

ITEM 1

THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES

Company. To simplify the language in this Offering Circular, "Company" means PANCHERO'S FRANCHISE CORPORATION, the franchisor of this business. "You" means the person or entity who buys the franchise. Company was incorporated in the State of Illinois on October 28, 1994. Company's principal business address is 2475 Coral Court, Suite B, Coralville, Iowa 52241. Company will do business under the name "PANCHERO'S." Company has no predecessors. A list of Company's agents for service of process in various states is contained in Exhibit A to this Offering Circular.

Company's Business Activities. Company's business activities include the grant of franchises for the establishment, development and operation of a restaurant facility ("Franchised Restaurant") providing carry-out and on-premises dining services featuring burritos, quesadillas, tacos, fajitas, salads, rice, salsa, and other food and beverage products, all prepared according to specified recipes and procedures ("Menu Items"). Company also has developed a proprietary line of specially formulated spice packs, salsas, marinades and other food products ("Trade Secret Food Products"); has developed certain presentation, packaging and marketing standards and techniques for all Menu Items and Trade Secret Food Products; and has developed consumer acceptance for Menu Items and Trade Secret Food Products.

Company offers a franchise for a single Franchised Restaurant. The form of Franchise Agreement is attached as Exhibit B. Company provides start-up and on-going operational assistance to you as described in Item 11 of this Offering Circular.

Company offers conversion franchises to persons who own and operate a restaurant facility that is similar in size to the prototype of a PANCHERO'S Franchised Restaurant and who have operated this restaurant for at least 2 continuous years. If you convert your existing restaurant to a Franchised Restaurant, you will sign the standard Franchise Agreement and the Conversion Addendum which is attached as Exhibit I.

Company also offers options to obtain franchises to develop and operate a minimum of 3 PANCHERO'S Franchised Restaurants under an Area Development Agreement. The form of Area Development Agreement is attached as Exhibit C. If you sign an Area Development Agreement, you will receive a Designated Territory ("Designated Territory") in which to establish individual franchises under separate Franchise Agreements. The Development Schedule ("Development Schedule") included in the Area Development Agreement will specify the dates by which you must open each PANCHERO'S Franchised Restaurant.

Company allows certain franchisees to represent it as development agents within defined geographic areas. (See Item 12) As a development agent, you recruit prospective PANCHERO'S Restaurant franchisees in your area, help them develop and open their Restaurants, train them, and then help them during the terms of their Franchise Agreements (signed directly with Company and not you). In return, Company pays you a portion of the fees that it receives from these franchisees. (See Item 11) You must follow Company's development

agent standards and guidelines and sign its Development Agent Agreement (Exhibit D). You always must operate at least one Restaurant in your development agent territory. If you are not a development agent, Company may have a development agent give you all or some of the training and other help you need to operate the Restaurant. However, Company must make sure that the development agent performs its obligations.

Company or its affiliates also may sell existing PANCHERO'S restaurants owned by Company or its affiliates to franchisees via an Asset Purchase Agreement. The form of Asset Purchase Agreement is attached to this Offering Circular as Exhibit G. This sale requires the payment of a franchise fee to Company and a payment for the goodwill of the business and any assets purchased.

Company's Affiliate. Company's Affiliate, Little Donkeys, Inc. ("Affiliate"), is an Illinois corporation incorporated on January 17, 1992. Affiliate shares Company's principal business address and operates under the names "PANCHERO'S" and "Panchemo's, Inc." Company and Affiliate share common shareholders. Affiliate owns the Marks (defined below).

The Franchised Restaurant and Businesses to be Offered. Each Franchised Restaurant operates according to a unique System ("System"). The distinguishing characteristics of the System include 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 Trade Secret Food Products; the Proprietary Software Package ("Proprietary Software Package") (if developed and as defined in Item 8); 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. Company may change the System periodically. If you wish to sell beer, wine and margaritas from your Franchised Restaurant, you must request Company's written approval before applying for a liquor license. If you wish to conduct delivery services of prepared food products from the Franchised Restaurant, you must first request Company's written approval.

The Franchised Restaurant will operate under the service marks "PANCHERO'S", "PANCHERO'S, plus the design", associated logos, commercial symbols, and other trade names, service marks and trademarks as are now and afterwards designated by Company as part of the System ("Mark[s]").

The Franchised Restaurant will offer its services to the general public. The Franchised Restaurant will compete with other local businesses, as well as local, regional or national chains of restaurants and other food service businesses offering freshly prepared items like quesadillas, tacos, and other foods and beverages for on-premises consumption and carry-out. This market is well-developed in some areas and developing in other areas.

There are no regulations specific to the restaurant business. If your Franchised Restaurant serves liquor, you will have to obtain a liquor license and comply with all related rules and regulations. You must also comply with laws that apply generally to all businesses

(including health and safety regulations, employment regulations and food handling regulations). You are advised to examine these laws before purchasing a franchise from Company.

Business History. Affiliate has operated a business similar to the Franchised Restaurant since 1992. (See Item 20) However, Company has never operated a business similar to the Franchised Restaurant. Affiliate has never offered franchises in the business described above or in any other business. Company has never offered franchises in any other business. It has offered franchises for Panchero's Restaurants since January 1995 and development agent rights since approximately June 1999.

ITEM 2

BUSINESS EXPERIENCE

President/Treasurer and Director: Rodney L. Anderson.

Mr. Anderson has served as Company's President and Treasurer since May 1996. He has been a Director of Company since May 1996. He has served as Vice President and Treasurer of Affiliate since its inception in 1992 and is responsible for all facets of the restaurant operations.

Director: Thomas V. Donaldson.

Mr. Donaldson has served as a director on Company's Board of Directors since October 1997. He also has served as President/CEO of PJ Iowa, a multi-unit Papa John's franchisee in Des Moines, Iowa, since July 1997. From November 1987 to June 1997, Mr. Donaldson served Vicorp Restaurants, Inc., located in Denver, Colorado, as Vice President, Operations for Bakers Square and as Vice President, Operations and Regional Vice President for Village Inn.

Director of Operations: Tom Ryan.

Mr. Ryan has served as Company's Director of Operations since July 2003. From September 2002 to July 2003, he was Vice President of Operations for Maid Rite, located in Des Moines, Iowa. From April 2001 to September 2002, he was a self-employed restaurant consultant in the Ames, Iowa area. From March 1989 to April 2001, he was the Operations Manager for Iowa Subway Development in Ames, Iowa.

Franchise Broker: Brett Larrabee

Brett Larrabee, who is based in Tampa, Florida, has represented Company as a franchise broker throughout the United States since December 2005. Mr. Larrabee was a Food Market Manager for The Circle K Corporation, located in Tampa, Florida, from July 2003 until October 2005 and has owned one or more franchises in the SUBWAY® franchise system (currently located in Seattle, Washington) since November 1986.

Except for the State of Illinois (for which Company has a separate offering circular), Company currently has no development agents in your state.

ITEM 3

LITIGATION

No litigation is required to be disclosed in this Offering Circular.

ITEM 4

BANKRUPTCY

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

ITEM 5

INITIAL FRANCHISE FEE

Franchise Agreement

When you sign the Franchise Agreement, you must pay to Company an initial franchise fee as stated below:

- (a) The standard initial franchise fee is \$30,000.
- (b) For a franchisee who signs a Conversion Addendum to the Franchise Agreement, the initial franchise fee is \$25,000.
- (c) For a franchisee who has been employed by Company or any PANCHERO'S restaurant (whether Company-owned, Affiliate-owned or franchised) in a managerial capacity for at least 18 months, the initial franchise fee is \$20,000.
- (d) For an existing franchisee in good standing who purchases a second or additional franchise, the initial franchise fee is \$20,000 for each additional unit.
- (e) The initial franchise fee for each Franchised Restaurant the parties agree to develop under an Area Development Agreement is \$20,000 (see below), 50% (or \$10,000) of which is due when you sign the Franchise Agreement for a particular unit.

The initial franchise fees are fully earned and non-refundable under any circumstances except as provided below:

- (a) You and your designated manager, if applicable, will submit to Company all data as to your personal abilities, aptitudes and financial qualifications as required by Company. Company will have 15 business days to evaluate this data and may cancel the Franchise Agreement within that time. If so, Company will refund to you all monies you paid to Company under the terms of the Franchise Agreement, less a reasonable fee for

its evaluation of you and related preparatory work performed and expenses incurred, not to exceed \$3,000.

(b) If no acceptable site is found and approved within 90 days from the date on which the Franchise Agreement is signed, either Company or you can terminate the Franchise Agreement, and Company will refund to you all monies you paid to Company under the terms of the Franchise Agreement. However, if Company has submitted in writing to you 2 or more sites which are acceptable to Company, and you have refused to accept same, then you, upon termination, will forfeit to Company up to \$8,000 as liquidated damages in payment for expenses in the site evaluation and selection activities.

(c) If Company determines that you are unable to satisfactorily complete the training program, Company may terminate the Franchise Agreement and return the franchise fee, less expenses incurred by Company in providing training to you, not to exceed \$12,500.

Except as provided above, the franchise fee is uniform to all franchisees under this offering.

You may elect to purchase certain items from Company before your Franchised Restaurant opens, including: menus, logoed shirts and hats, custom wall paper, and gift certificates. You are not required to purchase these items from Company, and the timing and amount of these purchases is in your discretion. During 2005, Company's new franchisees purchased between \$0 to \$2,314 of these items from Company before their Franchised Restaurants opened.

Area Development Agreement

If you wish to develop more than one Franchised Restaurant in an area, you will sign the Area Development Agreement. As described above, the initial franchise fee due under the Franchise Agreement for each Franchised Restaurant you develop in your area is \$20,000. At the time you sign the Area Development Agreement, you will pay 50% of the total amount of those initial franchise fees (i.e., \$10,000 times the number of Franchised Restaurants you will develop). This fee is not refundable. During 2005, we received area development fees ranging from \$30,000 to \$45,000.

Development Agent Agreement

If you are going to become a development agent, you must pay Company an initial fee when you sign the Development Agent Agreement. The fee depends on the number of PANCHERO'S Franchised Restaurants that you agree to develop in your Territory (by opening the Restaurants yourself or soliciting others who will sign Franchise Agreements with Company). (See Item 12) Company generally charges \$5,000 for each PANCHERO'S Franchised Restaurant you agree to develop in your Territory plus the initial franchise fee due for the first Franchised Restaurant you must open in the Territory. Company and you will determine the number of PANCHERO'S Franchised Restaurants for your Territory, and then calculate your initial fee, before signing the Development Agent Agreement. This fee is not refundable.

Company does not apply this fee to the initial franchise fees due for individual PANCHERO'S Franchised Restaurant franchises you develop in your Territory (except for your first Franchised Restaurant). As a development agent, Company pays you a portion of the initial franchise fee it receives from PANCHERO'S Franchised Restaurants opened in your Territory. (See Items 6 and 11).

ITEM 6

OTHER FEES

Franchise Agreement

Name of Fee	Amount	Due Date	Remarks
Continuing Services and Royalty Fees	5% of Gross Revenues	Report due on Tuesday; Payable weekly on Wednesday by electronic funds transfer	See Definition of Gross Revenues. ¹
Grand Opening Advertising ²	\$3,000	To be spent during the first 2 to 3 weeks of operation	Company provides guidelines.
Advertising Fund ³	Currently 0.5% of Gross Revenues	Payable at the same time and in the same manner as the Continuing Services and Royalty Fees	Company can increase this fee, but it will not exceed 3% of Gross Revenues
Local Advertising ⁴	At least 3% of Gross Revenues	Monthly	You must spend at least this amount on local advertising
Cooperative Advertising ⁵	Proportional share to be determined. No cooperatives exist at this time.	Monthly	The method for determining your proportionate share and voting power in a cooperative are described in Item 11.
Audit ⁶	Cost of audit plus interest on underpayment	30 days after billing	Payable only if audit shows that you understated Gross Revenues by at least 2%.
Proprietary Software Package License Fee ⁷	To be determined	Monthly	Payment required when Proprietary Software Package is introduced into System.
Refurbishing ⁸	Reasonable capital expenditures, not to exceed \$25,000 per term	At time of redecoration	You must update your Franchised Restaurant to the then-current image periodically.
Operation of the Franchised Restaurant in Case of Your Default ⁹	\$200 per day plus expenses	Weekly after time of service and at the same time as the Continuing Services and Royalty Fees	Company may operate your Franchised Restaurant if you fail to cure a default within 20 business days of receipt of written notice to cure.

Name of Fee	Amount	Due Date	Remarks
Late Fees ¹⁰	Highest applicable legal rate for open account business credit, not to exceed 1.5% per month	After due date	Applies to all Continuing Services and Royalty Fees, advertising contributions and amounts due for purchases from Company or its Affiliate.
Supplier/Supplies Approval ¹¹	Reasonable cost of inspection and actual cost of test	Time of inspection	Applies to new suppliers or supplies you wish to purchase that Company has not approved.
Advisory Council ¹²	Council assessments	When levied	Company has the right to enforce payments. Amounts may vary.
Operation of the Franchised Restaurant in Case of Your Absence, Incapacity or Death ¹³	\$200 per day plus expenses	Weekly after time of service and at the same time as the Continuing Services and Royalty Fees	Prevents harmful interruption or depreciation of the Franchised Restaurant in case of your absence, incapacitation or death.
Insurance	You must reimburse Company's costs	30 days after billing	If you fail to maintain required insurance, Company may obtain insurance for you and you must reimburse Company.
Transfer Fee - Franchise Agreement ¹⁴	50% of the then-current standard initial franchise fee for Franchised Restaurants charged by Company at the time of transfer	At time of transfer	This transfer fee does not apply to an assignment of interest to a corporation you own.
Additional Manager Training ¹⁵	\$200 per day plus expenses	Time of service	You pay for training if you request it.
Additional Assistance ¹⁶	\$200 per day plus expenses	Time of assistance	If this is your first Franchised Restaurant, Company provides 2 weeks of assistance around the beginning of operations at its cost. Additional training is at your cost.
Continuing Education ¹⁷	You must pay your expenses as well as your employees' expenses in attending these programs	Time of program	Attendance will not be required more than once a year and will not last more than 4 business days.

