INFORMATION FOR PROSPECTIVE FRANCHISEES REQUIRED BY THE FEDERAL TRADE COMMISSION FOR USE IN THE STATE OF CALIFORNIA

To protect you, we have required your franchisor to give you this information. <u>We haven't checked it, and don't know if it's correct.</u> It should help you make up your mind. Study it carefully. While it includes some information about your contract, don't rely on it alone to understand your contract. Read all of your contract carefully. Buying a franchise is a complicated investment. Take your time to decide. If possible, show your contract and this information to an advisor, like a lawyer or an accountant. If you find anything you think may be wrong or anything important that has been left out, you should let us know about it. It may be against the law.

There may also be laws on franchising in your state. Ask your state agencies about them.

Federal Trade Commission
Washington, D. C. 20580

Franchisor:
IAG Coffee Franchise, LLC
A California limited liability company
6272 East Pacific Coast Highway, Suite E
Long Beach, California 90803
Telephone Number: (562) 594-5600
www.itsagrind.com

Offering Circular Effective Date: ~~June 15~~________, 2004
Offering Circular Expiration Date: April 18, 2005

FRANCHISE OFFERING CIRCULAR
FOR USE IN THE STATE OF CALIFORNIA

Franchisor:

IAG Coffee Franchise, LLC
A California limited liability company
6272 East Pacific Coast Highway, Suite E
Long Beach, California 90803
Telephone Number: (562) 594-5600
www.itsagrind.com

Franchise Brokers:

See list attached as Exhibit N

The franchise offered in this Offering Circular is for the operation of a single, traditional, full service retail specialty coffee beverage store offering fresh roasted specialty whole bean coffees, traditional and espresso based coffee drinks, iced and blended coffee drinks, tea and tea-based beverages, fruit smoothies, sandwiches, salads, pastries and desserts, using the "It's A Grind" trade name and franchise system.

The initial franchise fee for a single, traditional, full service It's A Grind Store is $30,000 (or $25,000 to $27,500 if part of certain area development agreements). The estimated initial investment required ranges from $241,500 to $ ~~439,500~~440,000.

See Exhibit B for the name, address and telephone number of our agent for service of process in the State of California.

Information about comparison of franchisors is available. Call the state administrators listed in Exhibit A or your public library for sources of information.

Registration of this franchise by a state does not mean that the state recommends it or has verified the information in this Offering Circular. If you learn that anything in the Offering Circular is untrue, contact the Federal Trade Commission and the appropriate state or provincial authority as may be listed on Exhibit A.

Offering Circular Effective Date: ~~June 15~~_______, 2004
Offering Circular Expiration Date: April 18, 2005

THIS OFFERING CIRCULAR IS PROVIDED FOR YOUR OWN PROTECTION AND CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT. THIS OFFERING CIRCULAR AND ALL CONTRACTS AND AGREEMENTS SHOULD BE READ CAREFULLY IN THEIR ENTIRETY FOR AN UNDERSTANDING OF ALL RIGHTS AND OBLIGATIONS OF BOTH THE FRANCHISOR AND THE FRANCHISEE.

A FEDERAL TRADE COMMISSION RULE MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE WITHOUT FIRST PROVIDING THIS OFFERING CIRCULAR TO THE PROSPECTIVE FRANCHISEE AT THE EARLIER OF (1) THE FIRST PERSONAL MEETING, (2) TEN BUSINESS DAYS BEFORE THE SIGNING OF ANY FRANCHISE OR RELATED

AGREEMENT, OR (3) TEN BUSINESS DAYS BEFORE ANY PAYMENT. THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE OFFERING CIRCULAR.

IF THIS OFFERING CIRCULAR IS NOT DELIVERED ON TIME, OR IF IT CONTAINS A FALSE, INCOMPLETE, INACCURATE OR MISLEADING STATEMENT, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, DC 20580 AND THE CALIFORNIA DEPARTMENT OF CORPORATIONS AT ANY OF ITS OFFICES.

THESE FRANCHISES HAVE BEEN REGISTERED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF CALIFORNIA. SUCH REGISTRATION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE COMMISSIONER OF CORPORATIONS NOR A FINDING BY THE COMMISSIONER THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING. THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE PROSPECTUS.

TABLE OF CONTENTS

ITEM	NAME	PAGE
1	The Franchisor, its Predecessors and Affiliates	6
2	Business Experience	8
3	Litigation	9
4	Bankruptcy	11
5	Initial Franchise Fees	11
6	Other Fees	12
7	Initial Investment	18
8	Restrictions on Sources of Products and Services	22
9	Franchisee's Obligations	23
10	Financing	24
11	Franchisor's Obligations	24
12	Territory	35
13	Trademarks	37
14	Patents, Copyrights and Proprietary Information	38
15	Obligation to Participate in the Actual Operation of Franchise	39
16	Restrictions on What the Franchisee May Sell	39
17	Renewal, Termination, Transfer and Dispute Resolution	40
18	Public Figures	43
19	Earnings Claims	43
20	List of Outlets	44
21	Financial Statements	46
22	Contracts	46
23	Receipt	46

Exhibits:

Exhibit A State Agencies
Exhibit B Agents for Service of Process
Exhibit C Franchise Agreement and Exhibits
Exhibit ~~C.1~~FA-I: Authorized Location
Exhibit ~~C.2~~FA-II: Electronic Funds Transfer Agreement
Exhibit ~~C.3~~FA-III: Electronic Debit Authorization
Exhibit ~~C.4 General Release~~
~~Exhibit C.5~~ **FA-IV: Consent to Assignment** ~~of Franchise Agreement and Guaranty; Consent to~~ **to a 3rd Party**
Exhibit FA-V Consent to Assignment to a Business Entity
Exhibit ~~C.6~~FA-VI: Telephone Listing Agreement
Exhibit ~~C.7~~FA-VII: Guarantee, Indemnification and Acknowledgement
Exhibit FA-VIII: Franchise Termination Agreement
Exhibit D Lease Rider (Conditional Assignment of Lease)
Exhibit E Non-Competition and Confidentiality Agreement
Exhibit F Operation's Manual Receipt
Exhibit G Operations Manual Table of Contents
Exhibit H Statement of Prospective Franchisee
Exhibit I Financial Statements – Audited Financial Statements for the Fiscal Years Ended December 31, 2003, 2002 and 2001 and the Unaudited Financial Statements for the Interim Period from January 1, 2004 ending April 30, 2004
Exhibit J List of Existing Franchisees
Exhibit K List of Former Franchisees
Exhibit L Area Development Agreement and Exhibits
Exhibit ADA-I Current Form of Franchise Agreement
Exhibit ADA-II Development Area
Exhibit ADA-III Development Schedule
Exhibit ADA-IV Adjusted, Continuing Royalty Fees

	Exhibit ADA -V	Assignment of Area Development Agreement And Guaranty
	Exhibit ADA-VI	General Release
	Exhibit ADA-VII	**Guarantee, Indemnification and Acknowledgment**
Exhibit M	California Appendix	
Exhibit N	Franchise Brokers:	
	FranChoice, Inc.	
	Frannet, Inc.	
	Franchise Buyer	
	The Entrepreneur's Source	
	The Business Alliance	
Exhibit O	Earnings Claim	
Exhibit P	Receipt	

ITEM I
THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES

To simplify the language in this Offering Circular, "the Company", "we", "us" or "our" means IAG Coffee Franchise, LLC, the franchisor; such terms do not include or refer to our officers, directors, shareholders, partners or members. "You" means the entity that executes the Franchise Agreement with us and each individual who has any ownership in that entity.

We are a California limited liability company that was formed on October 27, 2000. We do business under our corporate name and the trade name "It's A Grind." Our principal business address is 6272 East Pacific Coast Highway, Suite E, Long Beach, California 90803. Except as noted below, we have no predecessors or affiliates.

Our agents for service of process in those states requiring franchise registration are disclosed in Exhibit B to this Offering Circular.

We franchise the right to operate retail specialty coffee beverage stores offering fresh roasted specialty whole bean coffees, traditional and espresso based coffee drinks, iced and blended coffee drinks, tea and tea-based drinks, fruit smoothies, bagels, muffins, scones and assorted bakery products. The franchise described in this Offering Circular is a license to develop and operate a single It's A Grind store (the "It's A Grind Store") at a designated location (the "Authorized Location"), which is usually located in a shopping center or a free-standing building.

Your Franchise Agreement authorizes you to use the "It's A Grind" trade name and service mark in connection with your operation of an It's A Grind Store and permits you to operate your It's A Grind Store pursuant to a format and system specified by us (the "System"). We and It's A Grind, Inc. created and developed the System for the efficient management and operation of clean, attractive, distinctive, high quality, retail, specialty coffee stores. You must pay certain fees and make certain investments. Other material aspects of the franchise are described in this Offering Circular and in the Franchise Agreement included as an exhibit to this Offering Circular, which will govern the relationship between you and us.

In addition to offering franchises for individual stores, we offer Area Development Agreements (the "Area Development Agreement") to persons that we consider to be qualified financially, operationally and organizationally, in terms of experience, and otherwise to develop and operate multiple stores. Under the Area Development Agreement, you agree to open a specified number of It's A Grind Stores within a defined geographic area in accordance with an agreed upon development schedule. You will sign a then-current franchise agreement for each It's A Grind Store you develop. The number of It's A Grind Stores, development area and schedule must be agreed upon by us prior to execution of an Area Development Agreement. Before the execution of each Franchise Agreement, we will deliver to you an Offering Circular describing the terms of our then-current franchise agreement and provide you with other relevant information. The Area Development Agreement you will sign will be in the form attached as Exhibit L to this Offering Circular.

The original concept for the System was developed by Marty Cox and Louise Montgomery, who formed It's A Grind Inc., a California corporation, in June 1994 to own and operate "It's A Grind Coffee Stores." It's A Grind, Inc. opened its first It's A Grind Coffee Store in Long Beach, California in July 1995 and currently owns and operates 4 It's A Grind Coffee Stores (one of which is a smaller unit located in an office building complex, which is not typical of the standard It's A Grind store configuration). Its affiliated company, IAG Lakewood, Inc., operates another non-franchised It's A Grind Store in Lakewood, California. Additionally, in July 2002, It's A Grind, Inc. sold one of its stores in Long Beach, California to a buyer who has converted the store to an It's A Grind franchised store. Although It's A Grind, Inc. has licensed us the rights to use the "It's A Grind" trademark and system for the development of the It's A Grind franchise network, It's A

Grind, Inc. will continue to operate independently and is not obligated to participate in any programs conducted under the franchise program. It's A Grind, Inc. may develop and operate additional It's A Grind Coffee Stores in Southern California. Marty Cox is our president and one of our principal shareholders. (See Item 2 of this Offering Circular for Mr. Cox's biography) . It's A Grind, Inc. is the owner of the trademark "It's A Grind" and the related intellectual property rights.

We were formed on October 27, 2000, under the limited liability company laws of California to franchise the It's A Grind concept developed by Marty Cox and Louise Montgomery. Effective August 1, 2000, It's A Grind, Inc. and we executed a 25 year Trademark License Agreement whereby we were granted the exclusive rights to use the "It's A Grind" trademark and to franchise the It's A Grind concept throughout the United States. (See Item 13 of this Offering Circular) . Simultaneously, It's A Grind, Inc. and we executed a Store License Agreement granting us the right to use the It's A Grind Coffee Stores located at 4245 Atlantic Avenue, Long Beach, California 90807 and/or 4754 East Pacific Coast Highway, Long Beach, California 90804 as our prototype and training facilities.

We began offering It's A Grind franchises in the State of California as of May 2001. We currently do not operate any company-owned It's A Grind Stores. Under our Trademark License Agreement and Store License Agreement with It's A Grind, Inc., It's A Grind, Inc. has the right to continue to operate the 4 It's A Grind Stores and the It's A Grind Lakewood Store, as well as additional It's A Grind Stores in Southern California and other areas in the future. These stores are not franchised stores. If It's A Grind, Inc. were to sell one or more of its existing It's A Grind Stores, these stores may not be part of the franchise system. We may offer the buyer of these stores the opportunity to convert to the It's A Grind franchise system after we comply with relevant franchise law disclosure and registration requirements.

We have not offered and do not now offer franchises in any other line of business, but we may do so in the future. We and our affiliates reserve the right to distribute products, including products with trademarks, service marks, trade names and symbols licensed in the Franchise Agreement, through various other methods of distribution, and to undertake other business activities, including those related to the It's A Grind Stores without obligation to our franchisees.

The market in which you will operate is well established and highly competitive. You will engage in the retail sale of traditional and espresso-based coffee drinks, iced and blended coffee drinks, tea and tea-based drinks, fruit smoothies, bagels, pastries and desserts to the general public. There is a significant amount of competition in the retail coffee beverage business, and you should expect to compete with other national, regional and local coffee beverage stores, restaurants, and other businesses offering competitive products and services, including members of established national or regional chains and franchise systems, some of which are older, larger and better financed than we are.

We are not aware of any regulations specific to the operation of a retail coffee beverage store; however, in addition to laws, regulations and ordinances applicable to businesses generally, such as the Americans With Disabilities Act of 1990, the Federal and State Wage and Hour Laws and other laws related to employment rights and the Occupational Safety and Health Act of 1970, you may have to comply with certain federal, state and local health and sanitation regulations concerning the operation of your It's A Grind Store and state and local zoning and building code requirements governing the construction of the It's A Grind Store. Many states and municipalities require food service handlers to be licensed. There may be other laws applicable to your business and we urge you to make further inquires about these laws. You are responsible for knowing and complying with all laws and licensing requirements related to the operation of your It's A Grind Store.

ITEM 2
BUSINESS EXPERIENCE

President and Chairman of the Board: Marty Cox
From September 1994 to the present, Mr. Cox has been President of It's A Grind, Inc., which owns and operates It's A Grind stores in Long Beach and Lakewood, California. He has also been our President since our inception on October 27, 2000.

Chief Executive Officer: Steven Shoeman
From October 1988 to December 2000, Mr. Shoeman was president of S&S Consultants, a franchise consulting firm in Houston, Texas. From May 1999 to July 2000, Mr. Shoeman was an associate of FranNet, the nation's largest franchise consulting firm, in Dallas, Texas. He has been our chief executive officer and director of franchise development since our inception on October 27, 2000.

