

**EXHIBIT C
TO THE OFFERING CIRCULAR
AREA DEVELOPMENT AGREEMENT**

DEPARTMENT OF CORPORATIONS
RECEIVED
APR 03 2006
SACRAMENTO OFFICE

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SACRAMENTO OFFICE

EXHIBIT C TO THE FRANCHISE AGREEMENT

REFUNDS AND CANCELLATION

Franchisee: _____ Dated: _____

This entire contract is further conditioned upon Franchisor's evaluation of the personal abilities, aptitudes and financial qualifications of Franchisee and Franchisee's manager, if applicable. In accordance therewith, Franchisee and Franchisee's manager, if applicable, shall submit all data requested and Franchisor shall have a reasonable time, not to exceed fifteen (15) business days after submission of all data, to prepare its evaluations. If, for any reason, Franchisor elects to cancel this Agreement after the aforesaid evaluations, he shall notify Franchisee in writing of the cancellation within fifteen (15) days of Franchisor's receipt of the above data. Said notice shall be accompanied by a refund to Franchisee of monies paid to Franchisor under the terms of this Agreement, less the amount stated below, and the notice and refund shall cause an automatic cancellation of this Agreement without further notice.

In the event of a cancellation of this Agreement as set forth above, Franchisor shall be entitled to a reasonable fee for its evaluation of Franchisee, related preparatory work performed and expenses actually incurred, but not to exceed THREE THOUSAND Dollars (\$3,000.00). If Franchisee has paid franchise fees in excess of the amount owed to Franchisor for Franchisor's evaluation, Franchisor shall return such excess amount to Franchisee and Franchisor shall be fully and forever released from any claims or causes of action the Franchisee may have under or pursuant to this Agreement.

ATTEST:

**PANCHERO'S FRANCHISE
CORPORATION:**

By: _____
Title: _____

ATTEST/WITNESS:

FRANCHISEE:

By: _____
Title: _____

By: _____
Title: _____

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**PANCHERO'S FRANCHISE CORPORATION
AREA DEVELOPMENT AGREEMENT**

THIS CONTRACT IS SUBJECT TO ARBITRATION

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EXHIBITS

- A. DESCRIPTION OF TERRITORY
- B. DEVELOPMENT SCHEDULE
- C. GUARANTY AND ASSUMPTION OF OBLIGATIONS

PANCHERO'S FRANCHISE CORPORATION

AREA DEVELOPMENT AGREEMENT

THIS AREA DEVELOPMENT AGREEMENT (this "Agreement") made this _____ day of _____, by and between PANCHERO'S FRANCHISE CORPORATION, an Illinois corporation, having its principal place of business at 2475 Coral Court, Suite B, Coralville, Iowa 52241 ("Franchisor"), and _____ ("Developer").

WITNESSETH:

WHEREAS, Franchisor and its Affiliate ("Affiliate"), over a period of time and as the result of the expenditure of time, expertise, effort and money, have developed and own a unique System ("System"), identified by the Mark "PANCHERO'S", relating to the establishment, development and operation of businesses for (i) the operation of a restaurant facility providing carry-out and on-premises dining services, featuring burritos, quesadillas, tacos, fajitas, salads, rice, salsa, and other food and beverage products, all prepared in accordance with specified recipes and procedures ("Menu Items"); (ii) may develop and continue to further develop a proprietary line of specially formulated spice packs, salsas, marinades and other food products ("Trade Secret Food Products"); (iii) have developed certain presentation, packaging and marketing standards and techniques for all Menu Items and Trade Secret Food Products; and (iv) have developed consumer acceptance for all Menu Items and Trade Secret Food Products ("Franchised Restaurant"); and

WHEREAS, the distinguishing characteristics of the System include, without limitation, distinctive exterior and interior layout, design and color scheme; exclusively designed signage, decorations, furnishings and materials; display cooking; special recipes, formulae, menus and food and beverage designations; the PANCHERO'S Confidential Operations Manual ("Confidential Operations Manual"); the Proprietary Software Package ("Proprietary Software Package") (if developed); food and beverage storage, preparation and service procedures and techniques; operating procedures for sanitation and maintenance; and methods and techniques for inventory and cost controls, record-keeping and reporting, personnel management, purchasing, sales promotion and advertising; all of which may be changed, improved and further developed by Franchisor from time to time; and

WHEREAS, Franchisor's Affiliate, Little Donkeys, Inc., has certain rights together with all the goodwill connected thereto in and to the trade names, service marks and trademarks "PANCHERO'S", "PANCHERO'S, plus the design", associated logos and commercial symbols, and such other trade names, service marks and trademarks as are now designated (and may hereinafter be designated by Franchisor in writing) as part of the System ("Mark(s)") and has licensed the rights in the Marks to Franchisor with the right to sublicense to Franchisor's Franchisees. Franchisor will continue to develop, use and control such Marks for the benefit and use of itself and its franchisees in order to identify for the public the source of food products and services marketed thereunder and to represent the System's high standards of quality regarding Menu Items, operations, food products, ingredients, appearance and service; and

WHEREAS, Franchisor grants to qualified persons franchises to own and operate PANCHERO'S restaurants offering food products and services authorized and approved by Franchisor and utilizing the System and Marks. Franchisee desires to operate a PANCHERO'S Franchised Restaurant using the System and Marks and has applied for a franchise, which application has been approved by Franchisor in reliance upon all of the representations made therein; and

WHEREAS, Developer understands and acknowledges the importance of Franchisor's high and uniform standards of quality, operations and customer service and the necessity of operating the PANCHERO'S Franchised Restaurant in conformity with Franchisor's standards and specifications; and

WHEREAS, Franchisor expressly disclaims the making of and Developer acknowledges that it has not received nor relied upon any warranty or guaranty, express or implied, as to the revenues, profits or success of the business venture contemplated by this Agreement. Developer acknowledges that it has read this Agreement and Franchisor's Uniform Franchise Offering Circular and that it has no knowledge of any representations by Franchisor, or its officers, directors, shareholders, employees or agents that are contrary to the statements made in Franchisor's Uniform Franchise Offering Circular or to the terms herein.