Name of Fee	Amount	Due Date	Remarks
Special Meetings ¹⁸	You must pay your expenses as well as your employees' expenses in attending these programs	Time of program	Attendance will not be required more than once a year and will not last more than 4 business days.
Cost of Enforcement or Defense ¹⁹	All costs, including attorneys' fees	As incurred	You will reimburse Company for all costs it incurs to enforce your obligations under the Franchise Agreement if Company prevails.
Indemnification ²⁰	All costs, including attorneys' fees	Upon settlement or conclusion of claim or action	You will defend suits at your own cost and hold Company harmless against suits involving damages resulting from your operation of the Franchised Restaurant.
Miscellaneous ²¹	Varies	Upon breach of Franchise Agreement	You must personally guaranty and comply with all terms of and will be liable for any breach of the Franchise Agreement.
Asset Purchase Agreement ²²	You must pay closing costs	At time of closing allocated to you	You pay your share of allocated closing costs; all others will be divided evenly with Seller

Footnotes:

¹ Gross Revenues. "Gross Revenues" means the total of all revenues and income from the sale of all Trade Secret Food Products, other food products, beverages and other related merchandise, products and services to your customers or any other source, whether or not sold or performed at or from the PANCHERO'S Franchised Restaurant, and whether received in cash, in services in kind, from barter and/or exchange, on credit (whether or not payment is received) or otherwise. You may deduct from Gross Revenues for purposes of this computation (but only to the extent they have been included) the amount of all sales tax receipts or similar tax receipts which, by law, are chargeable to customers, if these taxes are separately stated when the customer is charged and if these taxes are paid to the appropriate taxing authority. You may also deduct from Gross Revenues the amount of any documented refunds, chargebacks, credits and allowances you give in good faith to customers. All barter and/or exchange transactions in which you furnish services and/or products in exchange for goods or services to be provided to you by a vendor, supplier or customer will, for the purpose of determining Gross Revenues, be valued at the full retail value of the goods and/or services so provided to you.

² Grand Opening Advertising. You will spend a minimum of \$3,000 during the first 2 to 3 weeks of operation of the Franchised Restaurant on newspaper, direct mail or advertising through other media ("Grand Opening Advertising"). You must conduct this Grand Opening Advertising according to guidelines Company publishes in the Confidential Operations Manual.

³ Advertising Fund. Company has established an Advertising and Development Fund ("Advertising Fund"). You must contribute to the Advertising Fund the amount Company periodically requires, which will not exceed 3% of your Gross Revenues. Your required payments to the Advertising Fund will be made at the same time, in the same manner as, and in addition to the Continuing Services and Royalty Fee.

⁴ Local Advertising. If the Franchised Restaurant is located in a Regional Mall or Life Style Center, you will not be required to contribute to local advertising and promotion and will only be required to advertise locally as required by the Regional Mall or Life Style Center lease. However, if the lease requires expenditures for advertising less than 3% of the Gross Revenues of the Franchised Restaurant, you must spend up to 3% of Gross Revenues on local advertising. The amount you spend on advertising required by your Regional Mall or Life Style Center lease will be counted toward your required 3% of Gross Revenue on local advertising. "Regional Mall or Life Style Center" will mean a shopping center having 300,000 or more square feet of leasable space. If the Franchised Restaurant is located at a site other than a Regional Mall or Life Style Center, you will spend an amount equal to 3% of the Gross Revenues of the Franchised Restaurant on local advertising and promotion each month. You must maintain a white pages listing and a yellow pages advertisement. The cost of these will be counted toward your required 3% of Gross Revenues on local advertising. You will provide an accurate accounting of your expenditures on local advertising within 30 days of the end of each calendar month. If you do not spend 3% of the Franchised Restaurant's monthly Gross Sales on local advertising and promotion, Company may require you to pay it this amount, and Company then may spend the 3% to advertise and promote the Franchised Restaurant locally as Company deems best. This payment would be in addition to your required Advertising Fund contributions.

⁵ Cooperative Advertising. If there are other franchisees in a common advertising area, you may be required to contribute to cooperative advertising. Your expenditures for cooperative advertising will be credited against the required expenditures for local advertising. (See Item 11 for details)

⁶ Audit. If an inspection or audit of your books and records reveals that any payments due to Company have been understated in any report, then you will immediately pay Company, upon its demand, the understated amount plus interest from the date this amount was due until paid. If an inspection or audit discloses an understatement of 2% or more, then you will also reimburse Company for all costs and expenses, including accounting and attorneys' fees, connected with the inspection or audit.

⁷ Proprietary Software Package License Fee. Company may, in the future, develop and custom design a software package for conducting accounting, inventory control, point-of-sale functions and related activities. If Company requires, you must use the proprietary software. This Proprietary Software Package will be leased to you at the then-current rates published by Company.

⁸ Refurbishing. You must periodically make reasonable capital expenditures to remodel, modernize and redecorate the premises of the Franchised Restaurant ("Premises") so that it will reflect the then-current image intended to be portrayed by a PANCHERO'S restaurant. All refurbishing must be done according to Company's standards and specifications and with Company's prior written approval. All replacements must conform to Company's then-current quality standards and specifications and must be approved by Company in writing. You will not be required to refurbish the Franchised Restaurant more than once during the initial term of the Franchise Agreement and will not be required to incur expenditures in excess of \$25,000. You must proceed with diligence in this refurbishing.

⁹ Operation of the Franchised Restaurant in Case of Your Default. If you have not cured a default under the Franchise Agreement within 20 business days after receipt of written notice to cure, Company has the right to operate the Franchised Restaurant for you until the default is cured.

¹⁰ Late Fees. Company does not agree to accept any payments after they are due or commit to extend credit to you or otherwise finance your operation of the Franchised Restaurant. Company will have the sole discretion to apply any of your payments to any past due indebtedness of yours for Continuing Services and Royalty Fees, advertising contributions, purchases from Company, or interest on any other indebtedness, in the amounts and in the order as Company will determine.

¹¹ Supplier/Supplies Approval. If you wish to sell or use any product which is not on Company's Approved Supplies List or purchase any product from a supplier that is not on Company's Approved Suppliers List, you must notify Company and, if requested, submit samples and other information for inspection and testing. You or the proposed supplier will pay the reasonable cost of the inspection and evaluation and the actual cost of the test.

¹² Advisory Council. When more than 1 franchisee conducts a PANCHERO'S Franchised Restaurant in any given region as determined by Company, Company may form a PANCHERO'S Regional Advisory Council ("Council"). You will participate in all Company-approved Council programs for your particular Council and you will pay all Council assessments levied by the Council.

¹³ Operation of the Franchised Restaurant in Case of Your Absence, Incapacity or Death. Company may, in its discretion, operate the Franchised Restaurant if you are absent or incapacitated by reason of illness or death for as long as Company deems necessary and practical. All monies from the operation of the business during this period will be kept in a separate account and the expenses of the business, including reasonable compensation and expenses for Company's representative(s), will be charged to that account. If Company temporarily operates your Franchised Restaurant, you must indemnify and hold harmless Company and its representative(s) from all claims from the acts and omissions of Company and its representative(s).

¹⁴ Transfer Fee. The transfer fee is 50% of the then-current standard franchise fee charged to a franchisee who has no experience either with Panhero's Restaurants or similar restaurants. The transfer fee is required if you assign your interest to a third party, but will not be charged if the interest is transferred to a partnership or corporation owned by you formed solely to operate the Franchised Restaurant.

¹⁵ Additional Manager Training. If you designate new or additional managers after the initial training program, Company will provide training to these managers at the then-current published rates. All designated managers must successfully complete the training program provided at Company's headquarters or other location designated by Company. You will bear all costs incurred by your employees in attending this training program.

¹⁶ Additional Assistance. Should you request additional assistance from Company in order to open the Franchised Restaurant, or if Company deems it necessary, you will reimburse Company for its expenses, including travel and lodging expenses for Company or its representative, plus Company's then-current service fee published in the Confidential Operations Manual.

¹⁷ Continuing Education. You will be responsible for all costs including travel, lodging, meals and employees' salaries in attending continuing education and training programs or seminars at a location designated by Company.

¹⁸ Special Meetings. You will periodically attend special meetings of all PANCHERO'S franchisees to be conducted at a location Company designates. You will bear all costs you and your employees incur in attending these meetings, including travel costs, room and board expenses and employees' salaries. Attendance at the first meeting each calendar year will be mandatory, but will not last more than 2 business days. If Company calls more than 1 meeting in a calendar year and you are unable to attend, Company will conference you into the meeting via telephone or other available means. However, costs of this conferencing will be split among all franchisees who were unable to attend this meeting.

¹⁹ Cost of Enforcement or Defense. If Company asserts a claim for amounts you owe in any legal proceeding, or if Company or you must enforce the Franchise Agreement in a legal proceeding, the prevailing party will be entitled to reimbursement of its costs, including reasonable accounting and attorneys' fees, in this proceeding.

²⁰ Indemnification. You will defend at your own cost and indemnify and hold harmless Company, its shareholders, directors, officers, employees and agents, from and against any losses, costs, expenses (including attorneys' fees), damages and liabilities, however caused, resulting directly or indirectly from or pertaining to the use, condition, construction, equipping, decorating, maintenance or operation of the Franchised Restaurant, including the sale of any food products, service or merchandise from the Franchised Restaurant. These losses, claims, costs, expenses, damages and liabilities will include those from latent or other defects in the Franchised Restaurant, whether or not discoverable by Company, and those from the death or injury to any person or from damage to your property or the property of Company, your agents or employees, or any third person, firm or corporation, whether or not these losses, claims, costs, expenses, damages or liabilities were actually or allegedly caused wholly or in part through the active or passive negligence of Company or any of its agents or employees or resulted from any strict liability imposed on Company or any of its agents or employees.

²¹ Miscellaneous. You and the principals of the franchisee entity will personally guaranty and comply with all terms of the Franchise Agreement, both monetary and non-monetary, and be jointly and severally liable for any breach of the Franchise Agreement or Development Agent Agreement.

²² Asset Purchase Agreement. All real and personal property taxes, assessments, insurance, operating charges and all other charges or fees levied against the assets transferred and the leased premises shall be prorated between Company and you based on a 30 day month and a 360 day year. You will pay the cost of revenue stamps and documentary or other transfer taxes or fees. Each party will indemnify and hold harmless the other concerning any claims from any broker claiming to have dealt with or had a contract with that party and from all claims and costs from your acts and omissions under the Asset Purchase Agreement and any payment required to be made by Company regarding the Asset Purchase Agreement or your PANCHERO'S restaurant accruing on or before, or attributable to events arising on or after, the date of closing. All closing charges or other expenses not otherwise chargeable specifically to you or Company shall be borne equally by each party. If the transfer of assets does not occur, the party responsible shall be liable for all costs and fees associated with the transfer up to and including the date of termination. If either party brings an action against the other party for any breach of the Asset Purchase Agreement, the prevailing party in the action will be entitled to recover from the other party costs of suit, including attorneys' fees. The amount of the payments will depend upon the principal amount provided to you for the purchase of the unit. The principal amount will depend upon the price of the unit and the amount needed by you to supplement your funds to pay for the purchase under the Asset Purchase Agreement.

All Continuing Services and Royalty Fees, advertising contributions, amounts due for purchases by you from Company and other amounts which you owe to Company will be paid through an Electronic Depository Transfer Account ("Electronic Depository Transfer Account") as described in the Confidential Operations Manual. Immediately following the signing of the Franchise Agreement, you must set up an Electronic Depository Transfer Account and Company will have access to this account for the purpose of receiving payment for Continuing Services and Royalty Fees, advertising contributions, amounts due for purchases by you from Company and any other amounts which you owe to Company. Every Wednesday, you must make deposits to the account sufficient to cover amounts owed to Company as of the preceding Saturday for Continuing Services and Royalty Fees, advertising contributions and other funds owed Company for the preceding week. Deposits for all other amounts owed to Company must be according to the procedures included in the Confidential Operations Manual.

All fees are imposed by and are payable to Company, unless otherwise noted.

Any interest owed begins to accrue from the date of underpayment. No other fees or payments are to be paid to Company, nor does Company impose or collect any other fees or payments for any third party. Any fees paid to Company are non-refundable unless otherwise noted.

Area Development Agreement

Name of Fee	Amount	Due Date	Remarks
Transfer Fee – Area Development Agreement	Our then-current assignment fee. Currently ½ of the amount you paid upon signing the Area Development Agreement.	At time of transfer	
Indemnification	All costs, including attorneys' fees	As incurred	You must reimburse Company for all damages arising from your activities

Development Agent Agreement

Name of Fee	Amount	Due Date	Remarks
Transfer Fee - Development Agent Agreement	50% of the then-current standard initial franchise fee for Franchised Restaurants charged by Company at the time of transfer	At time of transfer	
Renewal Fee - Development Agent Agreement	\$2,500	Upon renewal of Development Agent Agreement	
Operation of a Franchised Restaurant	See prior table		You (or your owners) must at all times during the term of the Development Agent Agreement operate at least one Panchero's Restaurant within the territory
Advertising	You must spend reasonable amounts to advertise the offer and sale of Panchero's Restaurant franchises	As incurred	
Indemnification	All costs, including attorneys' fees	As incurred	You must reimburse Company for all damages arising from your activities.
Costs and Attorneys' Fees	Will vary under circumstances	As incurred	Due if you do not comply with the Development Agent Agreement

ITEM 7

INITIAL INVESTMENT

Franchise Agreement

You will incur the following estimated initial expenditures in establishing a Franchised Restaurant. Additional factors concerning each expenditure category are described in the notes following the chart.

Company does not offer any financing for your initial investment, and the availability and terms of financing to you will depend upon factors like the availability of financing in general, your credit-worthiness, the collateral security that you may have and policies of lending institutions for the type of business you will operate. The investment and expenditures required of actual franchisees may vary considerably from the projections included below depending on many factors, including geographical area, the amount of space leased and the business capabilities of any particular management and service team.

