,000 people. Missoula is the home of the University of Montana and has a sizeable student population. The HuHot Mongolian Grill Restaurant is approximately 4,200 square feet in area with seating for 120 customers, and offers beer and wine (rather than full bar service), and has the same menu items that we require you to offer. The restaurant opened in 1998, so these figures are from its 7<sup>th</sup> calendar year of operation.

Gross Revenue		
Meals	937,780	82.1%
Appetizers	21,806	1.9%
Desserts	15,657	1.4%
Soft Beverages	114,955	10.1%
Alcoholic Beverages	52,016	4.6%
Retail Sales	<u>581</u>	<u>0.1%</u>
Total Gross Revenue	1,142,793	100.0%
Cost of Goods Sold		
Meals	253,732	22.2%
Appetizers	8,837	0.8%
Desserts	9,185	0.8%
Soft Beverages	20,629	1.8%
Alcoholic Beverages	25,569	2.2%
Paper	<u>10,428</u>	<u>0.9%</u>
Total CGS	328,380	28.7%
Gross Profit	814,413	71.3%
Expenses – Personnel		
Management Salaries	35,673	3.1%

Hourly Labor	229,920	20.1%
Cleaning Services	7,295	0.6%
Payroll Taxes & Insurance	45,072	3.9%
Bonuses	2,048	0.2%
Employee Benefits	<u>5,115</u>	<u>0.4%</u>
Total Personnel	325,123	28.4%
Expenses – Operating		
Smallwares	10,665	0.9%
Operating Supplies	13,254	1.2%
Cleaning Supplies	10,613	0.9%
Trash	3,720	0.3%
Towels & Laundry	7,794	0.7%
Telephone	1,673	0.1%
Utilities	51,493	4.5%
Uniforms	2,228	0.2%
Maint. & Repair – Bldg. & Equip	19,468	1.7%
HuHot Franchise Fee	57,140	5.0%
Taxes & Licenses	1,823	0.2%
Training	198	0.0%
Bank Charges	12,517	1.1%
Cash Short/Long	-69	0.0%
Theft & Bad Checks	206	0.0%
Donations	<u>1,185</u>	<u>0.1%</u>
Total Operating	193,908	17.0%
Expenses – Advertising		
Radio & TV	153	0.0%
Printed Media	13,795	1.2%
Local Promo	350	0.0%
HuHot Marketing Fund	<u>5,711</u>	<u>0.5%</u>
Total Advertising	20,009	1.8%
Expenses – Occupancy		
Space Rental	50,400	4.4%
Insurance	6,349	0.6%
Real Estate Taxes	<u>5,703</u>	<u>0.5%</u>
	62,452	5.5%
Net Income	212,921	18.6%

The following material assumptions and bases for the un-audited sales information and food and labor cost percentages apply to the information for the Missoula, Montana location only:

1. The “gross revenues” reported above correspond to the definition of “gross revenues” in the HuHot Mongolian Grills, L.L.C. Franchise Agreement attached to this offering circular. “Gross revenues” does not include sales taxes, customer refunds or promotional rebates

paid or given by HuHot Mongolian Grill.

2. Costs of Goods Sold figures includes sales taxes and shipping, of all food, ingredients, soft and alcoholic beverages, paper goods and logo-ed items as t-shirts and caps and other items sold at retail in the restaurant.

3. MTP, the owner of HuHot Mongolian Grill in Missoula, Montana, also owns several other unrelated restaurants. It incurs office salaries for employees performing supervisory, bookkeeping and other administrative functions for the HuHot Mongolian Grill Restaurant as well as its other restaurants. The labor costs associated with these employees are not included in the costs from which the labor cost percentage is calculated for HuHot Mongolian Grill. In your HuHot franchised Restaurant, those functions could be performed by you, a manager or outside accounting or bookkeeping service. If these functions are not performed by you or by someone else whose salary is already included in your expenses, you will incur additional costs to have these function performed.

**Percentage of Sales Distribution and Average Sales**

<u>Annual Sales</u>	<u>Distribution</u>
\$2,500,000 and over	1
\$2,000,000 – 2,500,000	1
\$1,500,000 – 1,999,999	4
\$1,000,000 - 1,499,999	5
\$750,000 – 999,999	4
Average Sales	\$1,380,000

Annual Gross Revenues based on the 12 month data through December 28, 2005. All of these HuHot restaurants offer substantially the same products and services as will be offered from future franchised restaurants. Annualized Gross Revenues were used when 12-month data was not available.

**YOUR INDIVIDUAL RESULTS ARE LIKELY TO DIFFER FROM THE RESULTS STATED ABOVE.**

These earnings claim figures do not necessarily reflect the actual costs of sales, operating expenses or other costs or expenses that you may experience. In addition, net profits or earnings will vary depending on a number of factors which you should consider carefully in evaluating this information and in making any decision to purchase a franchise. These factors include: business skills, motivation and effort of the individual franchisee and of the franchisee's staff and management; location of your restaurant; market conditions; competition; income and demographic



characteristics of a particular market area (including age, demographics, population density and population turnover); expense variables in a particular market; e.g., rent, advertising expense, insurance, and labor cost; level of debt and the terms of debt obligations; the degree and quality of competition in a particular market area; number of years of operation; as well as conditions generally prevailing in the local and national economy. You should conduct an independent investigation of the costs and expenses you will incur in operating your franchised business. Franchisees or former franchisees, listed in the offering Circular, may be one source of this information.

