

SACRAMENTO OFFICE



RED ROCK CHILI FRANCHISES, INC.

**INFORMATION FOR PROSPECTIVE FRANCHISEES
REQUIRED BY FEDERAL TRADE COMMISSION**

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

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

The date of this Offering Circular is _____.

FEDERAL TRADE COMMISSION
Washington, D.C. 20580



FRANCHISE OFFERING CIRCULAR

RED ROCK CHILI FRANCHISES, INC.

A California Corporation
1800 East Garry Avenue, Suite 113
Santa Ana, California 92705-5803
(949) 863-1737
www.redrockchili.com

The franchisee will operate a restaurant offering gourmet chili dishes and other food and beverages at approved locations. The initial franchise fee is \$25,000. The estimated initial investment required, including the initial franchise fee, ranges from \$215,500 to ~~\$394,464~~,000.

If you are an area developer, you will pay a development fee equal to \$25,000 for the first restaurant to be developed, \$20,000 for the second restaurant, ~~\$and \$15,000 for the third restaurant, and \$12,500 for the fourth~~ and each subsequent restaurants to be developed, plus \$5,000 for each additional restaurant to be developed after the first restaurant under the Area Development Agreement. The development fee is applied pro rata to the initial franchise fees due for each restaurant to be developed after the first. Your estimated initial investment will vary based on the number of restaurants to be developed.

Risk Factors:

1. THE FRANCHISE AGREEMENT REQUIRES THAT ALL DISPUTES BE SUBMITTED TO ARBITRATION IN ORANGE COUNTY, CALIFORNIA. IT MAY COST YOU MORE TO ARBITRATE WITH US IN ORANGE COUNTY THAN IN YOUR HOME STATE.
2. THE FRANCHISE AGREEMENT REQUIRES A SUBSTANTIAL INVESTMENT AND COMMITMENT OF TIME. ALL INVESTMENTS INVOLVE A DEGREE OF RISK. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.
3. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

Information about comparisons of franchisors is available. Call the state administrators listed in Exhibit F to this circular or your public library for sources of information.

Registration of this franchise with the state does not mean that the state recommends it or has verified the information in this offering circular. If you learn anything in this offering circular is untrue, contact the Federal Trade Commission and the state administrators listed in Exhibit F.

Effective Date: _____
FOR USE ONLY IN THE STATE OF CALIFORNIA

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FRANCHISE OFFERING CIRCULAR
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EXHIBITS

- "A" Franchise Agreement
- "B" Financial Statements
- "C" Area Development Agreement
- "D" Lease Assignment Agreement
- "E" Confidential Operations Manual Table of Contents
- "F" List of State Franchise Administrators
- "G" List of Existing Franchisees
- "H" State Specific Appendix
- "I" List of Franchise Brokers

Receipt

ITEM 1:
THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES

In this Offering Circular, "RRC", "we", "us" or "our" means Red Rock Chili Franchises, Inc. the franchisor. "You" or "your" means the person who buys the Red Rock Chili franchise. If you are a corporation, limited liability company ("LLC") or other legal entity, "you" includes your owners.

RRC's principal business address is 1800 East Garry Avenue, Suite 113, Santa Ana, California 92705-5803. Our telephone number is (949) 863-1737. Our agent for service of process in California is Paul Collis, 1800 East Garry Avenue, Suite 113, Santa Ana, California 92705-5803. A different agent for service of process may appear on the receipt (very last page of this circular) if the franchise is in a state other than California.

RRC does business under the name "Red Rock Chili." RRC is a California corporation that was incorporated on December 3, 2003. Although RRC has no predecessors, our co-founders Carol Collis and Paul Collis opened their first chili restaurant in the Fashion Island Mall (at **401 Newport Center Drive, Suite A-106, Newport Beach, California 92660**) in **July 2002**. This chili restaurant is now owned and operated by our affiliate company Red Rock Chili Co., a California corporation ("RRCC"). Carol Collis and Paul Collis have substantial experience in activities that are the same as the business RRC is franchising. RRC began offering franchises in February 2004.