Company may offer Company or affiliate-owned restaurants to certain prospective franchisees in the form of the sale of an on-going business. Purchasers of the on-going business will incur an initial investment consisting of the payment of a franchise fee to Company and the market value for the goodwill of the business and any assets of the business purchased from

Company or its affiliates. The amount paid and terms of the sale of the restaurant will vary depending upon the length of time the restaurant has been in operation, the customer base and similar factors. You and the seller of the ongoing business will execute the Asset Purchase Agreement, the terms of which will vary based on the assets purchased, age and condition of any fixtures and equipment purchased and the value of the goodwill of the business. You will incur all other expenses described in the chart below in establishing the Franchised Restaurant, unless specified otherwise.

Names of Expenditures	Actual or Estimated Amounts For Franchisee	Method of Payment	When Due	To Whom Payment Is To Be Made	Whether Refundable
Initial Franchise Fee ¹	\$30,000	Lump Sum	Upon Signing Franchise Agreement	Company	No
Real Estate Security Deposit ²	\$1,500-\$6,000	As Arranged	Upon Signing the Lease	Landlord	Yes
Utility Security	\$0-\$2,000	As Arranged	1 Month Before Opening	Utility Companies ³	Yes
Leasehold Improvements ⁴	\$125,000-\$215,000	As Arranged	Following Opening; May Be Earlier	Landlord, Approved Suppliers	No
Furniture, Fixtures & Equipment ⁵	\$60,000-\$75,000	As Arranged	As Arranged	Approved Suppliers	No
Initial Inventory ⁶	\$6,000-\$8,000	As Arranged	Before Opening	Company, Approved Suppliers	No
Insurance ⁷	\$1,500-\$3,000	As Arranged	As Arranged	Insurance Carrier	No
Training ⁸	\$4,000-\$9,000	As Incurred	As Incurred	Transportation Lines, Hotels and Restaurants	No
Grand Opening Advertising ⁹	\$3,000-\$5,000	As Arranged	First 2 to 3 Weeks of Operation	Approved Suppliers	No
Signage ¹⁰	\$3,000-\$11,500	Lump Sum	Before Opening	Approved Suppliers	No
Additional Funds (1-3 months) ¹¹	\$15,000-\$25,000	As Arranged	As Incurred	You Determine	No
Point of Sale System (POS)	\$9,000 - \$10,500	As Arranged	As Incurred	Approved Suppliers	No
Office Equipment/Supplies ¹²	\$2,000-\$5,000	As Arranged	Before Opening	Approved Suppliers or, if none, You Determine	No
Liquor License ¹³	\$0-\$5,000	As Arranged	Before Opening	Local Authorities	No

Names of Expenditures	Actual or Estimated Amounts For Franchisee	Method of Payment	When Due	To Whom Payment Is To Be Made	Whether Refundable
TOTAL (excluding real estate purchase and lease costs)	\$260,000- \$410,000				

Notes:

¹ Initial Franchise Fee. Any of the following people will pay a reduced initial franchise fee of \$20,000 (See Item 5): (i) a person who has been employed by Company or any PANCHERO'S restaurant (whether Company-owned, Affiliate-owned or franchised) in a managerial capacity for at least 18 months, (ii) existing franchisees in good standing who purchase a second or additional franchise, and (iii) a franchisee developing the Franchised Restaurant under an Area Development Agreement. The initial franchise fee is used to defray Company's costs for providing training, promotional assistance and materials, and other services to be provided by Company.

² Real Estate. The Franchised Restaurant's premises typically are in an end-cap strip center location. A Franchised Restaurant is approximately 2,000 to 2,500 square feet. You will be responsible for renting premises suitable for the operation of a Franchised Restaurant; this figure estimates payment of a 1 to 2 month security deposit. The actual dollar amount you will pay for renting the premises will vary by market.

³ Utility Security Deposits. You may be required to pay deposits before the installation or start of service of telephone, gas, electric and other utilities as required by any utility company.

⁴ Leasehold Improvements. The cost of build-out of the Premises and leasehold improvements depends upon the size and condition of the Premises, the nature and extent of leasehold improvements required, the local cost of contract work and the location of the Franchised Restaurant. Leasehold improvements include plumbing, electrical wiring, carpentry and installation of furniture, fixtures, flooring and equipment. The lower figure assumes an existing site with an appropriate floor plan.

⁵ Furniture, Fixtures and Equipment. You must purchase various equipment for the operation of the Franchised Restaurant as specified in the Confidential Operations Manual. The fixtures necessary for the operation of a Franchised Restaurant are listed in the Confidential Operations Manual which is provided to you. You may purchase or lease approved brands and models of fixtures from approved suppliers. The cost of the furniture, fixtures and equipment will depend on financing terms available, the size of the facility, brands purchased and other factors. If you are purchasing an on-going restaurant from Company or its affiliates via an Asset Purchase Agreement, you may not incur any extra expense for these items. This estimate does not include vehicles for delivery, because a new franchisee typically does not offer delivery services. If you elect to offer delivery services, you must purchase delivery vehicles.

⁶ Initial Inventory. Your requirements for initial inventory are designated in the Confidential Operations Manual.

⁷ Insurance. You will obtain insurance coverage with the limits required by Company as described in Item 6 of this Offering Circular. The lower figure assumes 25% down on a yearly amount. If you are a development agent, you currently must have the same insurance.

⁸ Training. You are responsible for arranging transportation and paying the expenses for meals and lodging for any persons attending the training program. The amount expended will depend on the distance you must travel and the type of accommodations you choose. The estimate contemplates attendance by 1 person traveling to Company's headquarters or other location as Company will designate for approximately 1 week for headquarters training and 2 persons traveling to a Company-designated location for 3 weeks for on-the-job training.

⁹ Grand Opening Advertising. You must expend certain amounts on Grand Opening Advertising during the first 2 to 3 weeks of operation of the Franchised Restaurant. You must obtain a white pages listing and yellow pages advertisements for the Franchised Restaurant (See Item 6).

¹⁰ Signage. Signage includes interior and exterior signs, custom wallpaper, menu boards and awnings that bear the Marks. The cost of signage may vary depending on the type, size and location of the signs, and may also be affected by local restrictions. If you are purchasing an on-going restaurant from Company or its affiliates via an Asset Purchase Agreement, you may not incur any extra expense for these items.

¹¹ Additional Funds. This estimates the funds needed to cover your initial expenses for the first 1 to 3 months of operation (other than the items identified separately in the table). It includes payroll costs but not any draw or salary for you. However, this is only an estimate, and it is possible that you will need additional working capital during the first 3 months you operate your Restaurant and for a longer time period after that. This 3-month period is not intended, and should not be interpreted, to identify a point at which your Restaurant will break even. Company cannot guarantee when or if your Restaurant will break even. Your costs will depend on your management skill, experience, and business acumen; local economic conditions; the prevailing wage rate; competition; and your Restaurant's sales during the initial period. Company used the experience of its affiliate in operating the affiliate-owned PANCHERO'S restaurants in estimating the amounts you will need for Additional Funds.

¹² Office Equipment and Supplies. You must lease or purchase various office equipment and supplies for the operation of the Franchised Restaurant as specified in the Confidential Operations Manual. If you are purchasing an on-going restaurant from Company or its affiliates via an Asset Purchase Agreement, you may not incur any extra expense for these items.

¹³ Liquor License. If you request and Company approves the sale of liquor at the Franchised Restaurant, this is the fee you may be required to pay the local, county or state authorities in order to obtain a liquor license. The high figure is the maximum suggested expenditure for the license.

These figures are for existing buildings only and the costs may vary substantially if you choose to construct a building for your Franchised Restaurant. You do not have to construct a building, however.

Area Development Agreement

Other than the initial fee described in Item 5 and the costs of your legal and business advisors, you will not have any costs beginning business as an area developer. You will incur the costs estimated above in connection with each Franchise Agreement you sign.

Development Agent Agreement

You (or your owners) must at all times during the term of the Development Agent Agreement own and operate at least one Franchised Restaurant. Therefore, if you do not already operate a Franchised Restaurant, you will incur the costs estimated in the table above for the development of that Restaurant. Your initial investment in the business of acting as Company's development agent will include:

1. The initial development agent fee (which is \$5,000 times the number of Franchised Restaurants you agree to develop), and

2. Approximately \$5,000 in working capital for 3 months of performing your development agent obligations (e.g., travel to look for sites and advertising for prospects).

ITEM 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

Approved Supplies and Suppliers

Company will give you a list of approved manufacturers, suppliers and distributors authorized for the Franchised Restaurant ("Approved Suppliers List") and a list of approved inventory, products, fixtures, furniture, equipment, signs, stationery, supplies and other items or services necessary to operate the Franchised Restaurant ("Approved Supplies List"). If you would like to sell or use any product, material or supply or purchase any products from a supplier not on either of these lists, you must notify Company and may need to submit samples and other information to Company so that Company can make an informed decision as to whether this product or supplier meets Company's standards. You may be charged for the costs of Company's testing of a product or supplier. (See Item 6) Company will notify you of its approval or disapproval within a reasonable time (no more than 60 days) after Company receives all requested information and materials related to the product or supplier.

Virtually all goods, services, supplies, fixtures, equipment, and inventory must be purchased according to Company's specifications or from approved suppliers. Company will provide this list during the initial phase of the training program.

Any item used in the Franchised Restaurant which is not specifically required to be purchased according to the Approved Suppliers List or the Approved Supplies List must conform to Company's established standards and specifications. Therefore, these purchases and leases are up to 100% of your overall purchases and leases in establishing and then operating your Franchised Restaurant.

The Franchised Restaurant must at all times maintain an inventory of ingredients, food and beverage products and other products, materials and supplies that will permit operation of the Franchised Restaurant at maximum capacity.

Company applies the following general criteria in approving a proposed supplier:

1. Ability to purchase product in bulk;
2. Quality of services, including sanitation;
3. Production and delivery capability;
4. Proximity to Franchised Restaurants in order to be able to make timely deliveries of product; and

5. Dependability of the supplier.

Company's criteria for approving a proposed supplier will be made available to you in the Confidential Operations Manual.

Company's specifications and standards for purchasing are in the Confidential Operations Manual, as modified periodically.

Although these purchasing arrangements are not yet in place, Company will attempt to negotiate group rates for purchases of products and materials with suppliers.

Company anticipates that certain suppliers may make payments to Company and/or its affiliates because of transactions with franchisees and affiliate-owned Restaurants. Company's current practice is to give 100% of all rebates, commissions or other consideration it receives from suppliers based on actual franchisee purchases to the Advertising Fund. Company has done so in the past with payments made by its soft drink vendor. However, Company is not required to do so. Company and its affiliates have the right to receive payments from suppliers on account of their actual or prospective dealings with you and other franchisees and to use all amounts they receive without restriction for any purposes they deem appropriate (unless Company and its affiliates agree otherwise with the suppliers). Company expects that its soft drink vendor will make payments to franchisees based on gallons pumped. Company's affiliates may receive and retain supplier payments based on purchases by affiliate-owned Restaurants.

There are no purchasing cooperatives in existence at this time. Company does not provide material benefits to you (for example, renewal or granting additional franchises) for using designated or approved sources.

There currently are no products or services you must purchase only from Company or its affiliates. You may elect to purchase certain items from Company, including menus, gift certificates, and other printed items, for which Company can be considered an approved supplier. Currently, Company purchases these products from third-party suppliers and sells these products to you at its cost; it derives no revenue from your purchases of these items. You must purchase pre-approved t-shirts, polo shirts and hats from Company's approved uniform supplier. That supplier will bill you directly through its Internet-based ordering system. Although they do not do so at this time, Company and its affiliates may, in the future, derive revenue from the lease or sale of goods and services to you and other franchisees.

Company has the right to require you to use only an accountant that Company has approved. However, if you fail to comply with Company's accounting, record-keeping and reporting obligation, Company may require you to use Company's designated accountant (which also may be Company's accountant) to ensure preparation of required reports and financial statements accurately and in Company's desired form. Company also has the right to require you to use only a real estate broker that Company has designated or approved to assist you in locating a suitable site for the Franchised Restaurant.

Proprietary Software Package

Company may develop and custom design a software package for conducting accounting, inventory control, point-of-sale functions and related activities. If developed, the Proprietary Software Package will be proprietary and confidential information of Company, and you will be required to use it. You must comply with Company's standards and specifications regarding the Proprietary Software Package, as provided in the Confidential Operations Manual. Company will lease the Proprietary Software Package to you at the then-current rates published by Company in the Confidential Operations Manual and may derive revenue from your lease payments.

Insurance

You must obtain and maintain, at your own expense, the insurance coverage that Company periodically requires. Currently, you must have at least the following:

<u>Coverage</u>	<u>Minimum Limits of Coverage</u>
General Aggregate	\$1,000,000
Products/Completed Operations Aggregate	\$1,000,000
Personal and Advertising Injury.....	\$1,000,000
Each Occurrence	\$1,000,000
Automobile Liability Insurance	\$1,000,000
Liquor Law Liability.....	\$500,000
Fire Damage (any one fire)	\$150,000
Medical Expense (any one person)	\$5,000
Business Interruption Insurance.....	Actual losses sustained

Premiums depend on the insurance carrier's charges, terms of payment, and your history. All insurance policies must name Company as an additional insured, must be written by an insurer having at least an "A" rating from A.M. Best, and must provide for 20 days notice to Company of a policy's cancellation or alteration.

Trade Secret Food Products

Company and Affiliate may develop Trade Secret Food Products and will continue to develop and own proprietary recipes. Company will (i) manufacture, supply and sell Trade Secret Food Products to franchisees of Company, and/or (ii) disclose the formulae for and methods of preparation of the Trade Secret Food Products to a limited number of suppliers who will be authorized by Company to manufacture Trade Secret Food Products to Company's precise specifications and sell Trade Secret Food Products to franchisees of Company. You must purchase and use Trade Secret Food Products from Company or a limited number of suppliers so authorized by Company.

Either Affiliate, Company or an authorized supplier will be the designated supplier for the Trade Secret Food Products. These Trade Secret Food Products may eventually include some, all or none of the following items: marinade sauces, spice mixes, salsas, pre-cut or pre-packaged meats, tortillas and tortas. These products will be sold to you at cost (if sold by

Company or Affiliate), and neither Company nor Affiliate will derive any revenue from your purchases of Trade Secret Food Products.