Director of Quality Control: Toby Foreman
From April 1992 to June 2001 (excluding a hiatus from September 1995 to June 1996, when he was employed as roast master for Alakaf Coffee in Duluth, Minnesota), Mr. Foreman held a variety of positions with Diedrich Coffee Inc., including general manager of retail operations, roast master, quality assurance technician and plant manager of manufacturing. Mr. Foreman has been a member of the Specialty Coffee Association (SCAA), the trade association of the coffee industry, for ten years. He has been an instructor at the SCAA for 5 years, teaching classes in National Gold Cup Certification for Coffee Excellence, Roasting Techniques and Advanced Espresso Training. Mr. Foreman is a member of the Pacific Coast Coffee Association and the Roasters Guild. He has been our director of quality control from October 2001 to the present.

Operations Manager and Franchisee Training Director: Meghan Hunt-Rider
Beginning in February 1997, Ms. Hunt-Rider held a variety of positions at It's A Grind, Inc.'s retail operations in Long Beach, California, including barista, assistant store manager and store manager. From November 2000 to December 2001, she was in charge of It's A Grind, Inc.'s human resources and employment development . Her duties included interviewing, hiring, scheduling, classroom training, in-store training and ongoing performance evaluation. She became our operations manager and franchisee training director in January 2002.

Director of Identity and Marketing: Bob Phibbs
From March 1994 to the present, Mr. Phibbs has been the president of Retail Doctor, Inc., an independent consulting firm located in Long Beach, California that helps small and independent business owners compete with the larger chain stores. In 2001, Mr. Phibbs published a book entitled, *You Can Compete, the Retail Doctor's Tools To Double Your Sales.* A sought-after public trainer, Mr. Phibbs regularly addresses business organizations, corporations and business conferences. From September 1998 to December 2001, Mr. Phibbs was the chief operating officer for It's A Grind, Inc. in Long Beach, California. He has served as our director of identity and marketing since January 2002.

Sr. Vice President of Franchise Development: Steve Olson
Since February 1998, Mr. Olson has served as President of Olson and Associates, Long Beach, California, a national franchise development firm that has helped more than 40 emerging and established franchise companies expand their systems. Mr. Olson has been our vice president of franchise development since April 2002.

Chief Operating Officer: David Wetzel
From October 1996 to November 1999, Mr. Wetzel was a department manager for Atlantic Richfield Corporation in La Palma, California, working on fast food development and operations services. From November 1999 to August 2001, he was vice president of operations for Koo Koo

Roo restaurants, a subsidiary of Prandium Incorporated, in Irvine, California. From April 2002 to August 2002, Mr. Wetzel was an independent management consultant in Orange County, California. He joined our organization as chief operating officer in September 2002.

Business Consultant: Ernest Klinger
From January 1983 to June 1999, Mr. Klinger was chief financial officer and chief administrative officer for Arden Group, Inc., a publicly traded holding company in Compton, California. From June 1999 to December 2000, he was co-chairman, president and chief financial officer of Chicago Pizza & Brewery, Inc., a publicly traded company operating restaurant/microbrewery units in 5 states, with an office in Mission Viejo, California and most recently in Huntington Beach, California. From January 2001 to November 2002, Mr. Klinger was an advisor to various companies and individual investors in the restaurant, retail and real estate industries with an office in Rancho Palos Verdes, California. He has been a financial and business consultant to us since December 2002.

Director of Real Estate: Walt Gapik
Mr. Gapik was a Real Estate Manager (Southwest, Canada and West Regions) for Great Clips Inc., in Minneapolis, Minnesota from April 1998 to December 2003. He joined us as our Director of Real Estate in March 2004.

Senior Vice President of Communication and Human Development: John Alderson

From June 1997 to September 2001, Mr. Alderson was Senior Vice President for Starbucks Corporation in Fountain Valley, California. From September 2001 to the present, he has been an independent business consultant to various companies with an office in Olivenhain, California. Mr. Alderson has been a business consultant to the Company since January, 2004, and assumed his current position with us in June 2004. He is involved in managing training, operations and franchisee support functions, among other responsibilities.

Franchise Brokers
We employ various franchise brokers in different parts of the United States to assist us in identifying qualified franchise applicants. These franchise brokers are authorized to refer prospective franchisees to us. A list of these franchise brokers is attached as Exhibit N.

ITEM 3
LITIGATION

No litigation is required to be disclosed in this Offering Circular, except as set forth below and except as to any litigation information that may relate to our brokers (see Exhibit N).

Another Ride, Inc., Rex Pugh, Debra Pugh, Mucho Mocha Coffee, Inc., Eny-Spitz, LLC, Russ Enyart, Jason Spitzer, and Lacy Spitzer v. It's A Grind, Inc., Steven Shoeman and Marty Cox. Superior Court of CA, County of Los Angeles, Case No. BC 309175. Filed January 16, 2004.

Neither the Company nor its Affiliate, It's A Grind, Inc., nor Mr. Shoeman or Mr. Cox were served with the complaint filed in the subject action. Plaintiffs, Company's franchisees, alleged in the complaint that Company violated the California Franchise Investment Law, committed fraud and unfair business practices, and engaged in false advertising by misrepresenting the initial investment costs franchisees might experience. Plaintiffs sought rescission, damages and an award of punitive damages in unspecified amounts. In an effort to avoid costly litigation and resolve outstanding claims, the Company and the Plaintiffs engaged in a voluntary mediation that resulted in settlement agreements with each of the respective parties. The agreements provide for the dismissal of the above action with prejudice; the mutual termination of franchise and area development agreements with Mucho Mocha Coffee, Inc. and Another Ride, Inc.; waiver of certain fees/commissions owed and to be owed to the Company and payments to be made by the Company; and the purchase by the Company of two operating It's A Grind stores from Another Ride, Inc., and all of the above settlements amount collectively to $770,000. The last of the settlement agreements was executed on May 16, 2004, and the agreements were retroactively effective as of February and April, 2004, respectively.

IAG Coffee Franchise, LLC v Mucho Mocha Coffee, Inc., Mike Silva and Francie Stout-Silva, American Arbitration Association, Case No. 73-181-00165-03 MAK.

The Company filed a demand for arbitration against Mucho Mocha Coffee, Inc. ("MMC") and its owners, Mike Silva and Francie Stout-Silva (collectively the "Silvas"), the area franchise developers in Northern California, pursuant to an It's A Grind Area Development Agreement, dated March 7, 2002, in the Orange County, California office of the American Arbitration Association on April 9, 2003.

The Company seeks damages estimated in excess of $475,000 for alleged breach of the Area Development Agreement, libel and slander, misappropriation of the Company's trade secrets, fraud by false promise, unfair competition and interference of contractual and prospective economic relationships with It's A Grind franchisees, as well as claims for declaratory and injunctive relief, specific performance of the non-competition and confidentiality provisions of the Area Development Agreement, accounting and other equitable relief and attorney's fees and costs.

On April 25, 2003, MMC filed a counter-demand against the Company and two of the Company's executives, Marty Cox and Steve Shoeman, seeking damages and/or rescission in the amount of $192,200, plus unspecified, punitive damages and attorney's fees and costs, based on alleged claims of misrepresentations in the franchise disclosure documents regarding initial cost estimates, violation of California franchise laws and unfair competition, false advertising and for common law fraud.

In an agreed-upon mediation proceeding, the parties agreed to dismiss their demands and settled their claim as described in the related action noted above.

Dipti and Sanjay Dave vs. IAG Coffee Franchise, LLC, American Arbitration Association, Case No. 002-B13-EIE (Filed: November 7, 2003).

It's A Grind franchisees and area developers in Northern California, Dipti and Sanjay Dave (the "Daves"), filed a demand for arbitration against the Company, seeking damages in the amount of $50,000, plus unspecified punitive damages. The Daves -allege, and the Company denies, that the Company violated the California Franchise Investment Law and the California Business and Professions Code, Section 17,200 and committed acts of intentional and negligent misrepresentation with respect to the franchise disclosure documents presented to the Daves. The Daves allege that the initial investment estimates were understated. The Company has denied these allegations and will present substantial evidence showing the accuracy of the financial information provided in the Company's franchise disclosure documents.

Additionally, on November 25, 2003, the Company filed a counter-demand against the Daves for (1) breach of the Daves' franchise agreement and area development agreement based on the Daves' refusal to proceed with their commitments under these agreements; (2) claims against the Daves for tortious interference with the Company's contractual relationships with other franchisees; and (3) defamation based on the false and malicious information that the Daves have disseminated to third parties. The Company is seeking damages estimated in excess of $226,000 plus punitive damages, attorney's fees and costs. The Company expects to finalize ongoing discussions regarding a settlement, one of the terms of which may provide for a cash payment by Company of less than $40,000.

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 under this Item.

ITEM 5
INITIAL FRANCHISE FEE

Under the Franchise Agreement for a Single Franchise Store:

Initial Franchise Fee
You pay us an initial franchise fee of $30,000 by cashier's check or bank wire transfer in a lump sum when you sign your franchise agreement. Once paid, the initial franchise fee is fully earned and not refundable. All prospective franchisees who acquire a single It's A Grind franchise agreement pay the same initial franchise fee. If you acquire 3 or more It's A Grind franchises under an area development agreement, your fees will be lower, as explained below.

If you are signing a franchise agreement under an It's A Grind Area Development Agreement, see below.

Under the Area Development Agreement:

Area Development Fee
Upon execution of an Area Development Agreement, you pay us a Development Fee equal to $10,000 times the minimum number of It's A Grind Stores to be opened under your Development Schedule. Once paid, the Development Fee is fully earned and not refundable.

Initial Franchise Fee.
Notwithstanding any standard initial franchise fee provision in any It's A Grind Franchise Agreement that you sign and in lieu of the standard $30,000 initial franchise fee referenced above, you pay us an initial franchise fee for each Franchise Agreement that you and we sign under your Area Development Agreement as follows:

A. $30,000 for each It's A Grind Store under your Area Development Agreement if you develop and operate two or less It's A Grind Stores;

B. $27,500 for each It's A Grind Store under your Area Development Agreement if you develop and operate three or four It's A Grind Stores; or

C. $25,000 for each It's A Grind Store under your Area Development Agreement if you develop and operate five or more It's A Grind Stores.

We will apply $10,000 of the area development fee against each of the franchise agreements that you sign under your Area Development Agreement. When you sign your Area Development Agreement, you pay us the initial franchise fee for your first It's A Grind Store to be opened under your Area Development Agreement. You **submit documents required by us, including our General Release of All Claims, excepting only (where such releases are expressly prohibited by applicable law) those claims solely related to the offer and sale of the new Franchise, and** pay the initial franchise fee for each additional It's A Grind Store to be opened under your Area Development Agreement on the earlier of (1) the execution of the lease for that It's A Grind Store or (2) six months before the latest date that the It's A Grind Store must be opened, as described in your Development Schedule (attached as Exhibit ADA-III to your Area Development Agreement).

As noted in Item 2, above, we may use franchise brokers to assist us in identifying qualified franchise candidates and will pay them a portion of the initial franchise fee for their assistance. Additionally, we currently have a franchisee referral program and pay participating franchisees a referral fee for leads to qualifying candidates who acquire a franchise, subject to program criteria. This referral program is subject to change and/or elimination by us at any time.

ITEM 6
OTHER FEES

SINGLE STORE

NAME OF FEE (NOTE 1)	AMOUNT	DUE DATE	REMARKS
Continuing Royalty Fee (Note 2)	6% of gross sales (Note 3)	Payable weekly on Thursday by bank autodraft (Note 5)	If any state imposes sales or other taxes on the royalty fees, then we have the right to collect this tax from you.
Advertising and National Marketing and Development Fund Fee (Note 2)	1% of gross sales (Note 3)	Payable weekly on Thursday by bank autodraft (Note 5)	See Item 11 for a description of the Advertising and National Marketing and Development Fund
Enterprise system and gift card program fees (Note 4)	$30	Payable weekly on Thursday by bank autodraft (Note 5)	Fees for the sales and operational reporting and gift card Programs; See Item 11, "Computer System"
Gift card sales	Face value of gift card	Weekly	All gift card sale revenues and redemptions reconciled weekly (Note 4)
Local Advertising Expenses	Minimum of 2% of Gross Sales per month	Periodically	(Note 6)
Advertising Cooperative Fees	Not yet established	(Note 7)	(Note 7)
Interest and Late Payment Charge (Notes 8)	1.5% of delinquent amount per month	(Note 8)	Payable for each month overdue (Note 8)
Audit Fees (Note 9)	Underpayment plus interest plus cost of audit	(Note 9)	(Note 9)
Renewal Fee	$2,500	Upon execution of the renewal franchise agreement	Your ability to renew your franchise is subject to the terms and conditions of your franchise agreement
Transfer Fee (Note 10)	$5,000	Upon submitting Application for consent to assignment	Payable when you want to sell your franchise (Note 10)

NAME OF FEE (NOTE 1)	AMOUNT	DUE DATE	REMARKS
New Franchisee Training Fee (Note 10)	$10,000	Paid by new franchisee prior to commencement of training	Payable when you want to sell your franchise to a new franchisee (Note 10)
Attorney's Fees	Varies	On demand	Payable by you only if we must hire an attorney because of your breach
Additional Training Expenses (Note 11)	Varies	Upon billing	See Item 11 (Note 11)
Management Fees (Note 12)	Reasonable management fees plus expenses	On demand	Payable if we take over the management of your It's A Grind Store after your death, disability or default (Note 12)
POS Maintenance	$2,000 annually (approximately)	As required	See Item 11, "Computer System"
Music service Subscription	$50 - $90	Payable Monthly	You are required to have a music subscription service that we specify from a supplier
Indemnification (Note 13)	Reimbursement of damages and losses	On demand	You are obligated to indemnify us for all damages or losses we incur as a result of the operation of your It's A Grind Store.

NOTES TO CHART ON OTHER FEES FOR SINGLE STORE

Note 1: All fees are non-refundable.

Note 2: You pay us, without set-off, credit or deduction of any nature, a continuing royalty fee of 6% and a national development fund fee of 1% of your gross sales (see Note 3) each week during the term of your franchise agreement. If we request, you must send us a weekly report showing the computation of your continuing royalty fee and all other fees and amounts payable under your franchise agreement using our forms. We may access or "poll" by telephone, internet or other technology, remotely or on-site your computer system and business records to collect information and to verify your gross sales and all fees payable under your franchise agreement.

Note 3: "Gross sales" includes all sums charged by you for products and services in the operation of your It's A Grind Store, whether for on-site or off-site consumption, less sales or excise taxes.