NOW, THEREFORE, the parties, in consideration of the undertakings and commitments of each party to the other set forth in this Agreement, hereby agree as follows:

I. GRANT

(a) Franchisor hereby grants to Developer, pursuant to the terms and conditions of this Agreement, options to obtain licenses to establish and operate _____ () PANCHERO'S restaurants featuring the Menu Items and offering carry-out and on-premises dining within the territory described in Exhibit A attached hereto and incorporated herein by this reference ("Designated Territory").

(b) Developer shall be bound by the Development Schedule ("Development Schedule") set forth in Exhibit B. Time is of the essence to this Agreement. Each Franchised Restaurant shall be established and operated pursuant to a separate Franchise Agreement to be entered into by Developer and Franchisor. Each Franchise Agreement ("Franchise Agreement") shall be in Franchisor's then-current form of the Franchise Agreement.

(c) Except as otherwise provided in this Agreement, Franchisor shall not establish, nor license anyone other than Developer the right to establish any business in the Designated Territory prior to the expiration of the development schedule set forth in Exhibit B.

(d) This Agreement is not a Franchise Agreement, and Developer shall have no right to use in any manner the Marks by virtue hereof.

(e) Developer shall have no right under this Agreement to license others to operate a business or use the System or the Marks.

II. DEVELOPMENT FEE

(a) As consideration for the rights and options granted herein, Developer shall pay to Franchisor an initial individual franchise fee in the amount of TWENTY THOUSAND Dollars (\$20,000.00) under each Franchise Agreement executed by Developer. Simultaneously with the execution of this Agreement, Developer shall execute a Franchise Agreement for the first PANCHERO'S restaurant to be developed, and shall pay (i) the initial franchise fee under such Franchise Agreement in the amount of TWENTY THOUSAND Dollars (\$20,000.00), and (ii) an amount equal to fifty percent (50%) of the initial franchise fee specified above for each additional PANCHERO'S restaurant which Developer is granted the option to develop under this Agreement ("Development Fee"). The Development Fee due at the time of execution of this Agreement is _____ Dollars (\$_____). The Development Fee, which is to be paid at the time of execution of this Agreement, is consideration for this Agreement and not consideration for any Franchise Agreement, is fully earned by Franchisor upon execution of this Agreement and is non-refundable, notwithstanding any provision to the contrary contained in any Franchise Agreement. The balance of the initial franchise fee for each PANCHERO'S restaurant shall be due upon execution of the applicable individual Franchise Agreement.

(b) Developer shall submit a separate application for each restaurant to be established within the Designated Territory by Developer. Upon approval of the site of the restaurant by Franchisor, a separate Franchise Agreement shall be executed for each such restaurant, at which time payment representing the balance of the appropriate individual franchise fee is due and owing in accordance with the terms of the Franchise Agreement. Upon the execution of each Franchise Agreement, the terms and conditions of such Franchise Agreement shall control the establishment and operation of such restaurant.

III. DEVELOPMENT SCHEDULE AND MANNER OF EXERCISING OPTIONS

(a) Developer shall be bound by and strictly follow the Development Schedule ("Development Schedule") set forth in Exhibit B. Time is of the essence. By the dates set forth under the Development Schedule ("Option Period(s)"), Developer shall exercise options by entering into Franchise Agreements with Franchisor pursuant to this Agreement for the number of Franchised Restaurants described under the Development Schedule. Developer shall at all times after the expiration of each of the Option Periods continuously maintain in operation pursuant to each Franchise Agreement at least the number of Franchised Restaurants set forth on the Development Schedule, provided however that such obligation does not apply to businesses that are transferred in accordance with the provisions of the Franchise Agreement, or are closed due to force majeure.

(b) Developer shall exercise each option granted herein only as follows:

(i) By giving Franchisor written notice of Developer's intention to exercise such option at least thirty (30) days before the execution of the Franchise Agreement for the applicable business; and

(ii) By executing the then-current form of the Franchise Agreement for the applicable business and complying with its terms including, without limitation, the payment of the unpaid balance of the applicable franchise fee.

Franchisor shall execute the Franchise Agreement only if (i) Developer is in compliance with all requirements and obligations of this Agreement and all other agreements between Franchisor and Developer, and (ii) Developer is in compliance with all of its respective obligations under any Franchise Agreement. In order to meet the Development Schedule, the Franchise Agreement must be executed by Developer and Franchisor within the applicable Option Period. Developer must comply with all of the terms and conditions of each Franchise Agreement.

IV. TERM AND RIGHT OF FIRST REFUSAL

(a) Unless sooner terminated in accordance with the terms of this Agreement, the term of this Agreement and all rights granted hereunder to Developer shall expire on the date of Franchisor's acceptance and execution of a Franchise Agreement for the last of the PANCHERO'S restaurants to be established pursuant to the Development Schedule.