In the fiscal year ending December 31, 2005, Company derived no revenue from selling Trade Secret Food Products or any other items to franchisees because it simply passes through its per item cost to the franchisees. Company does not recognize this as revenue.

Area Development Agreement

Except as described in this paragraph, the Area Development Agreement does not require you to buy or lease from Company or designated or approved suppliers, or according to Company's specifications, any goods, services, supplies, fixtures, computer hardware and software, or real estate. However, you must follow Company's requirements under the Franchise Agreement for each PANCHERO'S Franchised Restaurant you develop. For each site at which you propose to operate a PANCHERO'S Franchised Restaurant, you must send Company a complete site report.

Development Agent Agreement

If you represent Company as a development agent, you must solicit and provide services to franchisees according to Company's standards and guidelines and all applicable laws.

ITEM 9

FRANCHISEE'S OBLIGATIONS

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

OBLIGATION	PARAGRAPH IN FRANCHISE AND OTHER AGREEMENTS	ITEM IN THE OFFERING CIRCULAR
(a) Site selection and acquisition/lease	III; Area Development Agreement, Paragraph III	12
(b) Pre-opening purchase/leases	III.B.,C, D and XIII.B.; Asset Purchase Agreement, Paragraph 2.a	7 and 8
(c) Site development and other pre-opening requirements	III.G. and IV; Area Development Agreement, Paragraph V	6, 7 and 11
(d) Initial and on-going training	III.B. and IV; Area Development Agreement, Paragraph V.A.2	6 and 11
(e) Opening	XIII.B; Conversion Addendum to Franchise Agreement, Paragraph III.E.	11

OBLIGATION	PARAGRAPH IN FRANCHISE AND OTHER AGREEMENTS	ITEM IN THE OFFERING CIRCULAR
(f) Fees	I, III, IV, X, XI, XII, XIII, XV, XIX and XXII; Conversion Addendum to Franchise Agreement, Paragraph II.A.; Area Development Agreement, Paragraphs II and XI	5 and 6
(g) Compliance with Standards and Policies/Operating Manual	VII, VIII, XII, XIII and XXIII; Area Development Agreement, Paragraphs V and VI	11
(h) Trademarks and Proprietary Information	VI, VII and VIII; Area Development Agreement, Paragraph VI	13 and 14
(i) Restrictions on Products/Services Offered	XIII	8 and 16
(j) Warranty and Customer Service Requirements	XIII	N/A
(k) Territorial Development and Sales Quotas	None	12
(l) On-going Product/Service Purchases	XIII	8 and 11
(m) Maintenance, Appearance and Remodeling Requirements	III.C, D, H, XIII.C, D, E and XVII	6 and 17
(n) Insurance	XV	6, 7 and 8
(o) Advertising	X and V.D	6 and 11
(p) Indemnification	XXIII; Area Development Agreement, Paragraph XI; Asset Purchase Agreement, Paragraphs 12 and 20	6
(q) Owner's Participation/Management/Staffing	IV, XIII and XVI	15
(r) Records/Reports	XII	9 and 11
(s) Inspections/Audits	VI.E and XII	6, 11 and 13
(t) Transfer	XIX; Area Development Agreement, Paragraph VIII	17
(u) Renewal	II	17
(v) Post-Termination Obligations	XVIII; Area Development Agreement, Paragraph IX	17
(w) Non-Competition Covenants	VIII.C and XVI; Area Development Agreement, Paragraph IX	17
(x) Dispute Resolution	XXXI; Area Development Agreement, Paragraphs XVII and XVIII; Asset Purchase Agreement, Paragraphs 15 and 17	17
(y) Licenses	XIII.K and V.C	N/A

THIS TABLE LISTS YOUR PRINCIPAL OBLIGATIONS UNDER THE DEVELOPMENT AGENT AGREEMENT. IT WILL HELP YOU FIND MORE DETAILED

INFORMATION ABOUT YOUR OBLIGATIONS IN THIS AGREEMENT AND IN OTHER ITEMS OF THIS OFFERING CIRCULAR.

OBLIGATION	SECTION IN DEVELOPMENT AGENT AGREEMENT	ITEM IN THE OFFERING CIRCULAR
(a) Site selection and acquisition/lease	None	
(b) Pre-opening purchases/leases	2C	7 and 8
(c) Site development and other pre-opening requirements	1B(3) and 2C	7, 8, 11, and 12
(d) Initial and ongoing training	1B(1) and 2A(3)	8 and 11
(e) Opening	1B(3)	11
(f) Fees	3A and D, 7B, 10C, and 11C	5, 6, and 7
(g) Compliance with standards and policies/Operating Manual	1B(1) and 2A, D, and F	8 and 11
(h) Trademarks and proprietary information	4 and 5	13 and 14
(i) Restrictions on products/services offered	2A	8 and 16
(j) Warranty and customer service requirements	2A and F	8 and 11
(k) Territorial development and sales quotas	1B(3) and 2A and G	5 and 12
(l) On-going product/service purchases	None	
(m) Maintenance, appearance and remodeling requirements	None	
(n) Insurance	2C	6 and 7
(o) Advertising	2D	6, 7 and 11
(p) Indemnification	10C	6
(q) Owner's participation/management/staffing	2B	11 and 15
(r) Records/reports	2E	
(s) Inspections/audits	2F	8
(t) Transfer	7	17
(u) Renewal	1B(2)	17
(v) Post-termination obligations	9	17
(w) Non-competition covenants	6, 7C, and 9D	17
(x) Dispute resolution	11E, F, and G	17

ITEM 10

FINANCING

Company does not offer direct or indirect financing. Company does not guarantee your note, lease or obligation.

ITEM 11

FRANCHISOR'S OBLIGATIONS

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

A. Company's Obligations Before the Franchised Restaurant Opens:

Before you open the Franchised Restaurant, Company (and/or a development agent operating in your market area) will:

1. Approve or disapprove the proposed site within 30 business days after receiving your written proposal. (Paragraph III.B.)
2. Use reasonable efforts to help analyze your market area, determine site feasibility and to assist in the designation of the franchise location; however, it is your sole responsibility to undertake site selection activities and otherwise secure the Premises. (Paragraph III.D.)
3. Approve the lease for the Premises. (Paragraph III.C.)
4. If this is your first Franchised Restaurant, train you or your manager at the training program no later than 8 weeks after you sign the Franchise Agreement before you begin operations of the Franchised Restaurant for approximately 1 week as described in this Item 11 below. (Paragraph IV.A.)
5. If this is your first Franchised Restaurant, train you or your manager and your assistant manager or cook no later than 4 weeks before your Franchised Restaurant begins operations at an on-the-job training program for approximately 3 weeks as described in this Item 11 below. (Paragraph IV.B.) Company does not charge for this training or service; however, all expenses incurred by you, your employees' costs in attending this program, including travel and room and board expenses, and employees' salaries will be your sole responsibility. All training occurs at Company's headquarters or at a location designated by Company.
6. Provide Approved Supplies List and Approved Suppliers List during the initial phase of Company's training program. (Paragraph XIV.E.)
7. If you wish to offer delivery services, review your request to do so. If Company grants its approval of your delivery service request, Company will provide applicable guidelines and provide you with specifications for brands and types of trucks, vans and other motor vehicles you will use for delivery services. (Paragraphs V.A. and XIII.R.)

8. If you wish to serve beer, wine and margaritas at your Franchised Restaurant, review your request to do so. If Company grants its approval of your request to serve alcoholic beverages, it will provide you its standards for PANCHERO'S Franchised Restaurants selling alcoholic beverages.

B. Company's Obligations During the Operation of the Franchised Restaurant:

During your operation of the Franchised Restaurant, Company (and/or a development agent operating in your market area) will:

1. If this is your first Franchised Restaurant, for approximately 2 weeks around the beginning of operations of the Franchised Restaurant, furnish to you, at your Premises and at Company's expense, 1 Company representative for the purpose of facilitating the opening of your Franchised Restaurant. Company will also supply you with 1 trained crew member from Company's, Affiliate's, or another franchisee's Franchised Restaurant for approximately 5 days during this period to assist in opening your Franchised Restaurant. You must successfully complete this phase of the initial training program. Company may provide additional training if requested by you at its then-current fee, as described in Item 6 of this Offering Circular. (Paragraph IV.C.)

2. Loan you 1 copy of the Confidential Operations Manual which contains mandatory and suggested specifications, standards and procedures. This manual is confidential and remains the property of Company. Company may modify this manual. (Paragraph VII.A.) The Table of Contents of the Confidential Operations Manual is attached to this Offering Circular as Exhibit F.

3. Review your advertising materials. You will submit to Company or its designated agency, for its prior approval, all promotional materials and advertising that you intend to use, including newspapers, radio and television advertising, specialty and novelty items, signs, containers and boxes. If Company does not disapprove in writing any advertising or promotional item submitted to Company within 30 days of receipt, the particular materials will be considered approved. (Paragraph X.A.; Development Agent Agreement - Section 2.D)

4. Establish guidelines for Grand Opening Advertising and publish these guidelines in the Confidential Operations Manual. You will spend \$3,000 during the first 2 to 3 weeks of operation of the Franchised Restaurant on newspaper, direct mail advertising or promotional items through other media. (Paragraph X.B.)

5. Administer the Advertising Fund. You must contribute to the Advertising Fund the amount Company periodically specifies, which is currently 0.5% of your Gross Sales, and will not exceed 3% of your Gross Sales. Company will direct all advertising programs with sole discretion over the creative concepts, materials and media used in these programs and their placement and allocation. The media used may include print, television, radio or other media and may be local, regional or national in scope. Company will, however, undertake no obligation in administering the Advertising Fund

to make expenditures for you which are equivalent or proportionate to your contribution, or to ensure that any particular franchisee benefits directly or pro rata from the placement of advertising. Company will, for each of its Company-owned and Affiliate-owned restaurants offering products and services similar to the Franchised Restaurant, make contributions to the Advertising Fund on the same percentage basis as Franchised Restaurants within the System. The funds may be used to meet any costs of maintaining, administering, directing, producing and preparing promotions and advertising (including the cost of conducting public relations activities; conducting advertising; and producing promotional brochures and other marketing materials for franchisees in the System) and developing, implementing and maintaining an electronic commerce Website and/or related strategies. Company will conduct all advertising in-house, but may use a national or regional advertising agency in the future. Company will not be compensated for providing services to the Advertising Fund except for paying Company personnel who will conduct and develop advertising. An accounting of the operation of the Advertising Fund will be prepared annually and will be made available to you upon request. Company reserves the right, at its option, to require that this annual accounting include an audit of the operation of the Advertising Fund prepared by an independent certified public accountant selected by Company and prepared at the expense of the Advertising Fund. Otherwise, the Advertising Fund's financial statements will be unaudited. It is anticipated that all contributions to the Advertising Fund will be expended for advertising and promotional purposes during Company's fiscal year within which such contributions are made. All expenditures in the following fiscal years will be made first out of any current interest or other earnings of the of the Advertising Fund, next out of any accumulated earnings, and finally from principal. The Advertising Fund may be terminated at any time by Company once all monies in the Advertising Fund have been expended for advertising and promotional purposes. Company will not use any monies from the Advertising Fund principally for the purpose of soliciting new franchisees. There are no advertising councils presently in place or under consideration for the immediate future. (Paragraph X.C.) During our last fiscal year, the Advertising Fund spent 80.51% on production and 19.49% on administrative expenses.

6. Provide guidelines for local advertising, and any deviation from these guidelines requires the prior approval of Company. If the Franchised Restaurant is located in a Regional Mall or Life Style Center, you will not be required to contribute to local advertising and promotion each month and will only be required to advertise locally as required by the Regional Mall or Life Style Center lease. However, if the lease requires expenditures for advertising less than 3% of the Gross Revenues of the Franchised Restaurant, you must spend up to 3% of the Gross Revenues of the Franchised Restaurant on local advertising. "Regional Mall or Life Style Center" means a shopping center having 300,000 or more square feet of leasable space. If the Franchised Restaurant is located at a site other than a Regional Mall or Life Style Center, you will spend an amount equal to 3% of the Gross Revenues of the Franchised Restaurant on local advertising and promotion each month. You must maintain a white pages listing and a yellow pages advertisement for the Franchised Restaurant. The costs of these are included in the required 3% of Gross Revenue expenditure. (Paragraphs X.D., F.) If you do not spend 3% of the Franchised Restaurant's monthly

Gross Revenues on local advertising and promotion, Company can collect that money from you and spend it as Company deems best. (See Item 6 above)

7. Periodically, Company may designate a local, regional or national Advertising Coverage Area ("Advertising Coverage Area") in which your business and at least 1 other PANCHERO'S restaurant is located for purposes of developing a cooperative local, regional or national advertising or promotional program. An Advertising Coverage Area is an area covered by the particular advertising medium (television, radio or other medium) as recognized in the industry. You agree to participate in and contribute your share to cooperative advertising and promotional programs in your Advertising Coverage Area. The cost of the program will be allocated among locations in the Advertising Coverage Area, and your share will be in proportion to your sales during the preceding 12-month period, or portion of said period. Your contributions to cooperative advertising promotional programs will be credited to your local advertising requirement, but will not be counted toward your required contribution to the Advertising Fund. All PANCHERO'S Restaurants (whether owned by a franchisee, Company or Affiliate) will have one vote per location in any cooperative. Company may establish Regional Franchisee Councils to administer the cooperative advertising program which would be comprised of representatives from Company, franchisees in the Advertising Coverage Area and Company-owned or Affiliate-owned restaurants. At the time a program is submitted, Company will submit a list to you of all operating PANCHERO'S restaurants in your Advertising Coverage Area. Company will have the sole power to form, change, merge or dissolve these cooperatives. These cooperatives may operate from a written governing document which will be made available to you for review if such a document is prepared. The cooperatives will prepare annual unaudited financial statements which will be made available to you for your review. (Paragraph X.E.)

8. Describe its requirements in the Franchise Agreement, the Confidential Operations Manual and other written policies Company supplies to you. (Paragraph XIII.A.)

9. Update the Approved Supplies List and Approved Suppliers List, as Company deems necessary periodically. (Paragraph XIII.I.)

10. Modify the System, including the adoption and use of new or modified trade names, trademarks, service marks or copyrighted materials, new Menu Items, new products, new equipment, new techniques, new recipes or new presentations. (Paragraph IX.)