Note 4: You must participate in our "enterprise" system, or similar system as we determine, and the customer gift card program arranged or provided by us. These programs allow you to set up various e-mail alerts, to generate detailed sales, inventory, product mix, employee performance, labor scheduling and payroll reports and to record and report sales activities and gift card sales and redemption. These programs also allow us to access or poll your sales and operational activities.

The current fees for the enterprise system and the customer gift card program are $130 per month (payable in averaged weekly installments of $30). (When we receive your payment, we

pay the related amounts to each vendor for your account.) (See Item 11, "Computer System.") This amount may change from time to time, as changes occur in the programs, vendors and fee arrangements with vendors. You must pay all current fees at the current rates and all future fees at rates that we establish in our reasonable discretion. We take into consideration our ongoing costs charged by vendors, research, development and programming expenses and reasonable management, administrative and overhead expenses, as well as other expenses reasonably related to these programs before we decide the change the amount of the fees.
Unless we tell you otherwise, this fee is payable at the same time and in the same manner as the continuing royalty fee is paid. (See Note 5.) This fee is cumulative of other expenses and costs for the purchase (or lease) of cash registers, computer systems, operating, bookkeeping and other necessary software, internet service provider fees and related charges. You and all other It's A Grind franchisees are charged the same rate for these programs.

We may commingle these fees that we collect from you with our other monies.

Except as to fees that you actually pay to us for the enterprise system and the customer gift card program, you must indemnify, defend and hold us harmless for all of your obligations and liability for your participation in these programs.

Under our cooperative gift card program, you will report weekly to us the totals for all gift card "sales" and remit to us the total proceeds from gift card "sales," as well as report to us weekly all "redemptions" transactions for gift cards presented by your customers, and we will reconcile your account and credit you for the full value of all gift card transactions redeemed by you weekly regardless of the It's A Grind Store that issued each gift card.

Note 5: You must sign the forms and complete our reasonable procedure to establish a bank draft or electronic transfer arrangement so we can present a draft to your bank or other financial institution for the royalty fees, advertising fees, enterprise system (or similar system as we determine) and gift card fees, and all other fees or payments currently due us or any of our affiliates. You must sign Exhibit ~~C.2~~FA-II of your franchise agreement titled "Electronic Funds Transfer Agreement" (or other form we provide to you) when you sign your franchise agreement. Before you start your initial training program, you must complete, sign and return any other form like the "Electronic Debit Authorization Agreement," which is attached to your franchise agreement as Exhibit ~~C.3~~FA-III, authorizing an electronic debit, and to give us any information that we need for this authorization. You cannot attend the initial training program unless we have received the Electronic Debit Authorization Agreement before the start date of the initial training program.

Each Thursday, we will draft (withdraw) your enterprise system and gift card program fees and your royalty fee and national development fund fee and any other amounts you owe us directly by electronic funds transfer or otherwise from your bank account based on transactions completed by you during the prior week starting on Monday at 12:01 AM and ending at midnight the following Sunday. At least quarterly, we will provide you with an adjustment for any over or under payment of fees that you paid during the prior period. You must install at your expense and use any pre-authorized payment and computerized point of sales systems, credit verification systems, automatic payment systems, electronic funds transfer systems, or automatic banking system that we in our discretion may require to fulfill any business purpose reasonably related to the operation of your franchise and the franchise system or to permit you to make all required payments to us by automatic bank transfer. You must maintain account balances sufficient to make all payments due us by electronic transfer. You must reimburse us for any charges incurred by us if there are insufficient funds in your account to pay a fee. Any insufficiency in your account to pay us the required fees will be a default under your franchise agreement.

If we request, you must submit to us by 5:00 PM (Pacific Time) on Tuesday of each week a report on our approved forms, which includes your gross sales figures for the prior accounting period. If we do not timely receive this report, or are unable, for any reason whatsoever, to poll you POS computer system to determine you weekly gross sales figures, then we are authorized to estimate these fees and to draft (withdraw) by electronic transfer an amount from your bank account for the continuing royalty fee and the national development fund fee with respect to the prior accounting period equal to the amount withdrawn for the most recent week plus 10% as an estimate of the accounting period's continuing royalty fee and the national development fund fee, plus the other fees you then owe us.

If you pay, or we receive, a lesser amount than the full amount due us, we have the right to apply the payment against the longest outstanding amount due us. We can accept any check or payment in any amount without prejudice to our right to recover the balance of the amount due or to pursue any other right or remedy. No restrictive endorsement or statement on any check or payment or in any letter accompanying any check or payment or elsewhere from you will be an accord or satisfaction or will bind us or any of our affiliates. Our or any of our affiliates' acceptance of any payments made by you are not a waiver of any breach or default of any provision in your franchise agreement.

Despite any designation by you, we can apply any payments made by you, or on your behalf (and apply any amounts owed to you or any of your affiliates by us or any of our affiliates) to any of your past due indebtedness for continuing royalty fees, national development fund fees, enterprise system fees, gift card program fees and other amounts owing to us or any of our affiliates, or any interest or other indebtedness that you or any of your affiliates owe to us or any of our affiliates.

Note 6: You must spend at least 2% of your monthly Gross Sales for local advertising and promotional activities. In addition, at your cost, you must also participate in all promotions designated by us for the market in which your It's A Grind Store is located, display all in-store promotional materials and pay for the cost of products being promoted. You must complete our report forms monthly and send them to us to show that you have fulfilled your monthly requirement for local advertising expenditures. You must receive our prior written approval for any local advertising and promotional activities that you use. We will not place, run or pay for any advertising, marketing or promotion used in association with local advertising. (See Item 11.)

Note 7: If a local or regional advertising cooperative exists to promote It's A Grind Stores in the television market in which your It's A Grind Store is located, you must become a member and participate the same as the other members. It's A Grind, Inc. is not required to participate in any such cooperative advertising programs. You may be required to make contributions to the cooperative in an amount determined by a majority of its members. As of the date of this Offering Circular, no local or regional advertising cooperative has been established. (See Item 11.)

Note 8: Amounts due to us (except interest on unpaid amounts due) not paid when due bear interest from the date due until paid at the rate of 1.5% per month, or the highest rate of interest allowed by law. We can also recover our reasonable attorneys' fees, costs and other expenses incurred in collecting amounts owed by you.

Note 9: We can audit your financial information at any time during normal business hours without prior notice at your It's A Grind Store. If your have underpaid any fees or amounts due us, you must immediately pay us the underpaid amounts plus interest from the date originally due until the date of payment, at the lesser of 1 ½% percent interest per month, or the highest rate of interest allowed by law. If an audit is done because you failed to furnish us reports, supporting records or other required information or if the underpayment exceeds 2% of your Gross Sales for any period covering the audit, you must also reimburse us for all costs of the audit including travel, lodging, wage expense and reasonable accounting and legal expense.

Note 10: You must pay us a transfer fee of $5,000 when you first present the proposed transfer to us for approval. We use this transfer fee to defray expenses that we incur in connection with the transfer, including without limitation, legal and accounting fees, overhead, credit and other investigation charges and evaluation of the transferee and terms of the transfer.

Upon the signing of the new franchise agreement, the transferee must pay us a new franchisee training fee of $10,000, which is used to help defray the expenses that we incur in providing training to the new franchisee. Both the $10,000 new franchisee training fee and the $5,000 transfer fee are nonrefundable.

Note 11: After the initial training period, if you request additional training from us or employ a new designated manager, you must reimburse us for our travel, lodging and off-site food and beverage expenses, wages and wage related expenses, if any, plus all other expenses incurred by us for this additional training. You must pay all of your travel, food, lodging, wages and wage related expenses and all other expenses incurred by you, your employees and/or your designated manager in receiving the training at the location at which the training is provided. Additional training will be held at a date, time, and location that are convenient for us. (See Item 11)

Note 12: Under certain circumstances, in the event of your death, disability or default under your Franchise Agreement, we may have the right to take over the management of your It's A Grind Store, in which case you must reimburse us for our expenses plus reasonable management fees.

Note 13: You must indemnify, defend, and hold harmless us, our affiliates, and our respective officers, directors, shareholders, managers, members, consultants, agents, attorneys, accountants, brokers, representatives or employees from and against any and all losses, costs, expenses (including attorney's fees at all levels), damages and liabilities (a) that arise out of or relate to the negligence, breach of contract or other civil or criminal wrongdoing of you, any of your affiliates and any of your respective officers, directors, shareholders, managers, members, agents, attorneys, accountants, brokers, representatives or employees, or (b) that result, directly or indirectly, from or pertaining to the conduct of your business. We may appoint our own attorney. You waive and release all claims against us for damages to property or injuries to persons arising out of or relating to the operation of the It's A Grind Store, including any claims currently unknown to us and arising at any time during the term of your franchise agreement.

AREA DEVELOPMENT AGREEMENT

NAME OF FEE (NOTE 1)	AMOUNT	DUE DATE	REMARKS
Continuing Royalty Fees Payable pursuant to underlying Franchise Agreements (Note 3)	Same as under each Franchise Agreement executed by you (Note 3)	(Note 3)	(Note 3)
Transfer Fee (Note 2)	$7,500	Upon submitting Application for consent to assignment	Payable when you want to sell your area development franchise
Securities Offering Review Fee	$2,000 Minimum	Prior to making a securities offering	(Note 4)
Minimum fees under your Development Schedule if stores are not timely opened	Amount due for the initial franchise fee for each Store not opened timely, plus $2,000 Monthly Royalty Fee (Note 5)	(Note 5)	(Note 5)

NOTES TO CHART ON OTHER FEES FOR AREA DEVELOPMENT AGREEMENT

Note 1: All fees are nonrefundable; the fees are cumulative of the fees you pay in connection with the operation of each It's A Grind franchised store.

Note 2: These fees are imposed by and are payable to us.

Note 3: You pay us continuing royalty fees of 6% of gross sales for each It's A Grind Store that you develop under your Area Development Agreement. The amount of the continuing royalty fee for each It's A Grind Store that you develop is as specified in the applicable then-current Franchise Agreement signed by you and us for that It's A Grind Store, except as may be modified by your Area Development Agreement. We reserve the right to increase the rate of continuing royalty fees in the then-current Franchise Agreement. However, the Area Development Agreement provides that so long as you and all of your affiliates are not in default under any agreement with us, the continuing royalty fee for each of your It's A Grind franchises will remain at the current 6% of gross sales rate, even though we later increase the rate on new It's A Grind Franchise Agreements. Except as modified by your Area Development Agreement, you pay us all other fees and payments under each It's A Grind Franchise Agreement that you sign as stated in each agreement. (See Note 5 below).

Note 4: Under the Area Development Agreement, you may offer securities or partnership interests ("securities") to the public, by public or private offering, if we give you our prior written consent. We must review all the documents for your offering. For each proposed offering, you must pay us a non-refundable minimum fee of $2,000 or such greater amount as is necessary to reimburse us for our reasonable costs and expenses associated with reviewing the proposed offering, including, without limitation, legal and accounting fees.

Note 5: Unless you cannot meet your obligations due to force majeure or another reason outside of your control, or unless we waive or extend your development schedule, if you do not open and continuously operate the required minimum number of It's A Grind franchised stores, you will be in material default under your area franchise agreement, and we may terminate your area development agreement unless you pay us the following minimum development fees immediately after you receive a notice of default from us:

A. Within 30 days after you receive notice of default, you pay us a nonrefundable, non-assignable amount equal to the initial franchise fee(s) that would have been paid if the It's A Grind Store(s) necessary to satisfy your development schedule had been opened; we will apply this amount towards the payment of the initial franchise fees payable for the next It's A Grind Franchise Agreement(s) that you sign within 90 days after the date you receive the notice of default; and

B. Within 30 days after you receive the notice of default, you must pay us a monthly royalty fee of $2,000 by the first day of each month for each It's A Grind franchised store that you have not opened in accordance with your development schedule; you must continue to pay this monthly royalty amount until you open the required number of It's A Grind franchised stores as listed on your development schedule. This monthly royalty is non-refundable and non-assignable, and it may not be applied towards the payment of any other of your obligations.

We may immediately terminate your area development agreement if you do not timely make these payments. If you do not meet your development schedule in any two consecutive development periods, we may terminate your area development agreement, and you will lose all rights granted under the area development agreement and forfeit any payments made under the development schedule.

ITEM 7
INITIAL INVESTMENT

<u>YOUR ESTIMATED INITIAL INVESTMENT</u>

CATEGORY	AMOUNT	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS MADE
Initial Franchise Fee (Note 1)	$25,000 to $30,000 (Note 1)	Lump sum by cashier's check or bank wire transfer (Note 1)	At signing of agreement	Us
Leasehold Improvements (Note 2)	$85,000 to $150,000	As Incurred	As Incurred	Third Party Contractors
Equipment, Furniture, Fixtures & Computer System (Note 3)	$82,000 to $ 130,000	As Incurred	Vendor Terms	Third Party Vendors
Signage	$6,000 to $30,~~000~~**500**	As Incurred	Prior to opening business	Third Party Vendors
Rent and Security Deposits (Note 4)	$5,000 to $15,000	Lump Sum	When you sign your lease or start an account with utility company	Landlord and/or utility companies
Professional Fees (Note 5)	$10,000 to $15,000	As Incurred	As Incurred	Accountant, architect, attorney, etc.
Insurance (Note 6)	$1,500 to $3,000	Lump sum or in installments	Down payment upon execution of insurance policy (per year)	Insurance carriers
Travel and living expenses while Training (Note 7)	$1,000 to $3,500	As Incurred	During Training	Airlines, hotels, car rental companies, restaurants, etc.
Opening Inventory (Note 8)	$6,000 to $8,000	Lump Sum	Prior to opening business	Vendors
Grand opening Advertising (Note 9)	$5,000 (Minimum)	Lump Sum	Prior to the Initial Training Class	Vendors
Additional funds – 6 months (Note 10)	$15,000 to $50,000	As Incurred	Varies	Employees, suppliers, etc.
Total (Note 11)	$241,500 to ~~$439,500~~**$44 000**			

NOTES TO CHART FOR ESTIMATED INITIAL INVESTMENT

Note 1: We do not finance any fees. The Initial Franchise Fee is non-refundable. The $30,000 Initial Franchise Fee is for a single It's A Grind Store.