(b) If Franchisor proposes to grant the right to another franchisee to develop additional PANCHERO'S Franchised Restaurants within the Designated Territory after the expiration of this Agreement, Franchisor shall notify Developer in writing of such proposal and Developer shall, for a period of thirty (30) days from the date of delivery of such notification, have the right, exercisable by written notice to Franchisor, to buy the rights to open and actually commence operation of such additional PANCHERO'S Franchised Restaurants under the same terms and conditions as proposed to the other franchisee.

V. DUTIES OF THE DEVELOPER

(a) Developer shall perform the following obligations:

(i) Developer shall comply with all terms and conditions set forth in this Agreement.

(ii) Developer shall comply with all of the terms and conditions of each Franchise Agreement including, without limitation, the operating requirements specified in each Franchise Agreement. However, Developer will not be required to attend an initial franchisee training course conducted at a Franchisor designated location in connection with the second or any subsequent Franchised Restaurant.

(iii) Developer shall at all times preserve in confidence any and all materials and information furnished or disclosed to Developer by Franchisor, and Developer shall disclose such information or materials only to such of its employees or agents who must have access to it in connection with their employment. All such employees or agents of Developer who must have access to such information or materials shall be required to execute nondisclosure agreements in the form acceptable to Franchisor. Developer shall not at any time, without Franchisor's prior written consent, copy, duplicate, record or

otherwise reproduce such materials or information, in whole or in part, nor otherwise make the same available to any unauthorized person.

(iv) Developer shall comply with all requirements of federal, state and local laws, rules and regulations.

(v) Developer shall return to Franchisor all manuals and other confidential information more fully described in Paragraph VI. of this Agreement that it receives from Franchisor in the course of operating the PANCHERO'S Franchised Restaurant when Franchisee leaves the PANCHERO'S System.

(b) Should Developer at some time in the future desire to make either a public or a private offering of its securities, prior to such offering and sale, and prior to the public release of any statements, data or other information of any kind relating to the proposed offering of Developer's securities, Developer shall secure the written approval of Franchisor, which approval shall not be unreasonably withheld. Developer shall secure Franchisor's prior written approval of any and all press releases, news releases and any and all other publicity, the primary purpose of which is in the public interest in its offering. Only to the extent that written approval has been given by Franchisor may Developer proceed to file, publish, issue and release and make public any data, material or information regarding its securities offering or the Franchised Restaurants. It is specifically understood that any review by Franchisor is solely for its own information, and its approval shall not constitute any kind of authorization, acceptance, agreement, endorsement, approval or ratification of the same, either express or implied; and Developer shall make no oral or written notice of any kind whatsoever indicating or implying that Franchisor and/or related corporations or persons have any interest in or relationship whatsoever to the proposed offering other than acting as Franchisor. Developer agrees to indemnify and hold harmless Franchisor and its subsidiaries, and their owners, directors, officers, employees, affiliates, successors and assigns, from all claims, demands, costs, fees, charges, liabilities or expenses (including attorneys' fees) of any kind whatsoever arising from Developer's offering or information published or communicated and any actions taken with regard thereto.

VI. PROPRIETARY MARKS/CONFIDENTIALITY

(a) Notwithstanding any provision to the contrary under this Agreement, it is understood and agreed that this Agreement does not grant the Developer any right to use the Marks or to use any of Franchisor's trade secret and/or confidential information, as defined below. Further, it is understood and agreed that this Agreement does not grant the Developer and Developer does not have any right to any copyright or patent which the Franchisor now owns or may hereinafter own. Rights to the Marks, trade secrets (and/or confidential information), copyrights or patents are granted only under the Franchise Agreements to be executed by Franchisor and Developer.

(b) Developer and its owners, officers and directors, if any, acknowledge that their entire knowledge of the operation of the Franchised Restaurant, including the knowledge or know-how regarding the preparation of Menu Items, Trade Secret Food Products and other food products, and other specifications, product formulae, standards and operating procedures of a PANCHERO'S restaurant, is derived from information disclosed to Developer by Franchisor and

that certain of such information is proprietary, confidential and constitutes trade secrets of Franchisor. In addition, any improvements developed by Franchisee pursuant to Franchisee's operation of any Franchised Restaurant shall constitute proprietary information of Franchisor. "Trade secrets" refer to the whole or any portion of know-how, knowledge, methods, recipes, formulae, specifications, processes, procedures and/or improvements regarding the PANCHERO'S restaurant and the System that is valuable and secret in the sense that it is not generally known to competitors of Franchisor. Developer and its owners, officers and directors, if any, jointly and severally agree that during and after the term of this Agreement for so long as any Franchisor treats any such information as its trade secret, they will maintain the absolute confidentiality of all trade secret information and will not disclose, sell or use any such information in any other business or in any manner not specifically authorized or approved in advance in writing by Franchisor.

(c) Developer and its owners, officers and directors, if any, shall divulge such trade secret and confidential information only to the extent and only to such of its employees as must have access to it in order to perform obligations under this Agreement or a Franchise Agreement. Any and all information, knowledge and know-how of Franchisor including, without limitation, the Confidential Operations Manual, specifications and standards concerning the operation of PANCHERO'S Franchised Restaurants and other materials and information provided to Developer by Franchisor, shall be deemed confidential for purposes of this Agreement, except information which Developer can demonstrate lawfully came to its attention prior to disclosure thereof by Franchisor (other than under an obligation of confidentiality); or which, at the time of disclosure by Franchisor to Developer, had lawfully become a part of the public domain, through publication or communication by others; or which, after disclosure to Developer by Franchisor, lawfully becomes a part of the public domain, through publication or communication by others.