RRC offers and sells Red Rock Chili franchises ("Chili Restaurants") featuring the on and off premise sale of a variety of different, high quality, gourmet chili dishes, soups, salads, other foods and beverages, and related products (collectively, "Red Rock Chili Products") in shopping centers, malls, stand alone sites, and other approved locations to independent operators throughout the United States. The franchisee is granted the right to use the Red Rock Chili system including its chili making techniques, trade secrets, recipes, service marks and trademarks in connection with a Red Rock Chili Restaurant and, in some instances, the opportunity to develop a number of Chili Restaurants pursuant to an Area Development Agreement (the form is attached as Exhibit C to this circular).

The Franchise is a license for an initial term of 10 years (the term is renewable for additional 5 year terms) permitting you to offer Red Rock Chili Products under an assumed name containing service marks owned by RRC. The Franchise granted to you is exclusive within the shopping center or other building or area where your Red Rock Chili business is located, but not elsewhere.

All Red Rock Chili Franchisees will compete with many other restaurants, retail stores, chains and other drink and food retailers offering products comparable to the Red Rock Chili Products. ~~The Franchise granted to you is exclusive within the shopping center or other building or area where your Red Rock Chili business is located, but not elsewhere.~~

RRC does not do business under any other name. RRC offers subfranchisor agreements under a separate master franchisee offering circular. RRC does not directly operate a business of the type being franchised, nor do we engage in other business activities. Neither RRC nor RRCC has offered franchises in other lines of business.

Although there is no industry specific license you will need to operate a Red Rock Chili Franchise in your state, you will need a business license and health permit.

ITEM 2:
BUSINESS EXPERIENCE

President, Chief Executive Officer and Director: Paul Collis.

Mr. Collis was named President, Chief Executive Officer and Director of RRC in December 2003. He is also Chief Financial Officer, Treasurer, Secretary and Director of RRCC, Newport Beach, California (since July 2002). From June 1996 to July 2002, Mr. Collis co-owned and operated Two's Company Café and Catering, Orange, California. From 1976 to July 2002, he also owned Paul Collis Painting, based in Laguna Hills, California. ~~Mr. Collis is a veteran, having served with Attack Squadron 27, Naval Air Station Lemoore, California (from 1968 to 1972). He is married to Carol Collis.~~

Chief Operating Officer, Chief Financial Officer, Treasurer and Director: Carol Collis.

Ms. Collis was named Chief Operating Officer, Chief Financial Officer, Treasurer and Director of RRC in December 2003. She is also President, Chief Executive Officer and Director of RRCC, Newport Beach, California (since July 2002). From June 1996 to July 2002, Ms. Collis co-owned and operated Two's Company Café and Catering, Orange, California. From 1995 to 1996, she was General Manager of Diedrich Coffee, Costa Mesa, California. ~~Ms. Collis has more than 30 years of experience in restaurant operations, including service as General Manager and District Manager for the Paradise Bakery division of Chart House, Inc., Santa Ana, California (from 1987 to 1994). She is married to Paul Collis.~~

Vice President – Marketing and Secretary: Ted Da Silva.

Mr. Da Silva was named Vice President - Marketing of RRC in December 2003 and Secretary of RRC in September 2004. He also serves as Founder and Principal of Third Planet Mindworks, ~~a media development and marketing consultant~~ based in Irvine, California (since 1999). ~~Before then,~~ Mr. Da Silva worked for Toshiba America Semiconductor Division, Irvine, California, starting as an Engineer (from 1991 to 1995) and then serving as Southwest Area Technical Manager (from 1995 to 1999). ~~He earned a B.S. degree~~

~~We have retained Fransmart, Inc. as our exclusive franchise broker in Electrical Engineering from California State University Long Beach, California (in 1994) and an M.B.A. in Technology Management from the University United States. See Exhibit I for a list of Phoenix, Southern California Campus (in 1997). our brokers.~~

ITEM 3: LITIGATION

~~There are no proceedings that need to be disclosed in this Offering Circular.~~