If you sign an Area Development Agreement, you pay us a Development Fee equal to $10,000 times the minimum number of It's A Grind Stores to be opened under your Development Schedule. The Development Fee is fully earned by us when paid and is non-refundable. Notwithstanding any standard initial franchise fee provision in any It's A Grind Franchise Agreement that you sign, you also pay us an initial franchise fee for each Franchise Agreement that you and we sign under your Area Development Agreement as follows:

A. $30,000 for each It's A Grind Store under your Area Development Agreement if you develop and operate two or less It's A Grind Stores;

B. $27,500 for each It's A Grind Store under your Area Development Agreement if you develop and operate three or four It's A Grind Stores; or

C. $25,000 for each It's A Grind Store under your Area Development Agreement if you develop and operate five or more It's A Grind Stores.

We will apply $10,000 of the development fee against each of the franchise agreements that you sign under your Area Development Agreement. When you sign your Area Development Agreement, you pay us the initial franchise fee for your first It's A Grind Store to be opened under your Area Development Agreement. You pay the initial franchise fee for each additional It's A Grind Store to be opened under your Area Development Agreement on the earlier of (1) the execution of the lease for that It's A Grind Store or (2) 6 months before the latest date that the It's A Grind Store must be opened, as described in your Development Schedule (attached as Exhibit ADA-III to your Area Development Agreement). See Item 5 of this Offering Circular.

Note 2: The cost of leasehold improvements will vary depending on many factors, including, without limitation, square footage, market climate, labor market (e.g., prevailing wage rates, union labor restrictions, etc.), type and condition of the facility, location, condition of the leased premises and price difference between various suppliers and contractors. These estimates assume you are establishing a customary It's A Grind Store in a typical neighborhood shopping center or free standing building . In some circumstances, it may be possible to convert an existing free standing building, a pre-existing facility, a multi-level office or commercial facility, regional mall, food court, etc. with our consent as long as it conforms to all of our standards and specifications. It's A Grind, Inc. established one It's A Grind Store in a multi-level office complex in which the leasehold improvement costs were $190,000. The costs of leasehold improvements are your sole responsibility and will vary depending upon your negotiations with the landlord or third parties prior to occupancy, or they may be financed through the landlord or third parties. If you are leasing in a newly developed shopping center, the landlord typically will deliver to you a "shell" with no improvements, in which case, you may be able to negotiate for "tenant improvement" credits towards your construction costs. This is an important factor for you to consider in choosing a location. You should consider consulting with a qualified, licensed contractor for cost estimates before signing the lease. You are responsible for obtaining all necessary permits and licenses required for the location, construction, renovation or operation of your It's A Grind Store.

Note 3: The cost of the equipment, furniture, fixtures, Point of Sales ("POS") computer system, music system, web-based camera system and other equipment includes the estimated costs of all such items that are necessary to open and operate your It's A Grind Store in compliance with our standards and specifications. You must purchase or lease a POS Computer System and Software Programs for use in your It's A Grind Store that are approved by us, that meet all our current standards and specifications and that are fully compatible with our POS Computer System and Software Programs. This typically costs in the $15,000 range. (See Item 11 of this Offering Circular for a description of the computer system)-. We do not provide any financing, but the initial purchase of the equipment, furniture, fixtures and POS computer system may be financed or leased through your own third party sources, depending on your creditworthiness and lender/leasing company requirements. Any equipment financing or equipment leasing arrangements are solely your responsibility. The amount you may qualify to finance or lease, the interest rate, and the length of any financing or leasing arrangements are subject to negotiations between you and your lender or leasing company.

Note 4: If you do not own adequate space, you must lease retail space for your It's A Grind Store. Typical locations for an It's A Grind Store are strip shopping centers in suburban commercial areas having 1,000 to 1,500 square feet. Rent is estimated to range between $2,500 and $7,500 per month and will vary significantly depending on such factors as square footage, market climate, type of facility, location (relating to the location of the shopping center within a community and to the location of the leased premises within the shopping center), condition of the leased premises, the age and popularity of the shopping center where the leased premises is located, etc. If the cost of leasehold improvements is amortized into your lease, your monthly lease rates could significantly increase. (See Note 2 regarding leasehold improvements).

Note 5: The professional fees include payments to architects, accountants and attorneys. These estimates assume that you choose your own architect to prepare your architectural drawings, in which case, you must pay our architect a total of $2,000 for the preparation of a preliminary "test fit" drawing ($500) and for review of the architectural drawings prepared by your architect and for customary consultations with your architect on related issues ($1,500). Our architect reserves the right to charge additional fees for extraordinary services beyond those provided in connection with the typical build-out of an It's A Grind Store. If you choose to retain our architect as your principal architect to prepare your architectural drawings, then our architect will waive the $500 "test fit" fee and the $1,500 review and consultation fee. In such case, you will negotiate with and pay directly our architect for the necessary architectural services.

The above estimates also assume that your legal, accounting and other professional fees will be based on the establishment of a sole proprietorship ownership model and a simple lease review. If you establish a corporation or other legal entity and/or conduct more extensive negotiations regarding your ownership organization or regarding your lease, then your professional fees will increase accordingly.

Note 6: You are required to maintain adequate insurance coverage prior to occupying the lease space. The estimated expenses included in the above Chart include estimates for your initial premium for the required property and public liability insurance and is the estimated cost per year per It's A Grind Store. The cost of other coverage is not included in the estimates.

You must keep in force at your expense and by advance payment of premium at least the following insurance coverage:

(1) Worker's compensation, employer's liability, and such insurance to meet statutory requirements;

(2) Comprehensive general liability insurance, including product liability, property damage, and personal injury coverage, with a combined single limit of at least $1,000,000;

(3) "ALL RISK" or special property coverage of not less than current replacement cost of your It's A Grind Store's glass, equipment, fixtures and leasehold improvements sufficient in the amount to restore your It's A Grind Store to full operations;

(4) Business interruption insurance with coverage for at least 12 months for actual losses;

(5) Employee fidelity bonds in the amount of $10,000 per employee for each employee; and

(6) If you have company-owned vehicles, automobile liability insurance for owned and non-owned automobiles including personal injury, wrongful death, and property damage with single limit coverage of at least $1,000,000.

We may from time to time require you to upgrade your insurance as to policy limits, deductibles, scope of coverage, rating of carriers, etc.

Note 7: Training costs will vary depending upon the number of persons attending the training, the length of stay, the distance traveled, the lodging and stores selected, and type of transportation utilized.

Note 8: The estimate for opening inventory is based on all of the inventory required to open your It's A Grind Store.

Note 9: You must spend at least $5,000 for grand opening advertising, marketing and promotion before you open your It's A Grind Store. Unless we agree otherwise in writing, you pay the minimum grand opening expenditure to vendors and suppliers for the grand opening advertising and promotional campaign materials and services, which include, for example, grand opening direct mail post cards and postage, "Opening Soon" window poster(s), It's A Grind logo coffee mugs and balloons and local newspaper advertising during the initial training program. You will not successfully complete your initial training program if you have not paid the minimum grand opening expenditure of $5,000 during your initial training program, unless we agree otherwise in writing. You cannot start your store opening training until you have implemented and paid for all grand opening advertising, marketing and promotions approved by us for your It's A Grind Store. ~~(See Items~~ **If you are acquiring a Store from an existing franchise, then within 90 days after the transfer you must spend a minimum of $5~~-and~~,000 for an initial advertising program that we approve. (See Item 11)**

Note 10: These estimates for your initial start up expenses include rent, payroll costs and working capital for the first six months of operation. These figures are estimates, and we cannot guarantee that you will not have additional expenses starting the business. These estimates do not provide for an owner's draw. You must have additional monies available, whether in cash or through a line of credit, or have other assets that you may liquidate, or against which you can borrow, to cover your personal living expenses and any operating losses sustained during the start-up and development stage of your business. The amount of necessary reserves will vary greatly from franchisee to franchisee depending upon many factors including, without limitation, your personal requirements, the gross sales and success of your business, which will be affected by your management skill, experience and business acumen, local economic conditions, the local market for our menu items and competition. We cannot provide you with any assurance that your business will become profitable within 90 days, if ever. We recommend that you have available additional resources to help finance the start-up phase of your business and to cover other contingencies.

Note 11: We cannot assure you that you will not have additional expenses in starting your business. Your actual cost will depend on a number of factors, including, without limitation, local economics and market conditions and the size of your It's A Grind Store. We urge you to review these figures carefully with a business advisor, accountant and attorney before making any decision to enter into a Franchise Agreement with us. We do not offer financing either directly or indirectly for any of the above items. The availability and terms of outside financing depends on factors, such as the availability of financing generally, your credit-worthiness, security you may have to offer a lender, policies of lending institutions concerning the type of business to be operated by you, and other such factors. These amounts do not include estimates for any debt service, interest or finance charge.

ITEM 8
RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

To ensure consistency, quality and uniformity throughout the System, you must purchase or lease all equipment, fixtures, furniture, signs, supplies, inventory and other products and materials used in the operation of your It's A Grind Store in accordance with our standards and specifications. These standards and specifications may include minimum standards for quality, delivery, performance, warranties, design, appearance and other restrictions, as we determine from time to time in our discretion. All specifications and standards are described in our Operations Manual and through other communications from us to our franchisees. The Operations Manual and other written communications from us advise you of the names of the approved supplier list setting forth approved brands, models, suppliers or manufacturers. You will receive our Operations Manual during or before your initial training. We may periodically update and alter our standards and specifications and add to or delete from the list of products and services authorized for sale from It's A Grind Stores. Modifications to our standards and specifications are made by means of written bulletins or replacements or additional pages to the Operations Manual sent to franchisees.

All of the packaging materials, paper and plastic products used in the operation of the It's A Grind Store that are available imprinted must be imprinted with the names and marks that we specify. You are not required to purchase these materials and products from us, but the names and marks must be imprinted in accordance with our specifications.

All items must be purchased or leased solely from suppliers that have been approved in writing by us. To obtain our approval as a supplier of a particular item, the supplier must demonstrate to our satisfaction that it has the ability to meet our reasonable standards and specifications for such items, possesses adequate quality controls and has the capacity to supply our needs promptly and reliably.

If you wish to purchase goods and services from a supplier not currently approved, you must submit a written request to us. The supplier must submit written documentation to us setting forth its specifications of the goods or services, availability of supply and stock, schedule of deliveries, price per item as landed in each store and any other information that we reasonably request. We will notify you of our approval or disapproval of the supplier within 90 days of the date of our receipt of the required documentation.

We currently use the following criteria in determining whether to approve a supplier: (1) quality of goods (i.e., size and composition of products, specific manufacturers, brands, etc.), (2) stock and service (i.e., ability to timely deliver goods, frequency of deliveries, and willingness to make special deliveries in case of need), and (3) price landed in store must be better than that of previously approved suppliers.

We may revoke the approval of a supplier at any time for any of the following reasons, as determined by us in our discretion: poor service, inability to maintain sufficient quantity and/or quality of goods, inability to meet or maintain acceptable pricing, or inability to meet acceptable delivery schedule. You must discontinue purchasing from a supplier within seven days of the date of your receipt from us of written notice of revocation of approval of the supplier. We do not currently have any distribution or purchasing cooperatives for franchisees.

In some cases, we will negotiate national account programs and pricing with various vendors on behalf of our franchisees, and we may receive compensation from the vendor. Currently, our sole supplier of roasted coffee beans is Dillanos Coffee Roasters ("Dillanos") of Sumner, Washington. You must purchase all of your coffee beans through Dillanos unless we agree otherwise in writing. We are authorized to receive a commission from Dillanos up to an amount equal to $1.50 per pound of coffee beans that you purchase. Our commission revenues from purchases by our franchisees during the 2003 calendar year were $145,569.25, which represents 9.67% of our book revenues of $1,505,677.

In the future, we may also receive revenues from other approved supplier(s), although the basis for determining the amount of such revenues has yet to be determined. We have the right to receive promotional allowances and rebates, commissions and other consideration from suppliers for services rendered or rights licensed to such persons, or sales effected by such persons. Based on the operating results of the existing It's A Grind Franchise Stores, we estimate that your required purchases or leases from approved sources will represent from 40% to 70% of your overall purchases in connection with the establishment of your It's A Grind Store and 30% to 60% of your overall purchases in connection with the ongoing operation of your It's A Grind Store.
We do not currently provide any material benefits to franchisees based on a franchisee's use of designated or approved suppliers, except in the case of the selection of your architect, as described in Item 7 (Note 5) and Item 11. You are free to choose any qualified architect (subject to our reasonable approval) to prepare your architectural drawings. However, if you retain our architect to prepare your architectural drawings, you will not have to pay the standard "test fit" fee of $500 and the standard review and consultation fee of $1,500. We may negotiate purchase agreements with suppliers that may result in cost saving benefits to our franchisees.

We have no affiliates who are currently approved suppliers, or the sole approved supplier, for any categories of goods and services.

We may become an approved or designated supplier for all coffee and coffee products, logo items, menu boards, furniture, in-store signage and artwork, POS computer software and database management systems, and other business services for It's A Grind franchised stores and, in this case, we may derive income from the sale of such items. The prices that we would charge may reflect an ordinary and reasonable profit consistent with a business of the kinds that produces and/or supplies such items.
(See Item 16 of this Offering Circular).

ITEM 9
FRANCHISEE'S OBLIGATIONS

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

OBLIGATIONS	SECTION IN AREA DEVELOPMENT AGREEMENT	SECTION IN FRANCHISE AGREEMENT	ITEM IN OFFERING CIRCULAR
a. Site selection and acquisition/lease	4.1 - 4.9	1.2, 1.3, 6.1, 7.1 - 7.4	7 & 11
b. Pre-opening purchases/leases	4.1 - 4.9	1.2, 2.2, 6.1, 6.2, 7.2, 7.3, 7.4	7
c. Site development and other pre-opening requirements	4.6	6.1, 6.2, 7.1 - 7.4	7 & 11
d. Initial and ongoing training	N/A	2.1, 6.3, 6.4 6.5	11
e. Opening	5.1, 5.2	1.2, 6.1	11

OBLIGATIONS	SECTION IN AREA DEVELOPMENT AGREEMENT	SECTION IN FRANCHISE AGREEMENT	ITEM IN OFFERING CIRCULAR
f. Fees	5.2, 5.3, 6.1, 6.2, 11.3(H), 17.7	3.2, 5.1 - 5.6, 6.2, 9.2, 9.3, 9.4, 10.2	5, 6 & 7
g. Compliance with standards and policies/Operating Manual	4.6	8.1 - 8.8	8 & 11
h. Trademarks and proprietary information	7.1, 7.2, 8	4.1 - 4.5	13, 14 & 17
i. Restrictions on products/services offered	N/A	8.6	8 & 16
j. Warranty and customer service requirements	N/A	N/A	N/A
k. Territorial development and sales quotas	5.1, 5.2	None	12
l. Ongoing product/service purchases	N/A	8.6	8 & 16
m. Maintenance, appearance & remodeling requirements	N/A	6.2, 7.1, 8.1	17.m
n. Insurance	N/A	10.4	6 & 7
o. Advertising	N/A	9.1 - 9.6	6, 7 & 11
p. Indemnification	15.10	11.2	None
q. Owner's participation/management/staffing/personal guaranty	Recital E, 13.1;13.3	Recital E, 2.1, 11.3	11 & 15
r. Records and reports	5.4, 5.5	10.1	6 & 9
s. Inspections and audits	4.6	10.2	6, 9 & 11
t. Transfer	11.1 - 11.5, 14	14.1-14.7	17.k, 17.l & 17.m
u. Renewal	N/A	3.2, 3.3	17.b
v. Post-termination obligations	5.2, 10.1 - 10.4	15.6, 15.7	17.i
w. Non-competition covenants	7.3, 7.4, 7.5	12.1-12.4, 13.1-13.4	17.q & 17.r
x. Dispute resolution	15.12	16.1-16.5, 17.5-17.6	17.u

ITEM 10
FINANCING

We do not offer direct or indirect financing to you. We do not guarantee your note, lease or other obligation. You are solely responsible to obtain your own financing arrangements.