(d) Due to the special and unique nature of the trade secrets, confidential information, proprietary marks and Confidential Operations Manual of Franchisor, Developer and its owners, officers and directors, if any, hereby, jointly and severally, agree and acknowledge that Franchisor shall be entitled to immediate equitable remedies including, but not limited to, restraining orders and injunctive relief, in order to safeguard such proprietary, confidential, unique and special information of Franchisor and that money damages alone would be an insufficient remedy with which to compensate Franchisor for any breach of the terms of Paragraph VI. of this Agreement. Furthermore, Developer agrees that all owners, directors, shareholders, partners and employees of Developer having access to the trade secrets, confidential and proprietary information of Franchisor and any owners, officers, directors or other employees designated by Franchisor shall be required to execute confidentiality agreements acceptable to Franchisor.

(e) Developer is granted access to certain confidential information and trade secrets pertaining to the System only pursuant to an individual Franchise Agreement executed between Developer and Franchisor, and the foregoing paragraphs are not intended, and shall not be interpreted, to grant or entitle Developer to receive any such confidential information or trade secrets pursuant to this Agreement.

(f) Developer shall return to Franchisor all manuals and other confidential information more fully described in this Paragraph VI. that it receives from Franchisor in the

course of operating the PANCHERO'S Franchised Restaurant when Franchisee leaves the PANCHERO'S System.

VII. DEFAULT AND TERMINATION

(a) The options and territorial exclusivity granted to Developer in this Agreement have been granted in reliance on Developer's representations and warranties, and strictly on the conditions set forth in this Agreement including, without limitation, the condition that Developer comply strictly with the Development Schedule.

(b) Developer shall be deemed in default under this Agreement, and all rights granted herein to Developer shall automatically terminate without notice: (i) If Developer shall be adjudicated bankrupt, becomes insolvent, commits any affirmative action of insolvency or files any action or petition of insolvency, or if a receiver (permanent or temporary) of its property or any part thereof is appointed by a court of competent authority or if it makes a general assignment for the benefit of its creditors; (ii) if a final judgment remains unsatisfied of record for thirty (30) days or longer (unless supersedeas bond is filed); (iii) if execution is levied against Developer's business or property, or; (iv) if suit to foreclose any lien or mortgage against Developer's premises or equipment is instituted against Developer and not dismissed within thirty (30) days, or is not in the process of being dismissed; provided, however, that Franchisor reserves the right to be named as trustee or receiver in any voluntary petition for bankruptcy or insolvency filed by Developer.

(c) If Developer (i) fails to exercise options and enter into Franchise Agreements with Franchisor pursuant to this Agreement for the Franchised Restaurants within any Options Period as set forth on the Development Schedule; (ii) fails to comply with any other term or condition of this Agreement; or (iii) makes or attempts to make a transfer or assignment in violation of this Agreement or if Developer fails to comply with the terms and conditions of any individual Franchise Agreement with Franchisor or of any other agreement to which Developer and Franchisor are parties, any such event shall constitute a default under this Agreement. Upon any such default, Franchisor, in its discretion, may do any one or more of the following:

(i) Terminate this Agreement and all rights granted hereunder to Developer without affording Developer any opportunity to cure the default effective immediately upon receipt by Developer of written notice from Franchisor;

(ii) Reduce the number of Franchised Restaurants, without any reduction of the Development Fee, which are subject to options granted to Developer pursuant to this Agreement;

(iii) Terminate or reduce in any manner, in Franchisor's discretion, the territorial exclusivity granted Developer in Paragraph I. hereof; or

(iv) Exercise any other rights and remedies which Franchisor may have.

(d) Upon termination of this Agreement, all remaining options granted Developer to establish Franchised Restaurants under this Agreement shall automatically be null and void. Developer shall have no right to establish or operate any PANCHERO'S Franchised Restaurant

for which a Franchise Agreement has not been executed by Franchisor. Franchisor shall be entitled to establish and to license others to establish, Franchised Restaurants which will operate in the Designated Territory except as may be otherwise provided under any Franchise Agreement which has been executed between Franchisor and Developer or Developer's affiliates and which has not been terminated. No default under this Agreement shall constitute a default under any Franchise Agreement between the parties hereto, except to the extent that any default under this Agreement constitutes a default under any Franchise Agreement in accordance with the terms of the Franchise Agreement. Notwithstanding the above, the terms and conditions of each Franchise Agreement must be complied with by the Franchisee thereunder and shall control in determining whether any default exists under such Franchise Agreement.

(e) No right or remedy herein conferred upon or reserved to Franchisor is exclusive of any other right or remedy provided or permitted by law or equity.

VIII. TRANSFERABILITY

(a) This Agreement and all rights hereunder can be assigned and transferred by Franchisor and, if so, shall be binding upon and inure to the benefit of Franchisor's successors and assigns; provided, however, that with respect to any assignment resulting in the subsequent performance by the assignee of the functions of Franchisor, the assignee shall:

(i) At the time of such assignment, be financially responsible and economically capable of performing the obligations of Franchisor hereunder; and

(ii) Expressly assume and agree to perform such obligations. Specifically and without limitation to the foregoing, Developer expressly agrees that Franchisor may sell its assets, Marks or System outright to a third party; may make a public offering of securities; may engage in a private placement of some or all of its securities; may merge or acquire other corporations or entities or be acquired by another corporation or other entity; may undertake a refinancing, recapitalization, leveraged buy out or other economic or financial restructuring; and, with regard to any or all of the above sales, assignments and dispositions, Developer expressly and specifically waives any claims, demands or damages arising from or related to the loss of said Marks (or any variation thereof) and/or the loss of association with or identification of PANCHERO'S FRANCHISE CORPORATION as Franchisor hereunder. Nothing contained in this Agreement shall require Franchisor to remain in the business in the event that Franchisor exercises its rights hereunder to assign its rights in this Agreement.