ITEM 4: BANKRUPTCY

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

ITEM 5: INITIAL FRANCHISE FEE

~~You will pay a lump sum "Initial Franchise Fee" of \$25,000 at the time you sign your Franchise Agreement, if the Chili Restaurant site selected by you meets with our approval.~~

ITEM 3 LITIGATION

~~If you qualify, you may open additional Chili Restaurants under an Area Development Agreement (Exhibit C to this circular). If you sign the Area Development Agreement you will pay the initial franchise fee of \$25,000 for your first Chili Restaurant, plus an option fee of \$12,500 for each additional Chili Restaurant you commit to open (the option fee is applied toward the initial franchise fee of \$25,000 for each additional Chili Restaurant).~~

There is no litigation that is required to be disclosed in this Offering Circular regarding us. The following litigation information involves our franchise broker and Dan Rowe.

San Francisco Oven, LLC vs. Fransmart, Inc., Fransmart, LLC and Daniel A. Rowe (US District Court for the Eastern District of Virginia, Civ. No 1:05-CV-700). San Francisco Oven ("SFO") commenced this action in June of 2005 alleging breach of contract, false advertising under the Lanham Act, fraud in the inducement, tortious interference with contract, misappropriation of trade secrets, and breach of fiduciary duty. SFO sought injunctive relief and unspecified damages. Following the denial of SFO's injunction request, Defendants moved to dismiss all claims and that motion was recently decided by oral ruling in Defendants' favor, with a written opinion pending. All of SFO's claims were dismissed, including those against Daniel A. Rowe and the Lanham Act claim which were dismissed with prejudice. During approximately the same period, defendants asserted numerous counterclaims for damages against SFO (see following paragraph). Both parties' claims, to the extent remaining, including SFO's claim for money damages based on breach of contract are now being pursued in a separate arbitration proceeding, American Arbitration Association Arbitration Matter, Case No. 103141. On September 22, 2005, SFO introduced claims for breach of fiduciary duty and declaratory judgment into the arbitration proceeding. On April 11, 2006, Fransmart obtained a judgment in the amount of \$117,000 for legal fees and costs.

Fransmart, LLC v. San Francisco Oven, LLC, Circuit Court City of Alexandria, Virginia Case No. CO 05001295 filed June 14, 2005. Fransmart commenced this action in Virginia State Court seeking damages in excess of \$250,000, alleging breach of contract and the duty of good faith and fair dealing, fraud in the inducement, unjust enrichment and tortious interference with contract. This action was removed to the United States District Court for the Eastern District of Virginia, Alexandria Division (Case No. 1:05CV709) and consolidated with Case No. 1:05CV700 (see preceding paragraph).

Lang, Lang & Suhor Investors, L.L.C. et al. v. Daniel A. Rowe, et al. (Case No. S97-734). On March 12, 1997, the plaintiffs filed a complaint in the United States District Court for the District of Maryland against The American Bagel Company, Michael Robinson, Daniel A. Rowe, and Ajay Patel. The action related to the plaintiffs' investment in the development and operation of franchised Chesapeake Bagel Bakery restaurants. The plaintiffs alleged this action as fraud and in violation of the Ohio Business Opportunity Statute and breach of contract. On April 29, 1998, summary judgment was granted by the court in favor of Mr. Rowe and Mr. Patel and the other defendants dismissing all of plaintiffs' claims. The plaintiffs appealed the dismissal. In July 1998, in order to avoid further involvement in any protracted and costly litigation, all parties signed a Release Statement which dismissed all claims. Under the terms of the Release Statement, Rowe and Patel paid the plaintiffs a total of \$5,000. The Release Statement also dismissed the appeal with prejudice based upon the settlement of the parties.