ITEM 11
FRANCHISOR'S OBLIGATIONS

Except as described below, we do not provide any assistance to you.

Before you open your business, we will:

1. Grant you a nonexclusive license to establish and operate a retail specialty coffee store identified by the Mark "It's A Grind" and employing the It's A Grind business format and System at a location that we have approved (Franchise Agreement, Section 1.1);

2. Consult with you in connection with finding a suitable site and negotiating a letter of intent and a lease for the It's A Grind Store (You are solely responsible for locating, obtaining and evaluating the suitability and prospects of your It's A Grind Store location, and for the review

and negotiation of your letter of intent and your lease.) (See "Site Selection" below) (Franchise Agreement, Sections 2.2(B), 6.1 and 7.2);

3. Arrange to have our architect furnish you with a preliminary store layout and design ("test fit") and our written Construction Guideline Specifications Manual for the development of your It's A Grind Store, for which you will pay our architect a standard fee of $500 (unless you use our architect as your principal architect to prepare your architectural drawings, in which case, this standard fee of $500 will be waived); and arrange to have our (a) architect review the architectural drawings prepared by your architect and (b) consult with your architect regarding the final architectural drawings and other related matters, for which you will pay our architect a standard fee of $1,500 (unless you choose to use our architect as your principal architect to prepare your architectural drawings, in which case, this standard fee of $1,500 will be waived); and consult with you on properly displaying our trademarks and service marks on procuring equipment, furniture, fixtures and initial inventories, on recruiting personnel and on managing the construction or refurbishment of your It's A Grind Store (All items must meet our standards and specifications. Any designs and specifications provided by us must be made site-specific by your architect at your sole expense. You are solely responsible for the development and the development costs of the It's A Grind Store.) (Franchise Agreement, Section 6.2) (See Items 7 and 8 of this Offering Circular);

4. Make recommendations to you regarding the referral of an architect and contractor (to the extent such referral information is available to us) and to consult with you regarding the selection of signs, equipment, furniture, fixtures, initial inventories and other matters related to the opening of your It's A Grind Store; we will use our best efforts to assist you in this regard, but you must hold us harmless on any problems you have with any referral we make to you (Franchise Agreement, Section 6.2);

5. Provide you and your initial designated manager, if applicable, with an initial training program as described below at no additional charge beyond the Initial Franchise Fee (but related to which training, you must pay all travel, lodging and incidental costs and expenses of you and your designated manager (Franchise Agreement, Section 6.3);

6. Send a representative to your It's A Grind Store to provide you with 4 days (subject to adjustment in our reasonable discretion) of pre-opening store opening training for you and your designated manager to assist in the opening of your It's A Grind Store (Franchise Agreement, Section 6.4);

7. Lend you one copy of our Operations Manual (Franchise Agreement, Section 6.6);

8. Conditionally commit to grant you (if you have signed an Area Development Agreement) a franchise to use our trademarks and service marks, our operating system and other confidential and proprietary trade secrets and information, in connection with the operation of each It's A Grind Store that you develop pursuant to your Area Development Agreement provided that you continuously comply with all the terms and conditions of your Area Development Agreement and each of the Franchise Agreements between you and us. (Your breach of either your Area Development Agreement or any of your Franchise Agreements releases us from any obligation to you (or your successor) to execute additional Franchise Agreements with you for It's A Grind Stores.) (Area Development Agreement, Sections 4.1 and 4.2); and

9. Coordinate with you in connection with your grand opening advertising as described below (Franchise Agreement, Sections 5.4, 6.12 and 9.4).

<u>**After the opening of your It's A Grind Store, we will:**</u>

1. Provide you with 6 days (subject to adjustment in our reasonable discretion) of "post opening" training (Franchise Agreement, Section 6.4);

2. Coordinate with you to implement your advertising and marketing for your grand opening of your It's A Grind Store (Franchise Agreement, Sections 6.12 and 9.4);

3. To the extent we implement a cooperative program, manage and administer the National Development Fund activities, including various cooperative and advertising and public relations programs (Franchise Agreement, Section 9.2); and

4. Manage the cooperative gift card program among It's A Grind franchisees and affiliated companies (Franchise Agreement, Sections 5.4 and 8.10).

During the operation of your It's A Grind Store, we may provide (but we are not obligated to do so) you with such of the additional ongoing assistance as we think appropriate:

1. Provide additional training to you and your designated manager at your expense as described below (Franchise Agreement, Section 6.5).

2. Provide continuing advisory assistance and information in the operation of your It's A Grind Store by telephone, computer, fax, e-mail, written updates, periodic meetings, and on-site visits (Franchise Agreement, Section 6.7);

3. Provide and from time to time, add to, alter or delete, at our discretion, lists of specifications, approved distributors and suppliers, approved services, products, materials and supplies and training (Franchise Agreement, Section 6.8);

4. Advise or guide you relative to prices of products and services offered by It's A Grind Stores (We offer all prices as suggestions only based on an analysis of costs, prices charged for competitive products and services, etc. You are not obligated to use our suggested prices, and you have the sole right to determine the prices you charge at your It's A Grind Store.) (Franchise Agreement, Section 6.9); and

5. Institute, maintain and administer an Advertising and National Marketing and Development Fund (the "National Development Fund"), as described below (Franchise Agreement, Section 6.10).

6. From time to time in our discretion, consult and advise you relative to the advertising and marketing programs and materials approved for use in the It's A Grind franchise system. (Franchise Agreement, Section 6.11).

In all matters relating to our approval, consent and other decisions, unless otherwise specified in your Franchise Agreement, we reserve the right to exercise our sole and absolute discretion.

Training (Franchise Agreement, Sections 6.3, 6.4 and 6.5)

Prior to the opening of your It's A Grind Store, we provide you and your designated manager, if applicable, with a mandatory, initial training program. You and your designated manager must receive training at the same time. The length of our initial training program is two weeks with a combination of classroom training at our headquarters or other location we designate and on the job training at a store owned by us or at another training facility that we designate. The training covers the basic aspects of establishing and operating an It's A Grind Store, including the POS computer system, forms, cost control, purchasing, inventory control and disposition, customer service, marketing, selling skills, employee hiring, training and scheduling procedures, job functions and maintenance of quality standards. You and your designated manager must attend all scheduled training days and times and must satisfactorily complete the initial training.

The initial training program is conducted after the signing of the franchise agreement and is generally completed 30 to 90 days before the opening of your It's A Grind Store. All new designated managers employed after the initial It's A Grind Store is opened must complete our training program within 30 days after the new designated manager starts his employment. Training sessions are held periodically, on an as-needed basis.

We conduct the initial training at a location designated by us and may, in part or in whole, be conducted at our corporate headquarters in Long Beach, California.

We do not charge you any additional fees for you to attend the initial training program. However, you are responsible for all travel, lodging, food, wages, wage related expenses and other expenses in connection with training for you and your designated manager.

You must complete, sign and return to us the Electronic Debit Authorization Form (Exhibit ~~C-3~~FA-III to your franchise agreement) and you must send us a list of initial training class attendees with their biographies and store positions, before your attend the initial training class. Unless we agree otherwise in writing, you must pay the minimum grand opening expenditure to vendors and suppliers for grand opening advertising and promotional campaign materials and services (See Item 5) during the initial training program. You will not successfully complete the initial training program if the minimum grand opening expenditure is not paid during your initial training program, unless we otherwise agree in writing.

To help with the opening of your It's A Grind Store, we (at our expense, except as described below) send at least one representative to your It's A Grind Store to provide 10 store opening training days. There are 4 days of "pre-opening" training, which you and your designated manager must complete to our satisfaction before opening your It's A Grind Store for business to the public, and 6 days of "post-opening" training, which you and your designated manager must complete to our satisfaction. We may in our reasonable discretion adjust the number of days allocated to either "pre-opening" training or "post-opening" training depending on your needs and skills. You must have a "certified operator" (you or your designated manager who has satisfactorily completed our initial training class) on site at all times during the 10 opening training days. We decide how many representatives to send to your It's A Grind Store and the scheduling of all training. We are responsible for all expenses of our representatives for this on-site training. You must get, and give us a copy of, a Certificate of Occupancy before scheduling any store opening training, and you must meet all of our initial training and store opening training requirements before you start either the "pre-opening" or the "post-opening" store opening training. We are not obligated to start your store opening training -until you have implemented and paid for all grand opening advertising, marketing and promotions approved by us for your It's A Grind Store.

If we send a representative to your It's A Grind Store for the store opening training and you have not met all of our requirements and we must reschedule the store opening training, then you must reimburse us for our travel, lodging, wage related expenses, off-site food and beverage expenses, plus all other expenses incurred by us, and we will reschedule the store opening training at a date and time that is convenient for us.

If we send a representative to your It's A Grind Store for the store opening training and you have not met all of our requirements and we must extend the store opening training, then you must reimburse us for our additional travel, lodging, wage related expenses, off-site food and beverage expenses, plus all other expenses incurred by us for the extended training period.

If after you complete the initial training, you want additional training for yourself or any of your employees or if you hire a new designated manager, we will provide additional training at a date, time and location that are convenient for us. You must reimburse us for our travel, lodging and off-site food and beverage expenses, wages and wage related expenses, plus all of our other expenses in providing the additional training. You must pay all of your travel, food, lodging, wages and wage related expenses and all other expenses incurred by you, your employees and/or your designated manager in receiving the training at the location at which the training is provided.

The trainers vary depending upon the time, location and subject matter taught. However, persons substantially involved in training you and your manager(s) generally have at least 6 months' experience in operating under the System. The persons conducting the training generally are corporate executives, managers and trainers. As of the date of this Offering Circular, our trainers include Marty Cox, Meghan Hunt-Rider, Toby Foreman, David Wetzel, Candice Cooper and Bob Phibbs.

Candice Cooper is our field operations trainer recruited directly from the It's A Grind, Inc. stores. For over a year, she has been supervising the It's A Grind stores located in Long Beach and Signal Hill, California. She was most recently the store manager of the Signal Hill store. While acting as an operations manager, Ms. Cooper assisted with in-store training of incoming franchisees at different stores and also traveled to the Grand Rapids and San Jose, California sites to train franchisees and assist in the store openings. Prior to joining It's A Grind, Candice was a student. Prior to college, she spent 18 months in store operations with Hollywood Video.

Louise Montgomery is one of the founders, along with Marty Cox, of the It's A Grind concept and is one of the owners of It's A Grind, Inc. (See Item 1)

See Item 2 of this Offering Circular for biographical information for each of our other trainers.

Training requirements are communicated and updated through periodic memos, publications and manuals.

The rest of this page is left intentionally blank.

The following is an outline of the current training program:

SUBJECT	INSTRUCTION MATERIAL	HOURS OF CLASSROOM TRAINING	HOURS OF ON-THE-JOB TRAINING
Welcome / Orientation	**Manual**	**3**	
About It's A Grind		1.5	
Review Operations Manual		1.5	
Services and Organization	**Manual**	**0.5**	
About Coffee	**Manual / Video**	**5.5**	
History of Coffee		0.5	
Coffee Cultivation		0.5	
Harvesting of Coffee		0.5	
Coffee Species: Varietals, Blends, Flavored Coffees		0.5	
Green Beans: Regions and Characteristics		0.5	
Roasting Process and Classifications		1	
Coffee Cupping / Brewing: The Perfect Cup		2	
Barista Training	**Manual / Video**	**5.5**	**19**
Drink Recipes		2.5	
Ingredient Preparation		1.5	5
Drink Preparation		1.5	5
Art of Steaming		1.5	3
Art of Espresso		1.5	3
Equipment Operation			3
POS Training	**Manual**	**5.5**	**6.5**
Using the POS		1.5	5.5
Cash Management		0.5	1
POS Management Reports/Systems		3.5	
Human Resources	**Manual**	**4.75**	
Hiring the Right People		1.5	
Recruiting / Advertising		1.5	
Interviewing		1	
Maintaining Records		0.25	
Documenting Problem Employees / Employee Termination		0.5	
Labor Laws		0.25	
Unemployment Issues – EDD		0.25	
Worker's Comp		0.25	
Payroll Services		0.25	
Employee Motivation		1	
Training Employees	**Manual**	**4**	**2**
Review Employee Training Manual		2	

Subject	Instruction Material	Hours of Classroom Training	Hours of On-the-Job Training
Policies and Procedures		1	2
Review All Employee Operation Forms		1	
Scheduling	**Manual**	**2**	
Schedule Forecasting / Payroll Budget		2	
Store Operations	**Manual**	**4.25**	**11.5**
Opening Procedures		0.25	1
Closing Procedures		0.5	4.5
Sidework List		0.25	0.5
Working Stations		0.25	0.5
Managing Breaks		0.25	1
Heads Up!		0.25	0.5
Ordering Supplies - Maintaining Pars		1	1.5
Managing Perishables / Cost Controls		0.5	1
Store Evaluations / Reviews		0.5	0.5
Safety / Security Procedures		0.5	0.5
Equipment Maintenance and Repairs	**Hands-On**	**2**	
Store Development	**Manual**	**4**	
Accounting, Reporting and Insurance	**Manual**	**2**	
Advertising	**Manual**	**2**	
Review	**Manual**	**2**	**4**
Total Training Hours		**47**	**43**

<u>Operations Manual</u> (Franchise Agreement, Section 6.6)

As stated above, we lend you one copy of our Operations Manual during the term of your Franchise Agreement. The Operations Manual contains our mandatory and suggested specifications, standards and operating procedures. The Operations Manual is made up of our entire collection of manuals, guidelines, standards and specifications provided to you relating to the development, construction and operation of your It's A Grind Store. We may revise the contents of the Operations Manual, and you must comply with each new or changed standard and specification upon notice from us. The Operations Manual is our sole property. You must keep the contents of the Operations Manual confidential both during the term of your Franchise Agreement and after its termination, expiration or non-renewal. If there is any dispute concerning the contents of the Operations Manual, the terms of the master copy of the Operations Manual maintained at our principal office will control.