(b) Developer understands and acknowledges that the rights and duties set forth in this Agreement are personal to Developer and are granted in reliance upon the personal qualifications of Developer. Developer has represented and hereby represents to Franchisor that Developer is entering into this Agreement with the intention of complying with its terms and conditions and not for the purpose of resale of the developmental or option rights hereunder.

(c) Neither Developer nor any partner or shareholder thereof shall, without Franchisor's prior written consent, directly or indirectly sell, assign, transfer, convey, give away, pledge, mortgage or otherwise encumber any interest in this Agreement or in Developer. Any

such proposed assignment occurring by operation of law or otherwise, including any assignment by or to any trustee in bankruptcy, without Franchisor's prior written consent, shall be a material default of this Agreement.

(d) Neither Developer, nor any partner (if Developer is a partnership) or shareholder (if Developer is a corporation) of Developer, without Franchisor's prior written consent, by operation of law or otherwise, shall sell, assign, transfer, convey, give away or encumber to any person, firm or corporation, all or any part of its interest in this Agreement or its interest in the rights granted hereby or its interest in any proprietorship, partnership, corporation or other entity which owns any interest in such rights, nor offer, permit or suffer the same to be sold, assigned, transferred, conveyed, given away or encumbered in any way to any person, firm or corporation. Developer may not, without the prior written consent of Franchisor, fractionalize any of the rights of Developer granted pursuant to this Agreement. Any purported assignment of any of Developer's or any of its partner's or shareholder's rights herein not having the aforesaid consent shall be null and void and shall constitute a material default hereunder. Subject to Paragraph VIII.F. of this Agreement, so long as Developer and its owners, directors and officers executing this Agreement are in full compliance with this Agreement and any other agreements to which Developer and Franchisor are parties, Franchisor shall not unreasonably withhold its approval of an assignment or transfer, to proposed assignees or transferees if such persons: (i) are of good moral character and have sufficient business experience, aptitude and financial resources, (ii) otherwise meet Franchisor's then applicable standards for developers, and (iii) are willing to assume all obligations of Developer hereunder and to execute and be bound by all provisions of the Franchisor's then-current form of the Area Development Agreement for a term equal to the remaining term hereof. As a condition to granting its approval of any such assignment or transfer, Franchisor may require Developer or the assignee or transferee to pay to Franchisor its then-current assignment fee to defray expenses incurred by Franchisor in connection with the assignment or transfer, legal and accounting fees, credit and other investigation charges and evaluation of the assignee or transferee and the terms of the assignment or transfer. Franchisor shall have the right to require Developer and its owners to execute a general release of Franchisor and its owners, directors, officers, successors and assigns, in form and content satisfactory to Franchisor as a condition to its approval of the assignment of this Agreement or ownership of Developer.

(e) This Agreement may be assigned to a partnership or corporation which conducts no business other than the business contemplated hereunder, which is actively managed by Developer and in which Developer owns and controls, and continues to own throughout the term of this Agreement, not less than fifty-one percent (51%) of the general partnership interest or the corporate equity and voting power, provided that all partners or shareholders shall execute an assignment agreement in a form approved by Franchisor undertaking to be bound jointly and severally by all provisions of this Agreement and all issued and outstanding stock certificates of such corporation or limited partnership units of such partnership shall bear a legend reflecting or referring to the restrictions of this Agreement as designated by Franchisor.

(f) If Developer or its owners shall at any time determine to sell the rights under this Agreement or any of their respective ownership interests in Developer or any of Developer's assets (except in the ordinary course of business), Developer or its owners shall obtain a bona fide, executed written offer from a responsible and fully disclosed purchaser and shall submit an

exact copy of such offer to Franchisor, which shall, for a period of fifteen (15) days from the date of delivery of such offer, have the right, exercisable by written notice to Developer or its owners, to purchase such rights under this Agreement or such ownership interests for the price and on the terms and conditions contained in such offer, provided that Franchisor may substitute cash for any form of payment proposed in such offer and that Franchisor shall have not less than sixty (60) days to prepare for closing. If Franchisor does not exercise this right of first refusal, Developer or its owners, as applicable, may complete the sale of such interest in this Agreement or such ownership interest, subject to Franchisor's approval of the purchaser as provided in this Paragraph VIII., provided that if such sale is not completed within ninety (90) days after delivery of such offer to Franchisor, Franchisor shall again have the right of first refusal provided herein.

(g) Developer must give Franchisor ninety (90) days written notice prior to any sale or assignment of a full or partial interest in Developer by Developer or any of its owners. The purpose of this paragraph is to enable Franchisor to comply with any applicable state or federal franchise disclosure laws. Developer agrees to indemnify and hold harmless Franchisor for Developer's failure to comply with this paragraph.

(h) Developer must promptly ("promptly" herein defined as within fifteen (15) days of receipt of an offer to buy) give Franchisor written notice whenever Developer or any of its owners have received an offer to buy Developer's or such owner's interest in this Agreement or an interest in Developer itself or any options pursuant to this Agreement. Developer must also give Franchisor written notice simultaneously with an offer to sell any interest in this Agreement or an interest in Developer itself or any options pursuant to this Agreement, made by, for or on behalf of Developer or any of its owners. The purpose of this paragraph is to enable Franchisor to comply with any applicable state or federal franchise disclosure laws or rules. Developer agrees to indemnify and hold harmless Franchisor for Developer's failure to comply with this paragraph.