11. Periodically advise or offer guidance to you relative to prices for the food and other products offered for sale by the Franchised Restaurant that in Company's judgment constitute good business practice. You will not be obligated to accept this advice or guidance and will have the sole right to determine the prices to be charged by the Franchised Restaurant. (Paragraph XIV.A.)

12. Make periodic visits to and inspections of the Franchised Restaurant for the purposes of consultation, assistance and guidance in all aspects of the operation and management of the Franchised Restaurant and prepare written reports concerning these visits outlining any suggested changes or improvements in the operations of the Franchised Restaurant and detailing any defaults in these operations which become evident as a result of this visit. Company will provide you with a copy of each written report. Company will also advise you of problems arising out of the operation of the Franchised Restaurant as disclosed by reports submitted to Company by you or by inspections conducted by Company of the Franchised Restaurant. (Paragraph XIV.D.) You must remedy any defaults or problems within 30 days after notice by Company.

13. Furnish you with assistance in the operation of the Franchised Restaurant as is reasonably determined to be necessary by Company periodically, which may include the following: (Paragraph XIV.C.)

a. Proper utilization of procedures by the Franchised Restaurant regarding the service and sale of all Menu Items, other food and beverage items and related items and materials as approved by Company;

b. Additional products and services authorized for sale from PANCHERO'S Franchised Restaurants;

c. Purchase of ingredients and other food and beverage items, materials and supplies;

d. The institution of proper administrative, bookkeeping, accounting, inventory control, supervisory and general operating procedures for the effective operation of the Franchised Restaurant;

e. Advertising and promotional programs; and

f. On-going research and development of new procedures and techniques, new products and materials and other enhancements to the System.

14. Provide specifications to you for the point of sale system you must use, which will be a Posiflex JIVA 5800 Touch Screen POS System utilizing Maitre'D Software and an Integrated Credit/Gift Card program supported by a Company approved Processor, currently Mercury Payment Systems. You will not need any computer hardware, external card readers, or software to use these touch screen systems. Company will have full access to all of your data, systems and related information by direct access, whether in person or by telephone/modem.

15. Company may also develop the Proprietary Software Package, as described in Items 6 and 8 of this Offering Circular. Once developed, Company will lease this software to you at the then-current rates published by Company. If and when

Company introduces the Proprietary Software Package into the System, you must use the software. (Paragraph XIII.U.)

You must upgrade any hardware component or software program at any time during the term of the Franchise Agreement to be compatible with the Proprietary Software Package (if developed) required by Company.

Except for the Proprietary Software Package (if developed), Company will not provide assistance to you in obtaining the point-of-sale system or computer hardware other than providing the specifications for these items and providing the Approved Supplies List and Approved Suppliers List for these items.

16. Company may form one or more Regional Advisory Councils (the "Council") in any given region. Company will determine the boundaries of the region, and franchisees of all PANCHERO'S Franchised Restaurants in that region must participate in the Council. If Company requires you to do so, you must participate in all Council programs for your particular Council. The purposes of a Council may include exchanging ideas, advising Company on expenditures for regional advertising, providing back-up support and staffing for political influence, and coordinating franchisee efforts. You must pay all assessments levied by the Council. The members of a Council will determine the timing and amount of any assessment, but they must be approved by Company. Company may form, change, or dissolve a Council at any time. Councils will serve in an advisory capacity only.

C. Company's Obligations Before and During Operations to the Development Agent:

Before and during your operation as a development agent, Company will:

1. Identify the Territory within which you may recruit, train, and assist PANCHERO'S Restaurant franchisees, determine your performance obligations (see Item 12), and give you standards and specifications that you must follow, including how to comply with applicable laws. (Development Agent Agreement - Sections 1.B.(1), 2.A., and 2.G.)

2. Review the applicants you propose as prospective franchisees of PANCHERO'S Restaurants, consider proposed sites, and give you required offering circulars and other legal documents. (Development Agent Agreement - Section 2.A.)

3. Pay you a portion of certain of the fees that Company actually receives from Franchised Restaurants within your Territory. Company will pay you 50% of the initial franchise fees and 40% of the Continuing Services and Royalty Fees that it actually collects from franchisees (including you). Company also will pay you these amounts if it (or an affiliate) operates a PANCHERO'S Restaurant within your Territory. Company pays these amounts either monthly or within 30 days after it collects the fee. (Development Agent Agreement - Sections 3.B. and 3.C.)

D. Methods Used to Select the Location of the Franchised Restaurant:

You must select the site for the Franchised Restaurant within the area designated in the Franchise Agreement. Company's prior approval of the site is required. (Paragraph III.C.)

The methods used by Company in approving the location for the proposed site may include area competition; area demographics; types of other retail and commercial businesses in the area that generate a high volume of foot traffic; and daytime population.

E. Typical Length of Time Before Operation:

The typical length of time between the signing of the Franchise Agreement, or the first payment of any consideration for the franchise, and the opening of your business is approximately 5 to 6 months after signing the Franchise Agreement.

You must open your Franchised Restaurant within 9 months after signing the Franchise Agreement unless otherwise required or approved by Company in writing. (Paragraph XIII.B.)

If you represent Company as a development agent, you must open your own Franchised Restaurant in the Territory within 5 months after signing the Development Agent Agreement. (Development Agent Agreement - Section 1.B.(3))

F. Training:

The initial training that Company provides is also described in this Item 11, above.

If this is your first Franchised Restaurant, Company will train you (or your manager) no later than 8 weeks after you sign the Franchise Agreement (and before you begin operations of the Franchised Restaurant) for approximately 1 week as described in the table below. Company will provide this training to multiple-unit operators before opening the first unit only. If you previously served as the manager of a PANCHERO'S Restaurant, Company will provide you with one week of training.

If this is your first Franchised Restaurant, Company will train you or your manager and your assistant manager or cook no later than 4 weeks before your Franchised Restaurant begins operations at a Company-designated location on-the-job for approximately 3 weeks as described in the table below. Company will determine at its option whether to provide this training to multiple-unit operators. If you previously served as the manager of a PANCHERO'S Restaurant, Company will provide you with one week of this on-the-job training.

Classroom Training:

Subject	Time Begun	Instructional Material	Hours of Classroom Training
Classroom Training – Panchero’s Headquarters			
I. Introduction and Overview a. History and Philosophy b. Franchise Relations c. Site Selection d. Operations Visit	Day 1	Confidential Operations Manual	a. 2 hours b. 2 hours c. 2 hours d. 1 hour
II. a. Establishing a Panchero’s Business b. Construction c. Equipment Specifications	Day 2	Confidential Operations Manual	a. 2 hours b. 2 ½ hours c. 2 ½ hours d. 1 hour
III. a. Financial Cost/Analysis/Controls b. Advertising c. Restaurant Training Overview d. FC Role and Support	Day 3	Confidential Operations Manual	a. 3 hours b. 2 hours c. 1 hour d. 1 hour

Restaurant On-The-Job Training

Subject	Time Begun	Instructional Material	Hours of Restaurant Training
On-The-Job Training – Selected Training Restaurant			
<ul style="list-style-type: none"> • Facilities Orientation • Safety • Burrito Rolling Techniques • Portioning • Tortillas • Line Assignment 	Day 1	Confidential Operations Manual, Job Aids and On-The-Job Training	1 Day On-The-Job Training
<ul style="list-style-type: none"> • Checklist #3 • Food Prep • Product QRG’s • Menu Facts • Re-heating Product • Line Assignment 	Day 2	Confidential Operations Manual, Job Aids and On-The-Job Training	1 Day On-The-Job Training

Subject	Time Begun	Instructional Material	Hours of Restaurant Training
<ul style="list-style-type: none"> • Checklist #3 • Line Set-up • Food Prep • Assembly • Sanitation • Line Assignment 	Day 3	Confidential Operations Manual, Job Aids and On-The-Job Training	1 Day On-The-Job Training
<ul style="list-style-type: none"> • Checklist #4 • Line Set-up • Food Prep • Dough Press • Meat Slicer • Line Assignment 	Day 4	Confidential Operations Manual, Job Aids and On-The-Job Training	1 Day On-The-Job Training
<ul style="list-style-type: none"> • Checklist #4 • Line Set-up • Food Prep • Food Processor • Charbroiler / Cooking Meats • Line Assignment • Capsule 8 Exam 	Day 5	Confidential Operations Manual, Job Aids and On-The-Job Training	1 Day On-The-Job Training
<ul style="list-style-type: none"> • Closing Procedures • Shift Changeover • Checklists #5 & #6 • Cash Registers • Cash & Security Procedures • Food Prep • Pre-close Activities • Line Assignment 	Day 6	Confidential Operations Manual, Job Aids and On-The-Job Training	1 Day On-The-Job Training
<ul style="list-style-type: none"> • Closing Procedures • Shift Changeover • Checklists #5 & #6 • Cash & Security Procedures • Food Prep • Pre-close Activities • Line Assignment • Deliveries • Stock Maintenance • Walk-in Maintenance 	Day 7	Confidential Operations Manual, Job Aids and On-The-Job Training	1 Day On-The-Job Training
<ul style="list-style-type: none"> • Closing Procedures • Shift Changeover • Checklists #5 & #6 • Cash & Security Procedures 	Day 8	Confidential Operations Manual, Job Aids and On-The-Job Training	1 Day On-The-Job Training

Subject	Time Begun	Instructional Material	Hours of Restaurant Training
<ul style="list-style-type: none"> • Food Prep • Pre-close Activities • Line Assignment • Restaurant Organization & Cleanliness • Cleaning Assignments on Position Chart • Steamer Wells Maintenance 			
<ul style="list-style-type: none"> • Line Set-up • Checklist #4 • Food Prep • Line Assignment • POS Module • Equipment Module • Smallwares • Equipment Installation Issues 	Day 9	Confidential Operations Manual, Job Aids and On-The-Job Training	1 Day On-The-Job Training
<ul style="list-style-type: none"> • Line Set-up • Checklist #3 • Food Prep • Line Assignment • Daily Checklist Review • Rotating Stock, FIFO, Labeling • Cutting Board Maintenance • Knives, Safety Gloves • Inventory 	Day 10	Confidential Operations Manual, Job Aids and On-The-Job Training	1 Day On-The-Job Training
<ul style="list-style-type: none"> • Restaurant Opening Procedures • Checklists #1 & #2 • Position Chart • Floor Control • Food Prep • Line Assignment 	Day 11	Confidential Operations Manual, Job Aids and On-The-Job Training	1 Day On-The-Job Training
<p>A. Training Restaurant</p> <ul style="list-style-type: none"> • Restaurant Opening Procedures • Checklists #1 & #2 • Position Chart • Floor Control • Food Prep • Line Assignment <p>B. Panchero's Headquarters</p> <ul style="list-style-type: none"> • Financial Reporting & Controls 	Day 12	Confidential Operations Manual, Job Aids and On-The-Job Training	A. 6 hours B. 3 hours

Subject	Time Begun	Instructional Material	Hours of Restaurant Training
A. Training Restaurant <ul style="list-style-type: none"> • Restaurant Opening Procedures • Checklists #1 & #2 • Position Chart • Floor Control • Food Prep • Line Assignment B. Panchero's Headquarters <ul style="list-style-type: none"> • Customer Service • Speed of Service 	Day 13	Confidential Operations Manual, Job Aids and On-The-Job Training	A. 6 hours B. 3 hours
A. Training Restaurant <ul style="list-style-type: none"> • Restaurant Opening Procedures • Checklists #1 & #2 • Position Chart • Floor Control • Food Prep • Line Assignment B. Panchero's Headquarters <ul style="list-style-type: none"> • Personnel/Hiring/Motivating Employees 	Day 14	Confidential Operations Manual, Job Aids and On-The-Job Training	A. 6 hours B. 3 hours
A. Training Restaurant <ul style="list-style-type: none"> • Restaurant Opening Procedures • Checklists #1 & #2 • Position Chart • Floor Control • Food Prep • Line Assignment B. Panchero's Headquarters <ul style="list-style-type: none"> • Final Exam & Awards 	Day 15	Confidential Operations Manual, Job Aids and On-The-Job Training	A. 6 hours B. 2 hours

You (or your manager) will be trained according to the full training program described above. An assistant manager/head cook/or any other employee that you want trained will be trained at an approved site. Your assistant manager will be trained in all facets of the operation. Other employees will be trained for their specific positions.

The training staff includes Rodney Anderson and Tom Ryan (who appear in Item 2), as well as Holly Carson, Jamie Davis (each of whom joined the Company's training staff in 2003), Keith Loveless (who joined the Company's training staff in 2004) and Matt Heston (who joined the Company's training staff in 2005). Other than Messrs. Anderson and Ryan, each of the individuals is a field consultant for the company who has experience in restaurant operations generally and the Company's requirements.

Company periodically may provide and, if it does, may require that previously-trained and experienced franchisees and their managers and/or employees attend and successfully complete refresher training programs or seminars to be conducted at a location designated by Company. Attendance at these refresher training programs or seminars will be at your sole expense; however, attendance will not be required at more than 1 program in any calendar year and will not collectively exceed 4 business days in duration during any calendar year. (Paragraph IV.E.)

If you designate new or additional managers after the initial training program, Company will provide training to these managers at the then-current published rates. (See Item 6) All designated managers must successfully complete the training program provided at Company's headquarters or other location designated by Company. You will bear all costs incurred by your employees attending this training program. (Paragraph IV.F.)

If you represent Company as a development agent, it will explain how you must operate and comply with applicable laws. You must make sure that you understand these laws and hire your own advisors if necessary. However, Company has no formal training program for this.

G. Computer System

You must use a computer system in operating your Franchised Restaurant. We require that you use a third-party proprietary Point of Sale System (the "POS System") available from Retail Data Systems, 6027 Brady Street, Davenport, Iowa (the "Supplier"). This POS System tracks sales and labor data. You are not required at this time to contract with the Supplier for ongoing support and maintenance of the POS System, but we reserve the right to require you to do so in the future. Any updates or upgrades to the POS System during the term of the Franchise Agreement is your responsibility. We shall have independent access to all information and data contained in the POS System. The POS System was first installed at one of the affiliated Restaurants in Spring 2004, and the complete system was installed at a different affiliated location in July 2005. Company has required franchisees to use the POS System since approximately July 2005.