As of the date of this Offering Circular, the Operations Manual consists of approximately 537 pages. Its table of contents is attached to this Offering Circular as Exhibit G.

Advertising – General (Franchise Agreement, Section 9.1)

We must approve all advertising and promotional materials before you use them. We may provide you with graphic designs, layouts and written copy for advertisements. You must pay production costs for each item such as camera ready ad slicks and typesetting of specific ads for your It's A Grind Store. You are prohibited from advertising your It's A Grind Store in any manner on the Internet, World Wide Web or through any other electronic means without our prior written permission. We do not warrant or represent that any of the advertising or promotional activities, materials or campaigns will be successful or will achieve any particular result. **We may place signage, language and informational materials relating to franchise opportunities on your Store counters, doors and/or windows**

Advertising and National Marketing and Development Fund (Franchise Agreement, Section 9.2)
We maintain and administer the Advertising and National Marketing and Development Fund (the "National Development Fund") for advertising or public relations programs that we in our discretion find necessary or appropriate to advertise and promote It's A Grind Stores. We direct all such programs, with sole discretion over the creative concepts, materials, endorsements and media used in connection with such programs, the source of the advertising or public relation efforts, the placement and allocation of such programs and the composition of all geographic territories and market areas for the development and implementation of such programs.

You must contribute 1% of your Gross Sales to the National Development Fund, payable weekly in the same manner and at the same time as the Continuing Royalty Fee (See Item 6). We and any of our company-owned It's A Grind Stores also contribute 1% of Gross Sales (Store operation revenues only) for each company-owned It's A Grind Store. The National Development Fund Fee is uniform as to all franchisees and is nonrefundable.

The fees paid to the National Development Fund are used to meet all costs of maintaining, administering, directing, preparing and reviewing national, regional and local advertising materials and programs, all promotional materials and activities, and are in addition to and exclusive of any sums that you may be required to spend on local advertising and promotion.

We have sole and absolute discretion to determine the amount and nature of expenditures from the National Development Fund. We have the exclusive right to decide whether and in what proportions such funds will be allocated to advertising, research, marketing, public relations, sales promotions or other areas, and to select materials, programs, media and agencies that we deem appropriate.

The National Development Fund is accounted for separately from our other funds and is not used to pay any of our general operating expenses, except for such reasonable salaries, administrative costs and overhead as we or our affiliates incur in activities reasonably related to the administration, direction or promotion of the National Development Fund and its programs. We have no obligation to you to account for our administration of or expenditures under the National Development Fund.

The National Development Fund is intended to maximize general recognition and patronage of It's A Grind Stores for the benefit of all It's A Grind Stores. In developing, implementing or administering advertising or public relations programs, we have no obligation to insure your contributions to the National Development Fund are utilized in your market area, and we have no obligation to insure that your It's A Grind Store benefits directly or pro rata from the placement of advertising.

Through the National Development Fund, we may furnish you with approved local marketing plans and materials on the same terms and conditions as such plans and materials are furnished to other franchisees.

For the fiscal year ended December 31, 2003, National Marketing and Development Fund expenditures were made in the following areas: Direct mailing (60%); production/creative (30%); and other (administrative, etc.) related costs (10%). Advertising fees not spent in the fiscal year in which they accrue remain in the National Development Fund for future advertising purposes. No funds in the National Development Fund are used for advertising to solicit the sale of franchises.

Local Advertising (Franchise Agreement, Section 9.3)
You must spend a minimum of 2% of your monthly gross sales on our approved local advertising and sales promotions activities. In addition to the 2% expenditure, at your expense, you must participate in all of our promotions for the market in which your It's A Grind Store is located, display all in-store promotional materials and pay for the cost of products being promoted. We will consult and advise you relative to the local advertising and marketing programs and materials approved for use in the It's A Grind franchise system. You may develop advertising materials for your own use at your own expense. You must provide us with copies of all advertising materials in advance and obtain written approval from us before using the advertising materials. We will provide report forms that you must complete each month and send to us to show that you have fulfilled your monthly requirement for local advertising expenditures.

Grand Opening Advertising (Franchise Agreement, ~~Section~~**Sections 9.4 and 14.3**)
As stated in ~~Items 5 and~~ Item 7 above, you must spend a minimum of $5,000 for grand opening advertising, marketing and promotion before you open your It's A Grind Store. We establish standard plans that you adapt for use in your grand opening, and we advise you relating your grand opening advertising. You use advertising and promotional campaign and materials, reasonably approved by us. Unless we agree otherwise in writing, you pay the minimum grand opening expenditure to vendors for the grand opening advertising and promotional campaign materials which include grand opening direct mail post cards and postage, "Opening Soon" window poster(s), logoed mugs, logoed balloons and local newspaper advertising during the initial training program. You will not successfully complete your initial training program if your minimum grand opening expenditure is not paid during -your scheduled initial training program, unless we agree otherwise in writing. We will not start your store opening training, until you implement and pay for all grand opening advertising, marketing and promotions approved by us for your It's A Grind Store. **If you are acquiring a Store from an existing franchise, then within 90 days after the transfer you must spend a minimum of $5,000 for an initial advertising program that we approve.** (See Items ~~5 and~~ 7.)

Advertising Cooperative (Franchise Agreement, Section 9.5)
If we establish a local or regional advertising cooperative in your designated market area, you must become a member and participate the same as the other members. You may be required to make contributions to the cooperative in an amount determined by a majority of its members with each It's A Grind Store (whether owned by a franchisee or by us) counting as one member, but with no party (whether a franchisee or us) having the right to more than 25% of all member votes for the advertising cooperative. The bylaws of any advertising cooperative must be approved by us and must provide for one of our representatives to be a member of the cooperative and any committee responsible for advertising and sales promotion decisions.

Franchisee Advertising Council. (Franchise Agreement, Section 9.6)
We established a franchisee advertising council on December 16, 2002. We may, if necessary and in our sole judgment, modify or disband the franchisee advertising council. Currently, the council is made up of an elected body of 5 franchisees and David Wetzel, our chief operating officer and Bob Phibbs, our director of marketing. The council's purpose is to provide us with input on advertising and marketing issues. The franchisee advertising council has its own bylaws, is purely advisory in nature and has no operational or decision-making authority. The council meets 3 times each year.

Computer Systems (Franchise Agreement, Sections 5.4, 8.9, 8.10 and 10.1)

For efficiency, uniformity and consistency, you must purchase or lease a point-of-sale ("POS") computer and software system compatible with our network computer system. The POS computer and software system generates reports for sales, inventory, employee labor, clerk sales, product tracking and facilitates our customer gift card program. Currently, our approved supplier for the POS computer and software system is Jadeon, Inc. which is located at 16832 Red Hill Avenue, Suite B, Irvine, CA 92606, (949) 222-2233. This POS computer system is a 3 terminal, computerized network that runs the Aloha Quick Service software customized specifically for us. This software program has been used by us in our Stores since 2001.

We may require that from time to time you upgrade your POS Computer System (hardware and/or software). Neither we nor our supplier has a specific obligation to you to maintain or update your equipment or software. This is your sole obligation. Annual hardware and software maintenance is approximately $2,000.

Your initial acquisition cost for the POS computer system is factored into your initial investment costs discussed in Item 7 of this Offering Circular. In addition to the initial costs, you will pay weekly fees of approximately $30 for the costs of financial management and customized reporting features, gift card management features and communication and polling features (which permit our computers to communicate with your POS computer system). We pay this fee monthly to the vendor on your behalf, and you must reimburse this fee to us weekly by electronic funds transfer. We have full, independent access to the sales information and data generated by your computer system. We may retrieve, analyze, download and use the software and all data on it at any time. We may require you, at your expense, to update or upgrade your system to meet our new standards and specifications. We are unable to estimate what a required update or upgrade will cost.

Your cash register(s) must be set to comply with our specifications in the operations manual and must be integrated with your POS computer system.

You must install and use a security camera system meeting our standards and specifications and including three or more cameras. Your camera system must be integrated with your computer system and must continuously transmit images of your Store through the internet and making such images available to you and us in real time.

You must install and maintain a high speed internet connection with a minimum upload rate of 156K baud, i.e., DSL, cable-modem or comparable connection that will allow real-time communications between you and us regarding your POS computer system and your security camera system. You must maintain an e-mail address and fax number. You must check your e-mail and fax on a daily basis (except for weekends) and respond promptly to all e-mail, fax and other communications.

You must install a music system in accordance with our specifications for your It's A Grind Store and maintain a music subscription service with a vendor approved by us. See Item 6, Note 4 and the Chart in Item 7 of this Offering Circular.

Site Selection (Franchise Agreement, Section 6.1 and Area Development Agreement, Sections 4.2.D and 4.3)

Unless you own or purchase property that is suitable for purposes of operating the It's A Grind Store, your It's A Grind Store will be leased from an independent third party. You are solely responsible for locating, obtaining and evaluating the suitability and prospects of your It's A Grind Store location and for the review and negotiation of your letter of intent and lease. We will assist you in site selection and the review and negotiation of your letter of intent and lease by furnishing you with our standard site documents, including confidential site evaluation criteria, our recommended form of letter of intent, "vanilla shell" construction exhibit, key lease points document and by general consulting with and counseling. At our discretion, we may also conduct field inspections of proposed sites at mutually convenient times.

We must approve the site for your It's A Grind Store. You are solely responsible for the selection of a site for your It's A Grind Store location. Our assistance to you in the review and negotiation of a letter of intent or lease and our approval of a proposed site are permission only and not an assurance or guaranty to you of the availability, suitability or success of a location. We are not responsible or liable for your decision on a site. Our participation, consulting or counseling in your site selection, letter of intent or lease process or in making any recommendation to you as to the selection of any real estate, financial or legal professionals, consultants, architects, engineers or contractors, does not create any responsibility or liability for us. You are solely responsible for hiring your own real estate, financial and legal professionals, consultants, architects, engineers and contractors to help you. **We recommend that you have a "test fit" done for a proposed location prior to lease execution, especially if the location is not a standard size or shape for an It's A Grind Store.**

We will advise you whether a proposed site is approved within approximately 30 days after receipt of the Location Report. Depending upon the completeness of the information provided, the process may take less than 30 days or longer than 30 days; if more than 30 days is required, you will be advised in writing as to the reasons for the delay. You must sign a franchise agreement and return it to us within 15 days after you receive it, or we may withdraw our approval to the proposed location. We may terminate your Franchise Agreement if you fail to open your It's A Grind Store within 18 months from the date of your Franchise Agreement.

We must approve of the letter of intent and lease for your It's A Grind Store location before you sign the letter of intent or lease~~-for-~~. **Before you sign a letter of intent, you are required to provide your ~~It's A Grind Store~~ landlord's sign criteria for the proposed** location. **Your letter of intent must include our approved sign criteria.** ***Before you sign a lease*** **you also must obtain a site specific drawing that meets our specifications, pay $500 for a review of the drawing by our designated sign contractor (unless you have hired the designated sign supplier) and have obtained a final approved sign plan from us, which must be incorporated in the lease. If your sign does not meet the approved plan, then you must replace it at your expense.** The letter of intent and lease must be in a form reasonably acceptable to us.

Typically, we require that the lease contain substantially the following provisions, among others, depending on the circumstances: (1) "The leased premises will be used only for the operation of an It's A Grind Franchise", (2) "The employees of IAG Coffee Franchise, LLC (Franchisor) will have the right to enter the leased premises to make any modifications necessary to protect the System and proprietary marks thereof."~~,~~ (3) "Lessee agrees that Lessor may, upon request of IAG Coffee Franchise, LLC (Franchisor) disclose to said Franchisor all reports, information or data in lessor's possession with respect to sales made in, upon or from the leased premises.", ~~and~~ (4) a conditional assignment clause (Exhibit D, "Lease Rider" to this Offering Circular) providing that Franchisor (or its designee) may, upon termination, expiration, non-renewal or proposed assignment of the Franchise Agreement, or any default under the lease by lessee, at Franchisor's sole option, take an assignment of Franchisee's interest thereunder, without the consent of the lessor or property owner, without payment of additional consideration or increase in rent, and at anytime thereafter, reassign the lease to a new franchisee; and **(5) our approved sign criteria and sign plan.** In any case, we will not approve a lease unless you and the landlord have agreed to the terms of our "Lease Rider," granting us a conditional assignment of your lease rights.

Opening of Business

You must work diligently to open your It's A Grind Store for business in a timely manner. We estimate that from the time you sign your Franchise Agreement to the date you begin business typically will be 8 to 12 months. This time estimate may vary depending on various factors, including availability of retail sites, your diligence and commitment to follow through all pre-opening requirements, leasing a site, negotiating the lease, completion of architectural plans, obtaining a general contractor and the period of time required to obtain licenses and permits and to complete construction, equipping, and furnishing a site, and hiring of employees. In some markets, the lack of available, suitable locations may further increase the time required to open your store. If you are operating under an Area Development Agreement, you are required to open multiple stores according to your development schedule, which may extend over several years, depending on the number of stores you have committed to develop. -**Each It's A Grind Store must have signage identifying you as an independently owned and operated franchisee of ours.**

ITEM 12
TERRITORY

Franchise Agreement

Subject to the rights reserved by us in your Franchise Agreement, we grant you the right to operate a single, traditional, full service It's A Grind Store at the location and premises approved by us in accordance with your Franchise Agreement. Except as described below, you receive a protected area consisting of a circular area defined by a radius of one mile from the center of your It's A Grind Store.

If you are granted the right to operate an It's A Grind business through an "alternative channel of distribution" at your authorized location, in lieu of a traditional, full service It's A Grind Store, then you have no protected area, unless you and we sign a special addendum at the same time you sign your franchise agreement, specifying a protected area.