We emphasize that while the above Gross Revenues figures are actual figures, they are determined, to a large extent, by the quality of the management of the business. Among the determinant factors are the hours the business operates, the energy, persistence and dedication of the franchisees, the quality of the work performed, and the quality of customer service.

You should note that the information contained in these earnings claims is not intended to express or infer an estimate, projection or forecast of income, sales, profits or earnings to be derived in connection with any particular franchise. We make no representation whether you will derive any specific level of Gross Revenues or Net Income. The earnings claims should not be viewed as an assurance that you or any franchisee will attain the results shown above.

PROSPECTIVE FRANCHISEES OR SELLERS OF FRANCHISES SHOULD BE ADVISED THAT NO CERTIFIED PUBLIC ACCOUNTANT HAS AUDITED THESE FIGURES OR EXPRESSED HIS/HER OPINION WITH REGARD TO THEIR CONTENT OR FORM. THE AMOUNTS HAVE NOT BEEN AUDITED OR REVIEWED FOR REASONABLENESS BY INDEPENDENT AUDITORS.

THE RESULTS SHOWN BY THE AFFILIATE-OWNED RESTAURANT MAY BE POSITIVELY INFLUENCED AS A RESULT OF THE OWNER'S EXPERIENCE.

RESTAURANTS FOR WHICH EARNINGS CLAIMS ARE DISCLOSED IN THIS ITEM 19 MAY NOT HAVE NECESSARILY BEEN PROFITABLE.

SUBSTANTIATION OF THE DATA WE USED IN PREPARING THIS STATEMENT WILL BE MADE AVAILABLE UPON REASONABLE REQUEST.

EXCEPT FOR THE INFORMATION IN THIS ITEM 19, WE DO NOT FURNISH OR AUTHORIZE OUR SALESPERSONS TO FURNISH ANY ORAL OR WRITTEN INFORMATION CONCERNING THE ACTUAL OR POTENTIAL SALES, COSTS, INCOME OR PROFITS OF A HUHOT MONGOLIAN GRILL RESTAURANT. ACTUAL RESULTS WILL VARY FROM UNIT TO UNIT, AND WE CANNOT ESTIMATE THE RESULTS OF ANY PARTICULAR FRANCHISE.

**Item 20**

**LIST OF OUTLETS**

**Franchised Restaurant Status Summary for Years 2005/2004/2003\***

STATE	TRANSFER	CANCELED OR TERMINATED BY COMPANY	NOT RENEWED	REACQUIRED BY COMPANY	LEFT THE SYSTEM FOR OTHER REASONS	TOTAL FROM LEFT COLUMNS	FRANCHISED STORES OPERATING AT END OF YEAR
Colorado	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/0
Iowa	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	4/2/2
Montana	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
Nebraska	0/0/0	0/0/0	0/0/0	0/0/0	0/0/1	0/0/1	3/2/1
North Dakota	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/0
South Dakota	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	2/1/1
Texas	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
Washington	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
<b>TOTALS</b>	<b>0/0/0</b>	<b>0/0/0</b>	<b>0/0/0</b>	<b>0/0/0</b>	<b>0/0/1</b>	<b>0/0/1</b>	<b>14/9/6</b>

\* Figures are as of December 31 for each year

**Status of Company- or Affiliate-Owned Restaurants for Years 2005/2004/2003\***

STATE	STORES CLOSED DURING YEAR	STORES OPENED DURING YEAR	TOTAL STORES OPERATING AT YEAR-END
Montana	0/0/0	0/0/0	1/1/1
Total	0/0/0	0/0/0	1/1/1

\* Figures are as of December 31 for each year

A list of all franchised and affiliate-owned Restaurants is attached as Exhibit E.

**Projected Openings For One-Year Period as of January 1, 2006**

STATE	FRANCHISE AGREEMENTS SIGNED BUT STORE NOT OPEN	PROJECTED FRANCHISED NEW STORES IN THE NEXT YEAR	PROJECTED HUHOT OR AFFILIATE OWNED OPENINGS IN NEXT YEAR
Colorado	0	1	0
Illinois	0	1	0
Indiana	0	0	0
Iowa	0	2	0
Kansas	2	2	0
Michigan	1	1	0
Missouri	2	2	0
Nebraska	0	1	0
South Dakota	0	0	0
Texas	0	0	0
Wisconsin	1	1	0
<b>TOTAL</b>	<b>6</b>	<b>10</b>	<b>0</b>

There are no franchisees who have had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during the most recently completed fiscal year or who have not communicated with the franchisor within 10 weeks of the issuance date of this Offering Circular.

#### Area Development Agreement

As of the date of this Offering Circular, there is 1 Area Developer: MonGrill, Inc. Box 60, 14 Second Avenue SE, Aberdeen, SD 57402 (605/229-2005 X19). It has development rights to Fargo, North Dakota and the state of Minnesota. In the 1 year period subsequent to the date of this Offering Circular, we project we will grant zero (0) Area Development Agreements.

### **Item 21** **FINANCIAL STATEMENTS**

Attached as Exhibit D are the audited Financial Statements of HuHot as of December 31, 2005, December 31, 2004 and December 31, 2003.

### **Item 22** **CONTRACTS**

Attached as Exhibit A to this Offering Circular is the Franchise Agreement you will sign.  
Attached as Exhibit K to this Offering Circular is the Area Development Agreement you will sign.

### **Item 23** **RECEIPT**

The final page of the offering circular is a detachable document acknowledging receipt of the offering circular by you.