ITEM 12

TERRITORY

Franchise Agreement

Typically, you will have located a site for your Franchised Restaurant before you sign a Franchise Agreement. Company must approve your site selection. Company will not sign a Franchise Agreement with you for a particular site unless Company has approved the site.

Before you sign your Franchise Agreement, Company will describe your exclusive territory ("Designated Area") on a map attached to the Franchise Agreement as Exhibit A.

While there is no minimum territory, a typical territory is an area within a 1 to 1.5 mile radius from the location of a Franchised Restaurant. The size of your Designated Area will depend upon population density, the character of the surrounding area, and other factors. Company has the right, in its sole discretion, to grant other franchises outside of the Designated Area. The Franchise Agreement grants no rights to you to open a PANCHERO'S Franchised Restaurant outside of your Designated Area.

Company will not grant the right to another franchisee to locate a PANCHERO'S Franchised Restaurant in your Designated Area.

The Designated Area will be defined by zip code boundaries, county boundaries, highways, physical landforms and other factors Company deems appropriate. The specific nature of the territory will be defined by a map attached to the Franchise Agreement as Exhibit A. Franchised Restaurants that offer delivery service must be able to accommodate parking for delivery vehicles; there must also be parking available for customers at the Franchised Restaurant.

Company and its affiliates reserve the right, both within and outside of the Designated Area, to offer and sell at wholesale, retail or through any other distribution system, products and services which comprise, or may in the future comprise, a part of the System, which products may be resold at retail or through any other distribution channel, including supermarkets and other retail facilities, to the general public by these entities. You will have no rights of any kind concerning these sales.

Company and its affiliates also reserve the right, both within and outside the Designated Area, to sell at both wholesale and retail all products and services that do not comprise a part of the System. Company and its affiliates also reserve the right, both within and outside the Designated Area, to establish food service units operating under a format and trademarks and service marks distinct from the PANCHERO'S System.

You will engage only in the retail sale of Menu Items and will not engage in the wholesale sale and/or distribution of any product offered for sale through the Franchised Restaurant, except if authorized in writing by Company.

You acknowledge that, because complete and detailed uniformity under many varying conditions may not be possible or practical, Company specifically reserves the right and privilege to vary standards for any System franchisee based upon the peculiarity of the particular site or circumstance, density of population, business potential, population of trade area, existing business practices or any other condition which Company deems to be of importance to the successful operation of the franchisee's business. You will not be entitled to require Company to grant you a like or similar variation under the Franchise Agreement.

Continuation of your territorial exclusivity does not depend on the achievement of a certain sales volume, market penetration or other contingency. However, at all times you must use your best efforts to promote and increase the sales and service of PANCHERO'S Menu Items

and to effect the widest and best possible distribution throughout the Designated Area. Failure to devote your best efforts is just cause for termination.

You must receive Company's permission before relocating within your Designated Area (which will be at your sole cost, plus reasonable costs and fees incurred by Company in approving the new location). You will be able to relocate the Premises if the lease for the site expires or terminates and it is not your fault; if the site is destroyed, condemned or otherwise rendered unusable; or if otherwise agreed to by Company and you. If you are allowed to relocate the Franchised Restaurant, you must comply with Company's then-current standards and specifications for the Franchised Restaurant. Company will make no guarantee of your success at this new location.

Area Development Agreement

The Territory under an Area Development Agreement will be defined by zip code boundaries, county boundaries, highways, physical landforms, city or municipality boundaries and other factors Company deems appropriate. The specific nature of the Territory will be defined by a map attached to the Area Development Agreement.

Except as provided otherwise, Company will not establish or license anyone other than you the right to establish a PANCHERO'S Restaurant in the Designated Territory before the expiration of the Development Schedule.

The options and territorial exclusivity granted to you under the Area Development Agreement have been granted in reliance on your representations and warranties and strictly on the conditions set out in the Area Development Agreement, including the condition that you comply strictly with the Development Schedule.

Development Agent Agreement

If you also represent Company as a development agent, you will have an exclusive territory (the "Territory") within which Company will not, except as provided below, appoint another development agent. While you need not operate from a specific location, you always must operate at least one PANCHERO'S Franchised Restaurant within the Territory. Company typically marks the Territory's boundaries by cities, counties, or state lines. Company primarily considers demographics, traffic patterns, competition, your capacity to recruit and provide services in a large area, site availability, economic trends, and the number of PANCHERO'S Franchised Restaurants Company believes the Territory can sustain. There is no specific minimum or maximum area that Company must include in the Territory. Company always identifies the Territory in an exhibit to the Development Agent Agreement before you sign it. You may recruit and provide services only to franchisees located within the Territory.

Company (and our affiliates) may:

- (1) own and operate, and solicit and allow prospective franchisees to own and operate, PANCHERO'S Franchised Restaurants at any locations within and outside the

Territory and on any terms and conditions it deems appropriate, although Company will credit any PANCHERO'S Franchised Restaurant opened within the Territory, whether by it, its affiliates, or franchisees, toward the number of PANCHERO'S Franchised Restaurants that you must develop within the Territory during the Development Agent Agreement's term; and

(2) engage in any other distribution activities it chooses within and outside the Territory.

Except for Company's agreement not to allow another franchisee to represent it as a development agent within the Territory during the Development Agent Agreement's term (except as provided below), your rights are non-exclusive.

To maintain your rights within the Territory, you must satisfy the development schedule that Company and you negotiate for the Territory for each year during the Development Agent Agreement. This schedule will identify the number of new PANCHERO'S Franchised Restaurants that you must open, and/or solicit franchisees to open, in the Territory each year and the total number of Franchised Restaurants that must be operating in the Territory at the end of a year. The factors Company considers to establish your schedule are the same factors it considers to determine your Territory's boundaries (see above). Company will insert the applicable numbers in the Development Agent Agreement before you sign it.

Company will include a PANCHERO'S Franchised Restaurant in the cumulative number of Franchised Restaurants that must be open and operating only if it actually is operating within the Territory and substantially complying with its Franchise Agreement. However, a Franchised Restaurant which is, with Company's approval, permanently closed during the last 3 months of a year after being open and operating will be included in the cumulative number of Franchised Restaurants that must be open and operating during that particular year (but not after). Company will include any Franchised Restaurants you (or your owners), Company (or its affiliates), or franchisees own and operate within the Territory in the cumulative number of Franchised Restaurants that must be open and operating. If you do not comply with the development schedule, Company may (but need not):

- (a) terminate the Development Agent Agreement; or
- (b) reduce the Territory's size to a lesser area that Company determines; or
- (c) eliminate your exclusive right to solicit, qualify, and provide services to franchisees in the Territory.

ITEM 13

TRADEMARKS

Company grants you the right to operate a Franchised Restaurant under the name "PANCHERO'S" and other Marks Company may authorize you to use.

Affiliate has registered the following Mark with the United States Patent and Trademark Office on the Principal Register:

Service Mark:	"PANCHERO'S"
Registration Date:	January 1, 2002
Registration No.:	2,525,220

No affidavits of use or renewal filings are due on this registration. Affiliate has not registered the "PANCHERO'S with hat design" logo on the cover page. By not having a Principal Register federal registration for this logo, Affiliate and Company do not have certain presumptive legal rights granted by a registration. There are no presently effective determinations of the United States Patent and Trademark Office, the trademark administrator of any state or any court, and no pending interference, opposition or cancellation proceeding or material litigation, involving the trademarks, service marks, trade names, logotypes or other commercial symbols which are relevant to their use in any state in which the Franchised Restaurant is to be located.

There are no infringing uses actually known to Company that could materially affect the use of these trademarks, service marks, trade names, logotypes or other commercial symbols in any state in which the Franchised Restaurant is to be located.

Under a License Agreement ("License Agreement") dated November 30, 1994, Affiliate has licensed Company to use the Marks and to sublicense its franchisees to use the Marks in the operation of the Franchised Restaurant. The License Agreement is for a term of 20 years plus 2 additional successive terms of 5 years each and may be terminated by Affiliate if Company has failed to correct, within 30 days after written notice has been given by Affiliate, any of the following items: (1) violation of any terms of the License Agreement; (2) improper use of the Marks that could adversely affect the validity or protectability of the Marks, as determined by Affiliate; (3) failure to file reports or maintain records, as required by the License Agreement and any local governmental authority; or (4) bankruptcy, insolvency or the appointment of a receiver for Company.

There are no other agreements currently in effect which significantly limit Company's rights to use or license the use of these trademarks, service marks, trade names, logotypes or other commercial symbols in any manner material to the franchise.

Franchise Agreement and Development Agent Agreement

All usage of the Marks by you and any goodwill established from their use will exclusively benefit Company. You will not receive any interest in the Marks. You may not at any time contest the validity or ownership of the Marks. You must notify Company and/or Affiliate immediately when you learn about an infringement or challenge to your use of a Mark. Company will take whatever action it thinks appropriate. Company is not required to defend you against a claim against your use of its trademark. You must immediately modify or discontinue using any Mark upon direction to do so from Company within a reasonable time.

You must not use any Mark or part of any Mark as part of any corporate or trade name; in any modified form; in the sale of any unauthorized product or service; as part of any domain name, Website, homepage, electronic address, or other interactive site maintained on the Internet, the World Wide Web, or any other similar proprietary or common carrier electronic delivery system; or in any other manner not authorized in writing by Company. You must give notices of trademark and service mark registration as Company specifies and obtain fictitious or assumed name registrations as may be required under applicable law.

You must not use any merchandising, advertising or promotional practice which is unethical or may be injurious to the business of Company, other PANCHERO'S Franchised Restaurants or to the goodwill associated with the Marks. You will cease and desist using these practices immediately upon notification by Company.

Company and its agents will have the right to enter and inspect your Franchised Restaurant to make sure you are complying with Company's standards.

Area Development Agreement

Under the Area Development Agreement, you do not have the right to use the Marks in any manner. You will have no right to license others to operate a business or use the System or the Marks. Because you have no right to use the Marks under the Area Development Agreement, Company has no obligation to protect you against claims of infringement or unfair competition related to your use of the Marks.

You must use the designation [®], [™], SM or other trademark registration notice where applicable or otherwise indicate in your advertising that the names "PANCHERO'S" and "PANCHERO'S, plus the design" are the trade names, trademarks and service marks of Company.

ITEM 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

No patents or copyrights are material to the franchise. If it becomes advisable at any time in the sole discretion of Company to acquire a patent or copyright, you are obligated to use this patent or copyright as required by Company.

You will receive proprietary, confidential and trade secret information of Company. You must maintain the confidentiality of this information unless authorized in writing by Company. You may divulge confidential information only to employees who must know it to operate the Franchised Restaurant. All information, knowledge and know-how which Company designates as confidential will be deemed confidential for purposes of the Franchise Agreement or Development Agent Agreement, except information which you can demonstrate lawfully came to your attention before disclosure of it by Company; or which, at the time of disclosure by Company to you, had lawfully become a part of the public domain, through publication or

communication by others; or which, after disclosure to you by Company, lawfully becomes a part of the public domain, through publication or communication by others.

Any employees having access to confidential information must sign confidentiality contracts. Company will be entitled to equitable remedies, including injunctive relief, in order to protect its confidential information, Confidential Operations Manual and proprietary marks.

You do not have the right to use an item covered by a patent or copyright, but you can use the confidential information in the Confidential Operations Manual, as described in Item 11 of this Offering Circular. Although Company has not filed an application for copyright registration for the Confidential Operations Manual, Company claims common law copyrights to the Confidential Operations Manual which is Company's confidential information. You must promptly notify Company when you learn of an unauthorized use of the confidential information or Confidential Operations Manual. Company is not obligated to take any action against any unauthorized user of the confidential information or Confidential Operations Manual, but will respond to this information as Company thinks appropriate. Company is not obligated to indemnify you for losses brought by a third party concerning your use of this information.

The Confidential Operations Manual belongs to Company and you must return it to Company upon the expiration or termination of the Franchise Agreement.

The Area Development Agreement does not grant you any right to use the Marks or to use any of Company's trade secret and/or confidential information. The Area Development Agreement does not grant you any right to any copyright or patent which Company now owns or may own in the future. Rights to the Marks, trade secrets, confidential information, copyrights or patents are granted only under the Franchise Agreement to be signed by you and Company.

Developer will return to Company all manuals and other confidential information described in Paragraph VI of the Area Development Agreement that it receives from Company in the course of operating the PANCHERO'S Franchised Restaurant when Developer leaves the PANCHERO'S System.

You must keep the Confidential Operations Manual updated and at the Franchised Restaurant. If there is a dispute with the contents of the Confidential Operations Manual, the terms of Company's master copy will control.

You must not use, in advertising or any other form of promotion, the copyrighted materials, trademarks, service marks or commercial symbols of Company without the appropriate notices which may be required by law or Company, including © or other copyright registration notice.

You will not divulge to any person, partnership, corporation or any other entity any information, trade secrets, ingredients, recipes, cooking techniques or processes used in the Trade Secret Food Products, Menu Items and other food and beverage products used in the System or any information stated in the Confidential Operations Manual.

You will be bound by the restrictions on confidential information set out in Paragraph VIII of the Franchise Agreement and Section 5 of the Development Agent Agreement. All information pertaining to your customers before your signing of the Franchise Agreement will be deemed to be "confidential information" as the term is defined in Paragraph VIII of the Franchise Agreement.

ITEM 15

OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISED RESTAURANT

Franchise Agreement

You or a trained and competent employee acting as a full-time manager must at all times directly supervise the Franchised Restaurant. If you are a single-unit franchisee (rather than an area developer), your full-time manager must own, or within 5 years be entitled to own, at least 15% of the Franchised Restaurant. Even if you employ a full-time manager, however, you will remain obligated to supervise the operations of the Franchised Restaurant as agreed upon by Company and you. You must keep Company informed of the identity(ies) of your manager(s). If you select a substitute or additional manager, you must make sure this manager receives training from Company. (Franchise Agreement Paragraph XIII.O.)