"Alternative channels of distribution" include any other channel of commerce or method of distribution, including, without limitation, distribution of products or services through supermarkets, grocery stores, convenience stores, gasoline stations, discount stores, department stores, bookstores, music stores, kiosks, mobile facilities, vending carts, stadiums, convention centers, concert halls, amusement parks, fair grounds and other areas of public gatherings, any temporary or mobile facilities, mail order facilities, internet based facilities, direct response media, or onsite coffee services for business locations.

We will not establish a traditional, full service It's A Grind Store within your protected area if you are in full compliance with the methods, procedures, standards and specifications required by us in the Operations Manual or otherwise in writing and you are not in violation of any of the terms of your Franchise Agreement or any other agreement with us. We and our affiliates have the right at any time to establish company-owned or franchised It's A Grind Stores at any locations we choose outside your protected area. The protected area does not give you marketing or customer exclusivity. It's A Grind Stores located outside the protected area may market and provide products and services to customers who live and work in your protected area.

Except for your right to operate a single, traditional, full service It's A Grind Store from your approved location, you are not granted any rights to use the System and the Marks in connection with any alternative channel of distribution. We (and those that we may appoint) retain all rights to sell It's A Grind brand (or any other brand) products and services (whether or not competitive) to customers located anywhere (including within your protected area) using alternative channels of distribution (i.e., other than a traditional, full service It's A Grind Store located in your protected area), and you should not have any expectation that we will not use those means of distribution.

With respect to sales by any alternative channel of distribution, there is no limitation on our ability (and the ability of anyone that we appoint) to sell to customers located anywhere.

If we decide that your authorized location is a non-traditional or unique site (for example, central business districts, downtown areas, densely populated urban areas, airports, sporting and entertainment venues, tourist areas, etc.), then we may reduce the size of your protected area, which will be described in detail in an addendum to your franchise agreement.

Notwithstanding the foregoing, we and/or any of our affiliates can acquire, be acquired by, merge, affiliate with or engage in any transaction with other businesses (whether competitive or not), with units located anywhere (including in your protected area), and including arrangements in which (1) other units are (or are not) converted to the It's A Grind Store or other format (including using the System and/or Marks) and/or (2) we and/or any of our affiliates are acquired, and/or company-owned, franchised or other businesses (including the traditional It's A Grind Store) are converted to another format, maintained under the System or otherwise. All It's A Grind Stores owned by you (whether traditional, full service type or alternative channel of distribution type) must fully participate in any such conversion, at your sole expense. You have 18 months to complete the conversion. If you started operations within 24 months of the date of the notice from us or if you have started any renovations, upgrades or capital improvements that cost more than $50,000 within 12 months before the date of our notice, then you have 24 months to complete the conversion from the date of our notice. You do not have to complete any conversions if you receive our notice within 24 months before your franchise agreement expires and you do not renew that agreement.

If the It's A Grind System is converted to a different format or brand name, we may immediately commence to promote and market the new format and/or brand name. We may direct that funds from the National Development Fund be used likewise, even though you defer the conversion of your It's A Grind Store to the new format and/or brand name. You will be obligated to continue to make contributions to the National Development Fund.

You must receive our written permission prior to relocating your It's A Grind Store. Your protected area is not dependent upon you attaining minimum sales. Any future rights to apply to open additional It's A Grind Stores are subject to our development policies and your compliance with your Franchise Agreement. We have the right to choose with whom we will do business. We have no obligation to enter into additional or new Franchise Agreements with existing franchisees with whom we have entered into previous franchise agreements for a single location or multiple locations.

<u>Area Development Agreement</u>

Subject to any pre-existing rights of It's A Grind, Inc. and subject to the rights reserved by us in your Area Development Agreement and in each Franchise Agreement between you and us and except as discussed below, if you enter into an Area Development Agreement, you are granted an exclusive area in which we will not operate or franchise others to operate a traditional, full service It's A Grind Store until your Area Development Agreement has expired so long as you comply with the development schedule and the terms and conditions of your Area Development Agreement. The duration of the development period depends in part on the number of It's A Grind Stores that you commit to develop. Your Area Development Agreement does not grant you any right to use the It's A Grind Marks or to operate an It's A Grind Store. These rights are granted pursuant to a Franchise Agreement that must be issued for each It's A Grind Store, the terms and conditions of which may differ from the terms contained in the Franchise Agreement being used on the date the Area Development Agreement is executed, except for the Initial Franchise Fee and the Continuing Royalty Fee and Development Fee.

We may operate and grant to others the right to operate It's A Grind Stores at any location outside your development area and to sell proprietary products of the System to wholesale and retail businesses and other distribution channels inside and outside your development area. We and our affiliates may, without limitation, own and operate and/or grant to others the right to own and operate It's A Grind Stores at locations outside your development area and on terms and conditions that we decide are appropriate; and to sell the proprietary products of the System to wholesale and retail businesses and to distribute any products or services through alternative channels of distribution (as described above) inside or outside your development area.

If we present you with a new site that we have approved in your development area, which is more than one mile from any It's A Grind store that you own and operate, and you do not accept the site, then we may in our discretion secure the site to operate a company-owned It's A Grind Store or to offer and sell an It's A Grind franchise opportunity to another party.

ITEM 13
TRADEMARKS

We possess a master license for the United States from It's A Grind, Inc. to use and sublicense the trademarks and service marks related to the It's A Grind System pursuant to a Trademark License Agreement dated August 1, 2000 between us and It's A Grind, Inc. (See Item 1).

It's A Grind, Inc. received a federal trademark registration on the Principal Register of the United States Patent and Trademark Office for the word mark, "It's A Grind", Registration No. 2,563,756 on April 23, 2002.

Pursuant to our Trademark License Agreement with It's A Grind, Inc., it has represented and warranted to us that it has the sole power, authority and right to license these trademarks and/or services marks to us, permitting us to sublicense their use to you.

The term of the Trademark License Agreement is for a period of 25 years, commencing August 1, 2000, and is renewable upon the mutual, written agreement between It's A Grind, Inc. and us.

Under the Trademark License Agreement, It's A Grind, Inc. has the right to terminate the Trademark License Agreement if we violate that agreement, however, existing franchisees as of the date of any such termination would not be impacted. Under the Trademark License Agreement and a related "Store License Agreement," It's A Grind, Inc. has reserved the right to continue to own and operate its existing It's A Grind Stores, as well as a number of additional stores. It's A Grind, Inc. also has the right to sell these stores to third parties. These stores, whether owned by It's A Grind, Inc. or any party purchasing such stores, would not be part of the It's A Grind franchise network.

Except as noted above, we have no information regarding any claims of, or agreements with, any third parties relating to the rights to use these trademarks and/or service marks.

Subject to the terms and provisions of your Franchise Agreement, we grant you the right to operate a traditional, full service It's A Grind Store under the trade name "It's A Grind." You also may use our other current or future trademarks designated by us to operate your It's A Grind Store. By "trademark," we mean the trade names, trademarks, service marks and logos used to identify your It's A Grind Store.

You must use all marks in full compliance with your Franchise Agreement and the Operations Manual. You cannot use the "It's A Grind" name or mark as part of your corporate name or with modifying words, designs or symbols. You may not use our trade name or trademarks in

connection with the sale of an unauthorized product or service or in a manner not authorized in writing by us.
Except as discussed above regarding the Trademark License Agreement with It's A Grind, Inc., there is no agreement in effect that significantly limits our right to use or sublicense the use of these service marks in any manner material to your It's A Grind Store.

You must notify us immediately when you learn about an infringement of or challenge to the use of our trademarks, and you are obligated at your expense to assist and cooperate with any suit or other action undertaken by us with respect to such unauthorized use or infringement, including, without limitation, testifying or furnishing documents or other evidence. We have the right, but not the obligation, to take the action we think appropriate and to direct and control any proceeding, litigation or settlement involving our marks. We will be responsible for legal expenses that we incur in connection with any litigation or other legal proceedings involving such third party. We are not liable for any of your legal expenses unless we (in our discretion) approve such expenses.

We have no liability to you if a valid claim is asserted, and we are not required to defend or indemnify you against any claims or damages arising out of proceedings to which you are a party involving disputes over any of our names or trademarks.

We do not know of any infringing uses that could materially affect your use of the It's A Grind's trademark.

There are no presently effective determinations of the United States Patent and Trademark Office, the Trademark Trial and Appeal Board or the trademark administrator of any state or any court; any pending infringement, opposition or cancellation proceeding; or any other pending material litigation involving the trademarks.

You agree not to contest, directly or indirectly, or aid in contesting the validity or ownership of our name and trademarks, or take any action whatsoever that might affect or prejudice our claimed rights therein.

We may add to, delete from, modify, change, revise or substitute different names and marks for use in identifying It's A Grind Stores. You must comply, at your own expense, with each addition, deletion, modification, change, revision or substitution.

Upon termination, expiration or nonrenewal of your Franchise Agreement, you must immediately stop using the names and trademarks and take appropriate action to remove the names and trademarks from your business and to cancel any advertising relating to your use of our names and trademarks.

ITEM 14
PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

You do not receive the right to use an item covered by any patent or copyright, but you can use the proprietary information in the Operations Manual. (See Item 11 of this Offering Circular.)

We claim common law copyrights in your Franchise Agreement, this Offering Circular, the Operations Manual and other miscellaneous printed material germane to the System. No copyright claimed by us has been registered with the United States Copyright Office. Pursuant to the terms of your Franchise Agreement, you must at all times treat all of our materials as confidential, and you must not at any time allow such materials to be copied, duplicated, recorded or otherwise made available to any unauthorized person or source.

All information provided by us to you is our sole and exclusive property and constitutes valuable trade secrets of ours. You must maintain this information in strictest confidence, require all of your employees to execute a confidentiality agreement (Exhibit E), and not use this information in any other business or in any manner not specifically authorized by us. If you or your employees learn about an unauthorized use of any of our confidential or proprietary materials, you must promptly notify us. We are not obligated to take any action, but we will respond to this information as we believe appropriate.

If we add, modify or discontinue the use of an item covered by a copyright, you must also do so at your expense.

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

We strongly believe that the success of your It's A Grind Store depends on your personal and continued efforts, supervision and attention. You must devote your best efforts, business judgment, and skills to the development, management and operation of your It's A Grind Store, but you are not required to personally manage your It's A Grind Store. You may hire a designated manager to assume the direct, day-to-day, full time supervision responsibilities of your It's A Grind Store.

You will be held solely responsible for the operation of your It's A Grind Store. You and your manager must attend and successfully complete our initial training program. Your manager cannot have an interest or business relationship with any of our business competitors. Your manager is not required to have an ownership interest in a corporate or partnership franchise. You are responsible to supervise your affiliates, managers, employees and representatives to prevent unauthorized use or disclosure of our trade secrets and other confidential information. If we determine in our reasonable discretion that it is necessary to protect the confidentiality of our trade secrets and the competitive position of the It's A Grind franchise network by having certain of your principal owners, managers and other senior employees sign reasonable confidentiality, non-competition and/or non-solicitation agreements, we may require that these managers and senior employees sign written confidentiality, non-competition and non-solicitation agreements comparable to the agreement you sign, which agreements are described in Items 12, 13 and 17 of this Offering Circular. Your Franchise Agreement contains confidentiality and non-competition covenants by which you agree to be bound (See Exhibit E to Franchise Agreement).

Each individual who owns ~~a 5% or greater~~ an interest in the franchise entity must sign an agreement (Guarantee, Indemnification and ~~Acknowledgement~~**Acknowledgment** – Exhibit ~~C-4~~**FA-VII** to Franchise Agreement), guaranteeing, assuming and agreeing to discharge all obligations of the franchisee under the Franchise Agreement.

ITEM 16
RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You must offer and sell only those goods and services that we have approved (please refer to Item 8 of this Offering Circular). Your business is to be used solely for the operation of the business licensed under your Franchise Agreement, and you must refrain from using or permitting the use of your It's A Grind Store for any other purpose or activity at any time without our prior written approval.

You are permitted to inventory, sell or offer for sale only those inventory items, products and services expressly designated or approved by us. You must inventory, sell or offer for sale all menu items, products and services required by us. You must not deviate from our methods, procedures, standards and specifications, including ingredients, methods of preparation and service, weight, quality and dimensions of products served. You may inventory, sell or offer for sale other items, products or services only upon receipt of prior written approval from us. You must discontinue selling and offering for sale any menu items, products or services that we may, in our discretion, disapprove at any time. We may, in our discretion, add, delete or otherwise change any required menu item, products, practices or other components of the System. There are no limits on our right to do so, and, in such case, you are obligated, at your expense, to comply with all such changes in the timeframe designated by us.

Your business may only be identified by the name "It's A Grind" or another of the licensed marks designated in writing by us. We do not impose any restrictions as to the customers to whom you may sell or offer to sell such items, goods or services. (See Item 8 of this Offering Circular).

ITEM 17
RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

Note: Attached as Exhibit M is a California Appendix, which contains important information concerning your rights in connection with the franchise agreement.

This table lists certain important provisions of the franchise and related agreements. You should read carefully these provisions in the agreements attached to this Offering Circular. This is a summary index only; other important provisions are not listed here.

PROVISION	SECTION IN FRANCHISE AGREEMENT (FA) AND AREA DEVELOPMENT AGREEMENT (ADA)	SUMMARY
a. Length of the term of the franchise	3.1 (FA) 3 (ADA)	Initial term is the shorter of 10 years or the length of the term of your lease for your authorized location (FA). Date last party signs until last day of Development Schedule (ADA).
b. Renewal or extension of the term	3.2 (FA) N/A (ADA)	If certain conditions are met, you can renew for consecutive additional option terms equal to the new or extended term of your lease for your authorized location (or suitable alternative location that we approve (FA). No renewal under ADA.
c. Requirements for franchisee to renew or extend	3.2 (FA) N/A (ADA)	Give proper notice, sign new agreement, full compliance, sign release, upgrade, pay fee (FA). N/A (ADA).
d. Termination by franchisee	15.1 (FA) None (ADA)	Upon our breach of your Franchise Agreement that is not timely cured after notice; we have 90 days after notice to cure; your notice must be specific as to defaults and steps you want us to take (FA). None (ADA).