(i) No sale, assignment, transfer, conveyance, encumbrance or gift of any interest in this Agreement or in the options granted thereby, shall relieve Developer and the shareholders or partners participating in any transfer, of the obligations of the covenants not to compete with Franchisor contained in this Agreement except where Franchisor shall expressly authorize in writing.

IX. COVENANTS

(a) Unless otherwise specified, the term "Developer" as used in this Paragraph IX. shall include, collectively and individually, Developer as defined in Paragraph XIX.

(b) Developer covenants that during the term of this Agreement and any renewals thereof, except as otherwise approved in writing by Franchisor, Developer (if Developer is an individual), a shareholder of a beneficial interest of fifteen percent (15%) or more of the securities of Developer (if Developer is a corporation) or a general partner of Developer (if Developer is a partnership) or Developer's full-time manager approved by Franchisor shall devote full-time energy and best efforts to the management and operation of the restaurants to be franchised in accordance with the rights and options granted pursuant to this Agreement.

(c) Developer, as defined in Paragraph IX.A., covenants that during the term of this Agreement, except as otherwise approved in writing by Franchisor, shall not, either directly or indirectly, for itself, or through, on behalf of or in conjunction with any person, persons, partnership or corporation:

(i) Divert or attempt to divert any business or customers of any of the Franchised Restaurants to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with any of Franchisor's Marks or the System.

(ii) Employ or seek to employ any person who is at that time employed by Franchisor or by any franchisee of Franchisor, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment.

(iii) Own, maintain, engage in or have any interest in any business (including any business operated by Developer prior to entry into this Agreement) specializing in whole or in part, in dispensing, promoting or selling prepared food products, or any other business which sells or offers to sell prepared food products or services, the same as or similar to those sold in the System.

(d) Developer specifically acknowledges that, pursuant to this Agreement, Developer will receive valuable training and confidential information including, without limitation, information regarding the promotional, operational, sales and marketing methods and techniques of Franchisor and the System. Accordingly, Developer covenants that, except as otherwise approved in writing by Franchisor, Developer shall not, for a period of one (1) year after the expiration or termination of this Agreement, regardless of the cause of termination, either directly or indirectly, for himself, or through, on behalf of or in conjunction with any person, persons, partnership or corporation, own, maintain, engage in, consult with or have any interest in any restaurant business or prepared food business engaged primarily in the preparation and sale of prepared food products or services, the same as or similar to the type sold in the System in any area in which there is a PANCHERO'S Franchised Restaurant presently operating and in any area in which Franchisor has initiated efforts to establish a PANCHERO'S Franchised Restaurant. Developer also covenants not to hire Franchisor's or Affiliate's employees during this one (1) year period.

(e) Each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Paragraph IX. is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which Franchisor is a party, Developer expressly agrees to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Paragraph IX.

(f) Developer understands and acknowledges that Franchisor shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in Paragraph IX.C. or IX.D. of this Agreement, or any portion thereof, without Developer's consent, effective immediately upon receipt by Developer of written notice thereof and Developer agrees that it shall comply

forthwith with any covenant as so modified, which shall be fully enforceable notwithstanding the provisions of Paragraph XV. hereof.

(g) Franchisor shall have the right to require all of Developer's personnel performing managerial or supervisory functions and all personnel receiving special training from Franchisor to execute similar covenants in a form satisfactory to Franchisor.

(h) In addition to the foregoing covenants, Developer shall be bound by and comply with the covenants contained in each Franchise Agreement executed by Franchisor and Developer.

X. NOTICES

Any and all notices required or permitted under this Agreement shall be in writing and shall be personally delivered or mailed by certified mail, return receipt requested, to the respective parties at the following addresses unless and until a different address has been designated by written notice to the other party:

Notices to Franchisor: PANCHERO'S FRANCHISE CORPORATION
2475 Coral Court, Suite B
Coralville, Iowa 52241

Copy to: Jeff Hechtman, Esq.
Horwood, Marcus & Berk
333 W. Wacker Drive
Suite 2800
Chicago, IL 60606

Notices to Developer: _____

Copy to: _____

Any notice by certified mail shall be deemed to have been given at the date and time of mailing.

XI. INDEPENDENT CONTRACTOR AND INDEMNIFICATION

(a) It is understood and agreed by the parties hereto that this Agreement does not create a fiduciary relationship between them, that nothing in this Agreement is intended to

constitute either party an agent, legal representative, subsidiary, joint venturer, partner, employee or servant of the other for any purpose whatsoever. Each party to this Agreement is an independent contractor, and neither shall be responsible for the debts or liabilities incurred by the other.

(b) Developer shall hold himself out to the public to be an independent contractor operating pursuant to this Agreement. Developer agrees to take such actions as shall be necessary to that end.

(c) Developer understands and agrees that nothing in this Agreement authorizes Developer to make any contract, agreement, warranty or representation on Franchisor's behalf or to incur any debt or other obligation in Franchisor's name and that Franchisor assumes no liability for, nor shall Franchisor be deemed liable by reason of, any act or omission of Developer in Developer's conduct of any Franchised Restaurant or any claim or judgment arising therefrom. Developer shall indemnify and hold Franchisor harmless against any and all such claims directly or indirectly from, as a result of or in connection with Developer's operations hereunder or under any Franchise Agreement, as well as the costs, including attorneys' fees, of defending against them.

(d) Developer acknowledges that because complete and detailed uniformity under many varying conditions may not be possible or practical, Franchisor specifically reserves the right and privilege, at its sole discretion and as it may deem in the best interests of all concerned in any specific instance, to vary standards for any developer based upon the peculiarities of the particular location or circumstance, business potential, population of trade area, existing business practices or any other condition which Franchisor deems to be of importance to the successful operation of such Developer's business under any Franchise Agreement. Developer shall not be entitled to require Franchisor to disclose or grant to Developer a like or similar variation hereunder to that which may be accorded to any other developer.