One of the following people must devote full-time energy and best efforts to the management and operation of the Franchised Restaurant: (1) you (if you are an individual); (2) any shareholder who owns 15% or more of the stock in the franchisee entity (if you are a corporation); (3) any general partner (if you are a partnership); or (4) your full-time manager. (Franchise Agreement Paragraph XVI.B)

Area Development Agreement

One of the following people must devote full-time energy and best efforts to the management and operation of the restaurants to be franchised in accordance with the Area Development Agreement: (1) you (if you are an individual); (2) any shareholder who owns 15% or more of your stock (if you are a corporation); (3) any general partner (if you are a partnership); or (4) your full-time manager. (Area Development Agreement Paragraph IX.B)

Development Agent Agreement

If you represent Company as a development agent, your business always must be under your or your managing owner's direct, day-to-day, full-time supervision. (Development Agent Agreement Paragraph 2.B)

ITEM 16

RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

Company requires you to offer and sell only those goods and services that Company has approved.

All Trade Secret Food Products, Menu Items and other food and beverage products may be prepared only by properly trained personnel strictly according to Company's recipes, cooking techniques and processes and as required in the Confidential Operations Manual. All items offered from the Franchised Restaurant may be sold only at retail to customers.

Company has the right to add additional authorized services that you must offer. There are no limits on Company's right to do so except that the investment required of a franchisee (for equipment, supplies and initial inventory) will not exceed \$10,000 per year.

You must use only displays, trays, napkins, boxes, bags, wrapping paper, labels, forms and other paper and plastic products imprinted with the Marks and colors. You may not install or maintain on the Premises any newspaper racks, video games, juke boxes, gaming machines, gum machines, games, rides, vending machines or other similar devices without the written approval of Company.

Company may allow you to conduct delivery service of prepared food products from the Franchised Restaurant in compliance with any delivery standards established by Company. You must obtain written approval from Company before undertaking this delivery service.

Company may allow you to obtain a license for the sale of beer, wine and/or margaritas. You must obtain written approval from Company before applying for this license and must comply with any standards established by Company for Franchised Restaurants selling alcoholic beverages. The factors Company will consider in approving your sale of alcoholic beverages include whether it is cost efficient to obtain the proper licenses, whether you are able to obtain the proper licenses, and the location of the Franchised Restaurant.

You must use the location of the Franchised Restaurant solely for the purpose of conducting a PANCHERO'S Franchised Restaurant.

If you also represent Company as a development agent, you must solicit and service franchisees within your Territory as Company requires. Company may change standards for doing so periodically, and there are no limits on its right to do so. (See Item 12)

ITEM 17

RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

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

FRANCHISE AGREEMENT

PROVISION	PARAGRAPH IN THE FRANCHISE AGREEMENT	SUMMARY
a. Length of the term of the franchise	Paragraph II.A.	Term is 5 years from the date the Franchise Agreement is signed.
b. Renewal or extension of term	Paragraph II	If you have complied with all of the provisions in the Franchise Agreement, you can renew for up to 4 additional successive terms of 5 years each.
c. Requirements for you to renew or extend	Paragraphs II.B., C and D	You are not in default under any terms of any agreements with Company; you have complied with all of the Franchise Agreement provisions during its entire term; you are not then in default under any terms of the Franchise Agreement; you have brought the Franchised Restaurant into compliance with Company's current standards; you have given notice of renewal to Company; you have satisfied all monetary obligations owed to Company; you have signed Company's then current form of franchise agreement; you have met current training requirements; and you have signed an agreement containing general release language (see Exhibit J). You must give Company notice of your intent to renew between 9 and 15 months before the Franchise Agreement expires. Company will give you notice of its intent not to renew along with specific reasons at least 3 months before the expiration of the franchise.
d. Termination by you	Paragraph XVII.A.	You may terminate the Franchise Agreement if you are in compliance and Company materially breaches the Franchise Agreement and fails to cure within 30 days of receiving your written notice.
e. Termination by Company without cause	None	Company does not have this right
f. Termination by Company with cause	Paragraphs XVII.B. and C	Upon delivery of notice to you if you default under the terms of the Franchise Agreement.

PROVISION	PARAGRAPH IN THE FRANCHISE AGREEMENT	SUMMARY
g. "Cause" defined (defaults which can be cured)	Paragraph XVII.C.	You fail or refuse to make payments due Company and do not cure within 10 business days or fail to comply with mandatory specifications in the Franchise Agreement and do not cure within 30 days.
h. "Cause" defined (defaults which cannot be cured)	Paragraphs IV.C. and XVII	Non-curable defaults: failure to decorate the Premises; failure to complete training; making a material misrepresentation or omission in the application for the franchise; conviction or plea of no contest to a felony or other crime or offense that can adversely affect the reputation of you or the Franchised Restaurant; misuse of the Confidential Operations Manual; abandonment of business for 2 business days in any 12-month period; surrender of control of business; submission of reports understating Continuing Service and Royalty Fees by more than 3% for periods totaling 3 or more weeks more than twice during the term of the franchise; submission of reports late on 2 occasions in any 12-month period; continued violation of any health, safety or sanitation law or operation in a manner that presents a health or safety hazard; any unauthorized use of the Proprietary Software Package (if developed); your bankruptcy; your misuse of Marks; or your employment of an operator who does not own and will not be entitled to own within 5 years at least 15% of the Franchised Restaurant for a single unit franchise owner.

PROVISION	PARAGRAPH IN THE FRANCHISE AGREEMENT	SUMMARY
i. Your obligation on termination/non-renewal	Paragraph XVIII.	Obligations include: stop operations of the Franchised Restaurant; assign lease to Company; stop using the Marks and items bearing the Marks; assign any assumed names to Company; de-identify the Premises from any confusingly similar decoration, design or other imitation of a PANCHERO'S restaurant; stop advertising as a Franchised Restaurant; pay all sums owed to Company; pay all damages and costs incurred by Company in enforcing the termination provisions of the Franchise Agreement; return all manuals and other confidential information to Company; return all signs to Company; sell to Company, at Company's option, all assets of the Franchised Restaurant; assign telephone numbers to Company; and comply with the covenants not to compete.
j. Assignment of contract by Company	Paragraph XIX.A.	No restriction on Company's right to assign except that assignee must be financially responsible and economically capable of performing the obligations of Company under the Franchise Agreement and assignee must expressly assume and agree to perform these obligations.
k. "Transfer" by you definition	Paragraph XIX.B.	Includes transfer of assets, contract and all rights under the contract, or change of ownership.
l. Company's approval of transfer	Paragraph XIX.B.	Company has the right to approve all transfers by you, but will not unreasonably withhold approval.

PROVISION	PARAGRAPH IN THE FRANCHISE AGREEMENT	SUMMARY
m. Conditions for Company's approval of transfer	Paragraph XIX.B.2	For a transfer to a third party, the transferee must meet Company's qualifications, successfully complete the training program and sign the current Franchise Agreement. You will pay the transfer fee and all sums owed to Company or Affiliate and sign an agreement containing general release language (see Exhibit J). If you are transferring to an entity owned by you and formed solely for the purposes of operating the Franchised Restaurant, you must remain the owner of the majority interest of that entity.
n. Company's right to acquire your business	Paragraph XXI	Company has the right of first refusal to purchase a Franchised Restaurant which is for sale and for which you have received a good faith offer to purchase. Company has 15 days from notice of the offer to purchase the Franchised Restaurant or its assets at the same terms as contained in the offer.
o. Company's option to purchase your business	Paragraphs XX and XVIII	Company has the right to purchase your business for 15 days from the date of delivery of the written offer. Company may purchase the assets of the Franchised Restaurant at the lesser of cost or fair market value within 30 days after expiration or termination of the Franchise Agreement.
p. Your death or disability	Paragraphs XX.A. and B	Your heirs, beneficiaries, devisees or legal representative can apply to Company to continue operation of the Franchised Restaurant, or sell or otherwise transfer interest in the Franchised Restaurant, within 90 days of death or incapacity. If they fail to do so, the Franchise Agreement will terminate and Company will have the option to buy the Franchised Restaurant.

PROVISION	PARAGRAPH IN THE FRANCHISE AGREEMENT	SUMMARY
q. Non-competition covenants during the term of the franchise	Paragraph XVI.C.; Conversion Addendum to Franchise Agreement, Paragraph IV.B.	You must not divert or attempt to divert any business or customer to a competitor or perform any act which may harm the goodwill associated with the Marks and the System; employ or seek to employ without Company's consent any person then employed by Company or another franchisee of Company or otherwise cause that person to leave his or her employ; or own or otherwise have any interest in any business (including a business you currently operate) specializing in dispensing, promoting or selling prepared food products the same as or similar to any product or service provided through the System.
r. Non-competition covenants after the franchise is terminated or expires	Paragraph XVI.D.; Conversion Addendum to Franchise Agreement, Paragraph IV.B.	You must not hire Company's or Affiliate's employees or own or operate a business which sells prepared food products or services the same as or similar to any other product or service provided through the System for 1 year after the Franchise Agreement is terminated within the Metropolitan Statistical Area, as defined by the United States Census Bureau, in which the Franchised Restaurant is located, or within a 10 mile radius of the Franchised Restaurant, or within a 10 mile radius of any other business using the System.
s. Modification of the agreement	Paragraphs IX and XXVII; Asset Purchase Agreement, Paragraph 13	The Franchise Agreement can be modified only by written agreement between Company and you. Company can modify or change the System through changes in the Confidential Operations Manual. The Asset Purchase Agreement may be amended only by a written instrument signed by Seller and you.

PROVISION	PARAGRAPH IN THE FRANCHISE AGREEMENT	SUMMARY
t. Integration/merger clause	Paragraphs XXVII and XXVIII; Asset Purchase Agreement, Paragraph 16	Only the terms of the Franchise Agreement are binding (subject to state law) and may only be modified to the extent required by an appropriate court to make the Franchise Agreement enforceable. The Asset Purchase Agreement and Franchise Agreement supersede all previous discussions, negotiations and agreements, whether oral or written.
u. Dispute resolution by arbitration or mediation	Paragraph XXXI.A.	Except for certain claims concerning confidential information or the Marks, all disputes must be arbitrated in Cook County, Illinois.
v. Choice of forum	Paragraph XXX.B.; Asset Purchase Agreement, Paragraph 17	Any action must be brought in the appropriate state or federal court in Illinois.
w. Choice of law	Paragraph XXX.A.; Asset Purchase Agreement, Paragraph 17	Illinois law applies (subject to state law), except that disputes regarding the Marks will be governed by the United States Trademark Act of 1946 and arbitration will be governed by the Federal Arbitration Act.
x. Conversion Addendum to Franchise Agreement	Attached as Exhibit H to this Offering Circular	If you already own a restaurant that is similar in size to a Panchero's Restaurant and have operated that restaurant for 2 years, you may request to be a "conversion franchisee." The Conversion Addendum requires you to comply with the Franchise Agreement and decreases the initial franchise fee to \$20,000.

AREA DEVELOPMENT AGREEMENT

PROVISION	PARAGRAPH IN THE AREA DEVELOPMENT AGREEMENT	SUMMARY
a. Length of the term of the Area Development Agreement	Paragraph IV	The rights granted under the Area Development Agreement expire on the date of Company's acceptance and signing of a Franchise Agreement for the last Franchised Restaurant to be developed.
b. Renewal or extension of term	N/A	You may not renew the Area Development Agreement.

PROVISION	PARAGRAPH IN THE AREA DEVELOPMENT AGREEMENT	SUMMARY
c. Requirements for you to renew or extend	N/A	
d. Termination by you	N/A	The Area Development Agreement does not contain a provision allowing you to terminate the Area Development Agreement for any reason.
e. Termination by Company	Paragraphs VII.B. and C	Company may terminate the Area Development Agreement if you are in default.
f. Termination by Company with cause	Paragraphs VII.B. and C	If you are in default of the Area Development Agreement, Company will have cause to terminate the Area Development Agreement.
g. "Cause" defined (defaults which can be cured)	N/A	The Area Development Agreement does not provide for defaults which can be cured.
h. "Cause" defined (defaults which cannot be cured)	Paragraphs VII.B. and C	The Area Development Agreement will terminate automatically if you are adjudicated bankrupt or are otherwise involved in a bankruptcy proceeding; if a final judgment remains unsatisfied of record for 30 days or longer (unless bond is filed); if execution is levied against your business or property; if a mortgage or lien foreclosure suit is instituted against you and is not dismissed or in the process of being dismissed within 30 days; if you have failed to exercise options and enter into Franchise Agreements with Company according to your Development Schedule; or you fail to comply with any other term or condition of the Area Development Agreement, make or attempt to make an unapproved transfer or assignment of the Area Development Agreement, or fail to comply with the terms and conditions of any Franchise Agreement or other agreement between you and Company.

PROVISION	PARAGRAPH IN THE AREA DEVELOPMENT AGREEMENT	SUMMARY
i. Your obligation on termination/non-renewal	Paragraphs VII.D. and E	You will lose your options to establish an individual Franchised Restaurant for which a Franchise Agreement has not been signed by Company. A default under the Area Development Agreement will not be considered a default under the Franchise Agreement, unless specified otherwise. If you are in default of the Area Development Agreement, but are not in default under any one or all of your Franchise Agreements, you may continue to operate the existing Franchised Restaurant(s) under the terms of their separate Franchise Agreements.
j. Assignment of contract by Company	Paragraph VIII.A.	No restriction on Company's right to assign except that assignee must be financially responsible and economically capable of performing the obligations of Company under the Franchise Agreement, and assignee must expressly assume and agree to perform these obligations.
k. "Transfer" by you definition	Paragraph VIII.D.	Includes transfer of assets and all rights under the contract or change of ownership.
l. Company's approval of transfer	Paragraphs VIII.C. and D	Company has the right to approve all transfers by you, but will not unreasonably withhold approval.