PROVISION	SECTION IN FRANCHISE AGREEMENT (FA) AND AREA DEVELOPMENT AGREEMENT (ADA)	SUMMARY
e. Termination by franchisor without cause	None (FA) None (ADA)	None
f. Termination by franchisor "with cause"	15.2 (FA) 9 (ADA)	We can terminate only if you default. See California Appendix – Exhibit M.
g. "Cause" defined - curable defaults	15.2(2) (FA); 9 (ADA)	The time you have to cure varies; -for most defaults, you have 30 days to cure: misuse of marks, nonpayment of fees, nonsubmission of information, noncompliance, failure to timely commence operations, etc. (FA and ADA).
h. "Cause" defined - defaults which cannot be cured	15.2(1) (FA) 9 (ADA)	Noncurable defaults: insolvency, bankruptcy, appointment of receiver, unauthorized transfer, **multiple defaults within prescribed periods,** etc. (FA and ADA). See California Appendix - Exhibit M.
i. Franchisee's obligations on termination/nonrenewal	15.6 & 15.7 (FA) 10.1–10.4 (ADA)	Obligations include payment of amounts due, complete de-identification, compliance with various covenants, return Operations Manual (FA). Continue obligations that survive termination; no refund (ADA).
j. Assignment of contract by franchisor	14.7 (FA) 11.1 (ADA)	No restrictions on our right to assign (FA and ADA).
k. "Transfer" by franchisee – defined	14.1 (FA) 11.2 (ADA)	Includes transfer of contract or assets or ownership change (FA and ADA).
l. Franchisor approval of transfer by franchisee	14.1 (FA) 11.2 (ADA)	We have the right to approve all transfers and impose reasonable requirements; We may withhold approval in our sole discretion; Transferee must sign a new agreement (FA and ADA).
m. Conditions for franchisor approval of transfer	14.1 – 14.4 (FA) **11.3 and 11.4** (ADA)	Conditions include approval of new franchisee/developer, payment of all debts by you, correction of defaults and noncompliance, **consent to transfer,** release signed by you **and transferee,** assignment and personal guarantee signed, current agreement signed by new franchisee/developer, payment of transfer fee, **franchise termination agreement signed by you,**etc. (FA and ADA). **No Assignment permitted until half of Developer's store commitment met** (ADA)

PROVISION	SECTION IN FRANCHISE AGREEMENT (FA) AND AREA DEVELOPMENT AGREEMENT (ADA)	SUMMARY
n. Franchisor's right of first refusal to acquire franchisee's business	14.2 (FA) 12 (ADA)	We have right to acquire your rights under your agreement only for an amount equal to offer made by bona fide third party offeree (FA and ADA).
o. Franchisor's option to purchase franchisee's business	15.6.l (FA) N/A (ADA)	We have the option to purchase your inventory, equipment, furniture and fixtures upon termination, expiration or nonrenewal for any reason (FA). N/A (ADA)
p. Death or disability of franchisee	14.5 (FA) 11.5 (ADA)	Your interest transferred to third party approved by us within 12 months after death or incompetence; subject to conditions of transfer (FA and ADA).
q. Noncompetition covenants during the term of the franchise	13.1 (FA) 7.3 (ADA)	No involvement in similar business (FA and ADA).
r. Noncompetition covenants after the franchise is terminated or expires	13.1 (FA) 7.4 (ADA)	No involvement in similar business for 2 years within a 10 mile radius of any It's A Grind Store (FA and ADA). See California Appendix - Exhibit M.
s. Modification of the agreement	17.8 (FA) 15.7 (ADA)	Only by a written agreement signed by you and us; we have right to modify Operations Manual (FA and ADA). See California Appendix - Exhibit M.
t. Integration/merger clause	18 (FA) 16 (ADA)	Only the terms of your agreement are binding (subject to state law); any other promises may not be enforceable (FA and ADA)
u. Dispute resolution by arbitration or mediation	16.1, **16.3** (FA) 15.2, **15.13** (ADA)	All disputes must be arbitrated in Long Beach, California in accordance with the Commercial Arbitration Rules of the American Arbitration Association (FA and ADA)~~.~~); **limitation on periods to bring claims** See California Appendix - Exhibit M.
v. Choice of forum	17.6 (FA) 15.4 (ADA)	California in judicial district where our headquarters are located (FA and ADA).
w. Choice of law	17.5 (FA) 15.4 (ADA)	California law applies (FA and ADA).
x. WAIVER OF JURY TRIAL	16.4 (FA) N/A (ADA)	**YOU WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, WHETHER AT LAW OR IN EQUITY, BROUGHT BY EITHER YOU OR US (FA).** N/A (ADA)

PROVISION	SECTION IN FRANCHISE AGREEMENT (FA) AND AREA DEVELOPMENT AGREEMENT (ADA)	SUMMARY
y. Waiver of Punitive Damages	16.5 (FA)	You (and your owners and guarantors, if applicable) waive to the fullest extent permitted by law, any right to or claim for punitive or exemplary damages against us; in any dispute between you and us, you are limited to recovery of actual damages that you suffer

These states have statutes that may supersede your franchise agreement in your relationship with us including the areas of termination and renewal of your franchise: ARKANSAS [Stat. Section 70-8070, CALIFORNIA [Bus. & Prof. Code Sections 20000 - 20043], CONNECTICUT [Gen. Stat. Section 42-133e et seq.], DELAWARE [Code, tit.], HAWAII [REV. STAT. SECTION 482e-1], ILLINOIS [815 ILCS 705/19 and 705/20], INDIANA [Stat. Section 23-2-2.7], IOWA [Code Sections 523H.1 - 523H.17], MICHIGAN [Stat. Section 19.854(27)], MISSISSIPPI [Code Section 75-24-51], MISSOURI [Stat. Section 407.400], NEBRASKA [Rev. Stat. Section 87-401], NEW JERSEY [Stat. Section 56:10-1], SOUTH DAKOTA [Codified Laws Section 37-5A-51], VIRGINIA [Code 13.1-557-574-13.1-564], WASHINGTON [Code Section 19.100.180], WISCONSIN [Stat. Section 135.03]. These and other states may have court decisions that may supersede your franchise agreement in your relationship with us including the areas of termination and renewal of your franchise. We intend to enforce all franchise agreements, area development agreements and other agreements according to their express terms, subject only to any restrictions imposed by law.

ITEM 18
PUBLIC FIGURE

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

ITEM 19
EARNINGS CLAIMS

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 an It's A Grind Franchise (although we do provide certain historical financial information in Exhibit O, as described below). Actual results vary from unit to unit and we cannot estimate the results of any particular franchise.

We make no representations, express or implied, regarding potential earnings of your business. We have not suggested, guaranteed or warranted that you will succeed in the operation of a Franchise or provided any sales or income projections of any kind to you. We are unable to reliably predict the results of operation of units owned by us, and we certainly cannot reliably predict what results you might achieve. How well you might do depends almost entirely on factors outside our control, including your general business ability, your resources, how closely you follow our system, your location, competition, and how good a businessperson you are. The business realities are that no one, including us, can make a reliable estimate of what sort of results you may achieve. We cannot guarantee your success and we do not authorize any sales, cost or income projections, estimates or otherwise of any kind to you, nor should you rely on any projections or estimates of any type from anyone.

Attached as Exhibit O to this Offering Circular is an It's A Grind Earnings Claim based on Historical Results, which is our only authorized "earnings claim" or other statement regarding financial results relating to our Franchises. Exhibit O should be read in its entirety, including the discussion of factual basis and material assumptions and all disclaimers, since all of it is important to your decision. Note that Exhibit O has not been audited or prepared in accordance with generally accepted accounting standards, does not meet professional or other standards for financial statements and is not a reliable basis on which to predict potential gross sales, costs, profit or any other financial condition for any franchise Store you might operate.

Before signing any binding documents or making any investment, you should make your own independent investigation regarding the possible purchase of an It's A Grind Franchise.

Additional language required by the State of California is contained in the California Appendix in Exhibit M of this Offering Circular.

ITEM 20
LIST OF FRANCHISED OUTLETS

IT'S A GRIND FRANCHISES
FOR YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

STATE	TRANSFERS	CANCELED OR TERMINATED	NOT RENEWED	REACQUIRED BY US	LEFT THE SYSTEM OTHER	TOTAL FROM LEFT COLUMNS	FRANCHISES OPERATING AT YEAR END
Arizona	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	2/1/0
California	1/0/0	2/2/0	0/0/0	0/1/0	3/0/0	6/3/0	17/6/1
Colorado	0/0/0	0/2/0	0/0/0	0/0/0	0/0/0	0/2/0	1/0/0
Michigan	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	2/1/0
Nevada	0/0/0	0/1/0	0/0/0	0/0/0	0/0/0	0/0/0	2/2/0
Texas	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	2/0/0
Total	1/0/0	2/5/0	0/0/0	0/1/0	3/0/0	6/5/0	26/10/1

STATUS OF COMPANY-OWNED[1] STORES
FOR FISCAL YEARS[2] 2003, 2002, AND 2001

STATE	COMPANY-OWNED STORES CLOSED DURING YEAR	COMPANY-OWNED STORES OPENED DURING YEAR	TOTAL COMPANY-OWNED STORES OPERATING AT YEAR END
California	0/1[3]/0	0/0/0	6[4]/6/7
Total	0/1/0	0/0/0	6/6/7

(1) "Company-owned Stores" includes the It's A Grind Stores owned and operated by It's A Grind, Inc., IAG Lakewood, Inc. and us. These Stores are not part of the It's A Grind franchise system, but may be sold to franchisees in the future.

(2) Our fiscal year end is December 31.

(3) In 2002, we sold a company-owned location to a franchisee; the location continues to operate as an It's A Grind Store.

(4) In early 2004, we sold our company-owned Cypress, California Store to a franchisee; the location continues to operate as an It's A Grind Store.

As of December 2003, It's A Grind, Inc. and its affiliate IAG Lakewood, Inc., operated 5 It's A Grind Stores at the locations listed below).

Long Beach Store
5933 East Spring Street
Long Beach, California 90808

Signal Hill Store
2162 East Willow Street
Signal Hill, California 90806

Bixby Store
4245 Atlantic Avenue
Long Beach, California 90807

Lakewood Store
4214 Woodruff Avenue
Lakewood, California 90713
(See Note 1)

Downtown Store
444 West Ocean Boulevard
Long Beach, California 90802
(See Note 2)

NOTES

Note 1: This Store is owned and operated by IAG Lakewood, Inc., an affiliate of It's A Grind, Inc.

Note 2: This Store operated by It's A Grind, Inc. is a smaller unit located in an office building complex, which is not typical of the standard It's A Grind Store configuration.
All of these stores (owned by It's A Grind, Inc.) operate independently and are not part of the franchise network.

The following table sets forth the projections for future growth in the It's A Grind franchise network.

PROJECTED FRANCHISE OPENINGS BY US AS OF OUR NEXT FISCAL YEAR END (DECEMBER 31, 2004)

STATE	FRANCHISE AGREEMENTS SIGNED BUT FRANCHISES NOT OPENED	PROJECTED NEW FRANCHISE SALES IN THE NEXT FISCAL YEAR	PROJECTED COMPANY-OWNED OPENINGS IN NEXT FISCAL YEAR
Arizona	3	3	0
California	27	10	1
Georgia	0	1	0
Colorado	1	3	0
Michigan	0	1	0
Missouri	1	1	0
Nevada	3	3	0
Texas	4	3	0
Tennessee	1	1	0
Total	40	26	1

These projected business openings are based on our best estimates. We make no assurances or guarantees that we will achieve these results. Since we are a young company, we expect that we will modify our marketing plans as opportunities arise in different markets around the country.

As of December 31, 2003, we had 26 franchised outlets open, but several store sites were either under construction or had signed leases.

As of December 31, 2003, we had signed 19 area development agreements, under which the 19 area developers had committed to develop and open 99 It's A Grind franchised stores over the course of the next several years.

The above chart reflects only the first It's A Grind store for which various It's A Grind franchise agreements had been signed, and not the additional locations that are subject to future development.

We plan to begin granting master franchises in 2004. If we do, we will offer them separately under a different Offering Circular.

Attached to this Offering Circular as Exhibit J is a list of our franchisees as of December 31, 2003.

Attached to this Offering Circular as Exhibit K is a list of the names and last known addresses and telephone numbers of every member under a franchise agreement with us whose franchise has, within the one year period immediately preceding December 31, 2003, been terminated, canceled or not renewed, or who has, during the same period, otherwise voluntarily or involuntarily ceased to do business pursuant to its franchise agreement with us, or who has not communicated with us within ten weeks of the date of this Offering Circular.

ITEM 21
FINANCIAL STATEMENTS

Our audited financial statements as of December 31, 2003, 2002 and 2001 and the unaudited financial statements for the interim period from January 1, 2004 ending April 30, 2004 are attached to this Offering Circular as Exhibit I.

ITEM 22
CONTRACTS

A copy of the following agreements are attached to this Offering Circular:

Exhibit C: Franchise Agreement and Exhibits **(Note: all Exhibits subject to change by us)**

Exhibit ~~C.1~~FA-I: Authorized Location
Exhibit ~~C.2~~FA-II: Electronic Funds Transfer Agreement
Exhibit ~~C.3~~FA-III: Electronic Debit Authorization
~~Exhibit C.4 General Release~~
Exhibit FA-IV Consent to Assignment of Franchise to 3rd Party
Exhibit ~~C.5~~ **FA-V: Consent to Assignment of Franchise Agreement** ~~and Guaranty~~**to Business Entity**;
~~Consent to Assignment~~
Exhibit ~~C.6~~FA-.VI: Telephone Listing Agreement
Exhibit ~~C.7~~FA-.VII: Guarantee, Indemnification and Acknowledgement
Exhibit FA-VIII: Franchise Termination Agreement (Transfers)

Exhibit D: Lease Rider (Conditional Assignment of Lease)
Exhibit E: Non-Competition and Confidentiality Agreement
Exhibit H: Statement of Prospective Franchisee
Exhibit L: Area Development Agreement and Exhibits

Exhibit ADA-I Current Form of Franchise Agreement
Exhibit ADA-II Development Area
Exhibit ADA-III Development Schedule
Exhibit ADA-IV Adjusted, Continuing Royalty Fees
Exhibit ADA-V Assignment of Area Development -Agreement And Guaranty
Exhibit ADA-VI General Release
Exhibit ADA-VII Guarantee, Indemnification and Acknowledgment

ITEM 23
RECEIPT

Two copies of the Receipt are attached to this Offering Circular as Exhibit P. You must sign both copies, keep one copy for your records, and return one copy to us at the following address: Steven Shoeman, Chief Executive Officer, IAG Coffee Franchise, LLC, 6272 East Pacific Coast Highway, Suite E, Long Beach, California 90803.