XII. APPROVALS

(a) Whenever this Agreement requires the prior approval or consent of Franchisor, Developer shall make a timely written request to Franchisor therefor, and, except as otherwise provided herein, any approval or consent granted shall be effective only if in writing.

(b) Franchisor makes no warranties or guarantees upon which Developer may rely and assumes no liability or obligation to Developer or any third party to which it would not otherwise be subject, by providing any waiver, approval, advice, consent or services to Developer in connection with this Agreement or by reason of any neglect, delay or denial of any request therefor.

XIII. NON-WAIVER

No failure of Franchisor to exercise any power reserved to it in this Agreement or to insist upon compliance by Developer with any obligation or condition in this Agreement, and no custom or practice of the parties at variance with the terms hereof, shall constitute a waiver of Franchisor's rights to demand exact compliance with the terms of this Agreement. Waiver by Franchisor of any particular default shall not affect or impair Franchisor's right in respect to any

subsequent default of the same or of a different nature, nor shall any delay, forbearance or omission of Franchisor to exercise any power or right arising out of any breach or default by Developer of any of the terms, provisions or covenants of this Agreement, affect or impair Franchisor's rights, nor shall the same constitute a waiver by Franchisor of any rights hereunder or rights to declare any subsequent breach or default.

XIV. SEVERABILITY AND CONSTRUCTION

(a) Each provision of this Agreement shall be deemed severable from the others.

(b) Nothing in this Agreement shall confer upon any person or legal entity other than Franchisor or Developer and such of their respective successors and assigns as may be contemplated by Paragraph VIII. hereof, any rights or remedies under or by reason of this Agreement.

(c) All captions in this Agreement are intended solely for the convenience of the parties and none shall be deemed to affect the meaning or construction of any provision hereof.

(d) All references herein to gender and number shall be construed to include such other gender and number as the context may require and all acknowledgments, promises, covenants, agreements and obligations herein made or undertaken by Developer shall be deemed jointly and severally undertaken by all the parties hereto which execute this Agreement on behalf of Developer.

(e) This Agreement may be executed in duplicate and each copy so executed shall be deemed an original.

XV. ENTIRE AGREEMENT

This Agreement constitutes the entire, full and complete agreement between Franchisor and Developer concerning the subject matter hereof, and supersedes all prior agreements. No amendment, change or variance from this Agreement shall be binding on either party unless mutually agreed to by the parties and executed by themselves or their authorized officers or agents in writing.

XVI. SUPERIORITY OF FRANCHISE AGREEMENT

For each PANCHERO'S individual Franchised Restaurant developed in the Designated Territory, a separate Franchise Agreement shall be executed and any individual franchise fee as prescribed by Franchisor shall be paid to Franchisor. It is understood and agreed by Developer that any and all Franchise Agreements executed in connection with PANCHERO'S individual Franchised Restaurants within the Designated Territory are independent of this Agreement. The continued existence of any such Franchise Agreement shall not depend on the continuing existence of this Agreement. If any conflict shall arise in connection with this Agreement and any Franchise Agreement executed within the Designated Territory, the latter shall have precedence and superiority over the former.

XVII. APPLICABLE LAW

(a) This Agreement takes effect upon its acceptance and execution by Franchisor. This Agreement shall be interpreted and construed under the laws of the State of Illinois, which laws shall prevail in the event of any conflict of law, except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. sections 1051 et seq.).

(b) Developer agrees that any action sought to be brought by either party, except those claims required to be submitted to arbitration shall be brought in the appropriate state or federal court with jurisdiction over Cook County, Illinois, and the parties do hereby waive all questions of personal jurisdiction or venue for the purposes of carrying out this provision and the parties, further, agree to waive trial by jury.

(c) No right or remedy conferred upon or reserved to Franchisor or Developer by this Agreement is intended to be, nor shall be deemed, exclusive of any other right or remedy herein or by law or equity provided or permitted, but each shall be cumulative of every other right or remedy.

(d) Nothing herein contained shall bar Franchisor's right to obtain injunctive relief against threatened conduct that will cause it loss or damages, under the usual equity rules, including the applicable rules for obtaining restraining orders and preliminary injunctions.

XVIII. ARBITRATION

(a) Any monetary claim arising out of or relating to this Agreement, or any breach thereof, excluding any claim relating to the confidential information or the Marks, shall be submitted to arbitration in Cook County, Illinois, in accordance with the rules of the American Arbitration Association and judgment upon the award may be entered in any court having jurisdiction thereof. Nothing contained herein shall, however, be construed to limit or preclude Franchisor from bringing any action in any court of competent jurisdiction for injunctive or other provisional relief as Franchisor deems to be necessary or appropriate to compel Developer to comply with his obligations hereunder or to protect the Marks or other property rights of Franchisor. In addition, nothing contained herein shall be construed to limit or to preclude Franchisor from joining with any action for injunctive or provisional relief all monetary claims that Franchisor may have against Developer which arise out of the acts or omissions to act giving rise to the action for injunctive or provisional relief. This arbitration provision shall be deemed to be self-executing and in the event that Developer fails to appear at any properly noticed arbitration proceeding, award may be entered against Developer notwithstanding his failure to appear.

(b) Nothing herein contained shall bar the right of either party to seek and obtain temporary injunctive relief from a court of competent jurisdiction in accordance with applicable law against threatened conduct that will cause loss or damage, pending completion of the arbitration.