PROVISION	PARAGRAPH IN THE AREA DEVELOPMENT AGREEMENT	SUMMARY
m. Conditions for Company's approval of transfer	Paragraphs VIII.D., G and H	For a transfer to a third party, the transferee must meet Company's qualifications, successfully complete the training program and sign the current Area Development Agreement. You will pay all sums owed to Company or Affiliate and sign an agreement containing general release language (see Exhibit J), as well as pay Company's then-current transfer fee. You must give Company 90 days' written notice before any sale or assignment of the Area Development Agreement and 15 days' written notice of any received offer to buy your interest in the Area Development Agreement. You must give simultaneous written notice to Company of any offer to sell an interest under the Area Development Agreement made by you.
n. Company's right to acquire your business	Paragraph VIII.F.	Company has the right of first refusal to purchase your ownership interest or assets which are for sale and for which you have received a good faith offer to purchase.
o. Company's option to purchase your business	Paragraph VIII.F.	Company has 15 days from notice of the offer to purchase your ownership interest or your assets at the same terms as contained in the offer.
p. Your death or disability	N/A	While your death or disability is not specifically addressed in the Area Development Agreement, a transfer of shares upon the death of an owner of the area developer (or a transfer of the agreement upon your death if you are an individual) would be treated the same as any other transfer.

PROVISION	PARAGRAPH IN THE AREA DEVELOPMENT AGREEMENT	SUMMARY
q. Non-competition covenants during the term of the franchise	Paragraphs VIII.I., IX.C. and H	You must not divert or attempt to divert any business or customer to a competitor or perform any act which may harm the goodwill associated with the Marks and the System; employ or seek to employ any person then employed by Company or another franchisee of Company or otherwise cause that person to leave his or her employ; or own or otherwise have any interest in any competitive business (including a business you currently operate) specializing in selling prepared food products and related services the same as or similar to any product or service provided through the System. You will also be bound by and comply with the covenants in each Franchise Agreement you sign with Company. The covenants apply even if you have transferred your interest in the Area Development Agreement.
r. Non-competition covenants after the franchise is terminated or expires	Paragraphs VIII.I., IX.D. and H	You must not own or operate a business which specializes in selling prepared food products and related services the same as or similar to any other product or service provided through the System for 1 year after the Area Development Agreement is terminated. You will also be bound by and comply with the covenants in each Franchise Agreement signed with Company. The covenants apply even if you have transferred your interest in the Area Development Agreement.
s. Modification of the Area Development Agreement	Paragraph XV	The Area Development Agreement can be modified only by written agreement between Company and you.
t. Integration/ merger/ clause	N/A	
u. Dispute resolution by arbitration or mediation	Paragraph XVIII	The Area Development Agreement is subject to arbitration.
v. Choice of forum	Paragraph XVII.B.	Any action will be brought in the appropriate state or federal court in Illinois.

PROVISION	PARAGRAPH IN THE AREA DEVELOPMENT AGREEMENT	SUMMARY
w. Choice of law	Paragraph XVII.A.	Illinois law applies (subject to state law), except that disputes regarding the Marks will be governed by the United States Trademark Act of 1946 and arbitration will be governed by the Federal Arbitration Act.

This table lists certain important provisions of the Development Agent Agreement. You should read these provisions in the agreements attached to this offering circular.

PROVISION	SECTION IN THE DEVELOPMENT AGENT AGREEMENT	SUMMARY
(a) Term of the franchise	Section 1.B.	10 years
(b) Renewal or extension of the term	Section 1.B.	If you are in good standing, you pay a \$2,500 renewal fee, Company is then offering franchises in the state in which your Territory is located, you and Company agree on new development schedule, and you sign our then current development agent agreement and ancillary documents, including an agreement containing general release language (see Exhibit J) - then you may continue as a development agent for an additional 10 year term
(c) Requirements for you to renew or extend	Sections 1.B.	See (b) above
(d) Termination by you	Section 8.A.	You may terminate the Development Agent Agreement on 90 days' prior written notice
(e) Termination by us without cause	None	Company may not terminate you without cause
(f) Termination by us with cause	Section 8.B.	Company may terminate only if you or your owners commit one of several violations
(g) "Cause" defined - defaults which can be cured	Section 8.B.	You have 30 days to cure operational defaults and other defaults not listed in (h) below

PROVISION	SECTION IN THE DEVELOPMENT AGENT AGREEMENT	SUMMARY
(h) "Cause" defined - defaults which cannot be cured	Section 8.B.	Non-curable defaults include failure actively to perform your obligations under Agreement, failure to meet development schedule during any period, failure to open your Franchised Restaurant within 90 days after Agreement is signed, assignment for the benefit of creditors, material misrepresentations or omissions, conviction of a felony, dishonest or unethical conduct, unapproved transfers, failure to transfer on death or disability, unauthorized use or disclosure of confidential information, repeated defaults (even if cured), Company delivers notice of termination of a franchise agreement with you for a PANCHERO'S Restaurant, or you fail to operate at least one Restaurant within the Territory
(i) Your obligations on termination/nonrenewal	Section 9	Obligations include paying outstanding amounts, complete deidentification, and return of confidential information (also see (o) and (r) below)
(j) Assignment of contract by us	Section 7.A.	No restriction on Company's right to assign; Company may assign without your approval
(k) "Transfer" by you - definition	Section 7.B.	Includes transfer of Agreement and ownership change
(l) Our approval of transfer by you	Section 7.B.	No transfer without Company's prior written consent
(m) Conditions for our approval of transfer	Section 7.B.	Company may withhold approval for any or no reason and impose certain conditions (for example, transfer fee)
(n) Our right of first refusal to acquire your business	Section 7.C.	Company may match any offer for your Agreement or an ownership interest in you
(o) Our option to purchase your business	N/A	
(p) Your death or disability	Section 7.D.	Transfer of Agreement or an ownership interest in you to an immediate family member within 9 months

PROVISION	SECTION IN THE DEVELOPMENT AGENT AGREEMENT	SUMMARY
(q) Non-competition covenants during the term of the franchise	Section 6	No diverting business; no controlling ownership interest in, or performing services for, competitive business anywhere; no interference with Company's or a PANCHERO'S Restaurant's employees
(r) Non-competition covenants after the franchise is terminated or expires	Section 9.D.	No direct or indirect ownership interest in, or performing services for, competitive business for 1 year within Territory or 10 miles of any PANCHERO'S Restaurant
(s) Modification of the agreement	Section 11.I.	No modifications generally, but Company may change operating standards
(t) Integration/merger clause	Section 11.K.	Only the terms of the Development Agent Agreement are binding (subject to state law). Any other promises might not be enforceable
(u) Dispute resolution by arbitration or mediation	Section 11.E.	Except for certain claims, Company and you must arbitrate all disputes at American Arbitration Association office closest to Company's then existing principal business address (subject to state law)
(v) Choice of forum	Section 11.G.	Litigation generally must be in Cook County, Illinois (subject to state law)
(w) Choice of law	Section 11.F.	Except for Federal Arbitration Act and other federal law, Illinois law governs

These states have statutes which might supersede the franchise agreement in your relationship with Company, including the areas of termination and renewal of your franchise: ARKANSAS [Ark. Code Sections 4-72-201 to 4-72-210], CALIFORNIA [Bus. & Prof. Code Sections 20000 to 20043], CONNECTICUT [Gen. Stat. Sections 42-133e to 42-133h], DELAWARE [Code Sections 2551 to 2556], HAWAII [Rev. Stat. Section 482E-6], IDAHO [Code Section 29-110], ILLINOIS [815 ILCS 705/1-44], INDIANA [Code Sections 23-2-2.5-1 and 23-2-2.7], IOWA [Code Section 537.A10], MICHIGAN [Stat. Section 19.854(27)], MINNESOTA [Stat. Section 80C.14], MISSISSIPPI [Code Sections 75-24-51 to 87-410], MISSOURI [Rev. Stat. Sections 407.400 to 407.410], NEBRASKA [Rev. Stat. Sections 87-401-87 to 410], NEW JERSEY [Rev. Stat. Sections 56:10-1 to 56:10-12], SOUTH DAKOTA [Codified Laws Section 37-5A-51], VIRGINIA [Code Section 13.1-564], WASHINGTON [Code Section 19.100.180], and WISCONSIN [Stat. Sections 135.01 and 135.07]. These and other states might have court decisions which supersede the franchise agreement in your relationship with Company, including the areas of termination and renewal of your franchise.

In addition to the provisions noted in the charts above, the Franchise Agreement, Area Development Agreement, and/or Development Agent Agreement might contain a number of provisions that may affect your legal rights, including a waiver of a right to a jury trial and waiver of punitive or exemplary damages. Company recommends that you carefully review all of these provisions, and each of the contracts attached to this offering circular in their entirety, with a lawyer.

ITEM 18

PUBLIC FIGURES

Company does not use any public figures to promote its franchise.

ITEM 19

EARNINGS CLAIM

Company does not furnish or authorize its salespersons to furnish any oral or written information concerning the actual or potential sales, costs, income or profits of a PANCHERO'S restaurant. Actual results vary from unit to unit, and Company cannot estimate results of any particular franchise.

ITEM 20

LIST OF OUTLETS

Status of Franchised Restaurants For Years 2005/2004/2003

State	Transfers	Cancelled or Terminated	Not Renewed	Reacquired by Company	Left the System Other	Total From Left Columns	Franchises Operating at Year End*
Colorado	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
Florida	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/0/0
Indiana	0/0/0	1/0/0	0/0/0	0/0/0	0/0/0	1/0/0	0/1/1
Iowa	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	4/1/0
Michigan	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	3/0/0
Minnesota	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	5/5/3
Nebraska	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	2/1/0
Wisconsin	4/0/0	0/0/0	0/0/0	0/0/0	0/0/0	4/0/0	4/4/1
Total	4/0/0	1/0/0	0/0/0	0/0/0	0/0/0	5/0/0	20/13/6

* Numbers are for years ending December 31, 2005, 2004, and 2003, respectively.

Exhibit I contains a list of the address and phone number of each franchisee with a PANCHERO'S Restaurant open as of December 31, 2005. Other than listed below, there are no franchisees who have had an outlet terminated, cancelled, or not renewed or otherwise voluntarily or involuntarily ceased to do business under a Franchise Agreement during the most recently completed fiscal year or who have not communicated with Company within 10 weeks of the application date:

- (1) FreshMex Fort Wayne, LLC
Dave Randa
7350 Mabels Way
Loves Park, Illinois 61111
(815) 877-0176
(Terminated by franchisee)

- (2) Franchise Development Co., Inc.
646 Highview Lane
Kimberly,, Wisconsin 54136, (920) 687-2290
Contact: Jason Schultz
(This franchisee fulfilled its area development obligations by opening 4 Restaurants in Wisconsin. It subsequently transferred all 4 Restaurants to 2 new companies set up by one of its then existing owners, who continues to own all 4 Restaurants.)

Exhibit I contains a list of the address and phone number of each area developer as of December 31, 2005. Other than listed below, there are no area developers who have had an agreement terminated, cancelled, or not renewed or otherwise voluntarily or involuntarily ceased to do business under an Area Development Agreement during the most recently completed fiscal year or who have not communicated with Company within 10 weeks of the application date:

- (1) Florida Bay Investment Group
Ray Galindo
12555 S.W. 34th Place
Davie, Florida 33330
(954) 915-9617
(Decided not to move forward after Florida hurricanes)

- (2) Flyers Group, LLC
Tim Anderson & Paul Gelhaus
P.O. Box 633
Beaver Dam, Wisconsin 53916
(920) 885-9510
(Lost development rights)

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

State	Restaurants Closed During Year	Restaurants Opened During Year	Restaurants Operating at Year End
Illinois	0/0/0	0/0/0	0/0/0
Iowa	0/0/0	1/1/1	8/7/6
Michigan	0/0/0	0/0/0	4/4/4
TOTALS	0/0/0	1/1/1	12/11/10

* Numbers are as of December 31 for each year. These Restaurants are owned by Affiliate or by Company's principals.

Exhibit I contains a list of the owner and address of each of the Affiliated-Owned PANCHERO'S Restaurants that were open as of December 31, 2005. These restaurants are owned by Affiliate or other companies related to Company.

PROJECTED SYSTEMWIDE RESTAURANT OPENINGS FOR 2006

	FRANCHISE AGREEMENTS SIGNED BEFORE 12/31/05 BUT RESTAURANT NOT OPENED AS OF 12/31/05	PROJECTED NEW FRANCHISED RESTAURANTS IN 2006 (NOT INCLUDING THOSE IN PREVIOUS COLUMN)	PROJECTED COMPANY OR AFFILIATE OWNED OPENINGS IN 2006
Colorado	0	1	0
Florida	4	6	0
Illinois	0	1	0
Iowa	0	0	1
Kansas	0	0	0
Michigan	1	2	2
Minnesota	0	1	0
Ohio	0	1	0
South Dakota	1	1	0
Wisconsin	0	1	0
Totals	6	14	3

**Status of Affiliate - Owned Development Agents
For Years 2005/2004/2003**

State	Transfers	Cancelled or Terminated	Not Renewed	Reacquired by Company	Left the System Other	Total From Left Columns	Dev. Agents Operating at Year End
Illinois	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1

* Numbers are for years ending December 31, 2005, 2004, and 2003, respectively.

Company projects that, in the next year, it will enter into Development Agent Agreements on a case-by-case basis as opportunities arise, rather than according to a schedule based on development in certain states.

The name and address of Company's current Development Agent, which signed its Development Agent Agreement in June 1999, is:

Panchero's Development of Chicago, LLC
2475 Coral Court, Suite B
Coralville, Iowa 52241
(319) 545-6505

This Development Agent is managed by Company's President. Company does not itself operate as a development agent in any state. There are no other Development Agents in the PANCHERO'S System.

ITEM 21

FINANCIAL STATEMENTS

Attached as Exhibit E are Company's audited financial statements for the fiscal years ended December 31, 2005, 2004, and 2003.

ITEM 22

CONTRACTS

The Franchise Agreement (with exhibits) is Exhibit B to this Offering Circular.

The Area Development Agreement (with exhibits) is Exhibit C to this Offering Circular.

The Development Agent Agreement (with exhibits) is Exhibit D to this Offering Circular.

The Asset Purchase Agreement is Exhibit G to this Offering Circular.

The Conversion Addendum to Franchise Agreement is Exhibit H to this Offering Circular.

The General Release is Exhibit J.

Any state-specific Riders to these agreements are included in Exhibit K.

ITEM 23

RECEIPTS

Our and your copies of the Uniform Franchise Offering Circular Receipt are attached as the last 2 pages of this Offering Circular.