(c) It is the intent of the parties that any arbitration between Franchisor and Developer shall be of Developer's individual claim and that the claim subject to arbitration shall not be arbitrated on a classwide basis.

(d) Developer hereby consents and agrees that any disputes arising between Franchisor and Developer be submitted to arbitration as provided in Paragraph XVIII.A. of this Agreement.

XIX. "DEVELOPER" DEFINED AND GUARANTY

As used in this Agreement, the term "Developer" shall include all persons who succeed to the interest of the original Developer by permitted transfer or operation of law and shall be deemed to include not only the individual or entity defined as "Developer" in the introductory paragraph of this Agreement, but shall also include all partners of the entity that executes this Agreement, in the event said entity is a partnership and all shareholders, officers and directors of the entity that executes this Agreement, in the event said entity is a corporation. By their signatures hereto, all partners, shareholders, officers and directors of the entity that signs this Agreement as Developer acknowledges and accepts the duties and obligations imposed upon each of them, individually, by the terms of this Agreement. All partners of the entity that executes this Agreement, in the event said entity is a partnership, and all shareholders, officers and directors of the entity that executes this Agreement, in the event said entity is a corporation, shall execute the Guaranty and Assumption of Obligations attached hereto as Exhibit C and made a part hereof.

XX. CAVEAT

THE SUCCESS OF THE BUSINESS VENTURE CONTEMPLATED TO BE UNDERTAKEN BY DEVELOPER BY VIRTUE OF THIS AGREEMENT IS SPECULATIVE AND DEPENDS, TO A LARGE EXTENT, UPON THE ABILITY OF DEVELOPER AS AN INDEPENDENT BUSINESSPERSON, AND HIS/HER ACTIVE PARTICIPATION IN THE DAILY AFFAIRS OF THE BUSINESS AS WELL AS OTHER FACTORS. FRANCHISOR DOES NOT MAKE ANY REPRESENTATION OR WARRANTY EXPRESS OR IMPLIED AS TO THE POTENTIAL SUCCESS OF THE BUSINESS VENTURE CONTEMPLATED HEREBY.

XXI. ACKNOWLEDGMENTS

(a) Developer represents and acknowledges that it has received, read and understood this Agreement and Franchisor's Uniform Franchise Offering Circular; and that Franchisor has fully and adequately explained the provisions of each to Developer's satisfaction; and that Franchisor has accorded Developer ample time and opportunity to consult with advisors of its own choosing about the potential benefits and risks of entering into this Agreement.

(b) Developer acknowledges that it has received a copy of this Agreement and the attachments thereto, at least five (5) business days prior to the date on which this Agreement was executed. Developer further acknowledges that Developer has received the disclosure document required by the Trade Regulation Rule of the Federal Trade Commission entitled Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures, at least ten (10) business days prior to the date on which this Agreement was executed.

(c) Developer has been advised to consult with its own advisors with respect to the legal, financial and other aspects of this Agreement, the business franchised hereby and the

prospects for that business. Developer has either consulted with such advisors or has deliberately declined to do so.

(d) The covenants not to compete set forth in this Agreement are fair and reasonable and will not impose any undue hardship on Developer, since Developer has other considerable skills, experience and education which afford Developer the opportunity to derive income from other endeavors.

(e) Developer affirms that all information set forth in any and all applications, financial statements and submissions to Franchisor is true, complete and accurate in all respects, with Developer expressly acknowledging that Franchisor is relying upon the truthfulness, completeness and accuracy of such information.

(f) Developer has conducted an independent investigation of the business contemplated by this Agreement and recognizes that, like any other business, an investment in a PANCHERO'S Franchised Restaurant involves business risks and that the success of the venture is primarily dependent upon the business abilities and efforts of Developer.

(g) Developer hereby consents and agrees that any disputes arising between Franchisor and Developer be submitted to arbitration as provided in Paragraph XVIII. of this Agreement.

(h) Developer understands and acknowledges that all representations of fact contained herein are made solely by Franchisor. All documents, including Franchisor's Franchise Agreement and Uniform Franchise Offering Circular and all exhibits thereto, have been prepared solely in reliance upon representations made and information provided by Franchisor, its officers and its directors. Developer further agrees to indemnify and hold harmless the preparer of any and all such Franchise Agreements, Offering Circulars and exhibits thereto and Franchisor's attorneys from any and all loss, costs, expenses (including attorneys' fees), damages and liabilities resulting from any representations and/or claims made by Franchisor in such documents.

(i) Franchisee understands and acknowledges that all representations of fact contained herein are made solely by Franchisor. All documents, including Franchisor's Franchise Agreement and Uniform Franchise Offering Circular and all exhibits thereto, have been prepared solely in reliance upon representations made and information provided by Franchisor, its officers and its directors. Franchisee further agrees to indemnify and hold harmless the preparer of any and all such Franchise Agreements, Offering Circulars and exhibits thereto and Franchisor's attorneys from any and all loss, costs, expenses (including attorneys' fees), damages and liabilities resulting from any representations and/or claims made by Franchisor in such documents.

IN WITNESS WHEREOF, the parties hereto have duly executed, sealed and delivered this Agreement in duplicate on the day and year first above written.

If Developer is an individual:

ATTEST:

PANCHERO'S FRANCHISE CORPORATION

Witness

By:_____

DEVELOPER:

Witness

By:_____

If Developer is a corporation or partnership:

ATTEST:

PANCHERO'S FRANCHISE CORPORATION

Witness

By:_____

DEVELOPER:

Witness

By:_____

Witness

By:_____