Motor City Bagel, L.L.C. et al. v. Daniel A. Rowe, et al. (Case No. 97-34-74). On March 29, 1998, the plaintiffs filed a complaint in the United States District Court for the District of Maryland against The American Bagel Company, Alan Manstoffs, Michael Robinson, AFC Enterprises, Inc., and Daniel A. Rowe. This action related to the plaintiffs' investment in the development and operation of

franchised Chesapeake Bagel Bakery restaurants. The plaintiffs alleged breach of contract, fraud, unjust enrichment, misappropriation of trade secrets and that the defendants violated the Indiana Franchises Act and the Maryland Franchise Registration and Disclosure Law ("MFRDL"). The plaintiffs sought damages and rescission of all contracts between the parties, and alleged that the defendants misrepresented the initial investment required to open a Chesapeake Bagel Bakery restaurant and average store sales. On June 7, 1999, summary judgment was granted in favor of Mr. Rowe and the other defendants on the Indiana Franchises Act and fraud claims as they related to alleged misrepresentations of average store sales, as well as the breach of contract, unjust enrichment, misappropriation of trade secrets, and MFRDL claims. The court denied the defendants' request for summary judgment on the Indiana Franchises Act and fraud claims pertaining to alleged misrepresentation of initial investment costs. Although the defendants vigorously denied all allegations, the parties signed a settlement agreement on the remaining claim in November 1999. Mr. Rowe made no payments as part of the settlement other than a \$7,000 contribution toward the other defendants' litigation costs.

Other than these four actions, no other litigation is required to be disclosed in this Offering Circular.

ITEM 4 BANKRUPTCY

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

ITEM 5 INITIAL FRANCHISE FEE

You will pay a lump sum "Initial Franchise Fee" of \$25,000 at the time you sign your first Franchise Agreement, if the Chili Restaurant Territory selected by you meets with our approval. After you sign the Franchise Agreement, if you do not find an acceptable site within your Territory for your Chili Restaurant within 6 months from the date the Franchise Agreement is executed, we may, at our option, keep the entire franchise fee and terminate your agreement.

If you qualify, you may open additional Chili Restaurants under an Area Development Agreement (Exhibit C to this circular). If you sign the Area Development Agreement you will pay the initial franchise fee of \$25,000 for your first Chili Restaurant plus a deposit of \$5,000 for each additional Chili Restaurant you commit to open after the first Chili Restaurant. The initial franchise fee will be \$20,000 for your second Chili Restaurant, and \$15,000 for your third and each subsequent Chili Restaurant. The deposit is applied toward the initial franchise fee for each additional Chili Restaurant.

There are no refunds under any circumstances. RRC does not offer any financing of the Initial Franchise Fee.

ITEM 6: OTHER FEES

Type of Fee	Amount	Due Date	Remarks
Continuing Royalty ¹	65% of Gross Receipts for the prior weekly period. Starting 90 days after you open the	Each Wednesday <u>Thursday</u> of the week following the week when Gross Receipts were	"Gross Receipts" include all revenue you receive you're your operation of the franchise location. Gross Receipts do not include sales tax or use tax.

	Continuing Royalty is the greater of (i) <u>65%</u> of Gross Receipts for the prior weekly period or (ii) \$250.	earned. ²	
Advertising Fee ¹	Greater of (i) <u>21%</u> of Gross Receipts for the prior weekly period or (ii) \$125.	Each Wednesday <u>Thursday</u> of the week following the week when Gross Receipts were earned. ²	You are also required to spend a minimum of 1.5% of your weekly Gross Receipts on local advertising during the 1st 24 months after your Chili Restaurant opens, and 1% of your weekly Gross Receipts on local advertising after that.
Grand Opening	\$2,500	Within 30 days after your Chili Restaurant opens.	
Transfer ¹	\$10,000	Before completion of transfer.	Payable when you sell your franchise. There is no charge if franchise is transferred to a corporation that you control.
Audit ¹	Cost of audit (varies from \$1,500 to \$3,000) plus 18% interest on underpayment ³	30 days after billing.	Payable only if audit shows understatement of at least 3% of gross revenues or it takes 8 or more hours to organize your records.
Renewal Fee ¹	\$2,500	When you sign the new Franchise Agreement.	
Other Authorized Goods and Services	\$10,000 per year maximum	If and when required	RRC has the right to add other authorized goods and services that you will be required to offer. There are no limits on our right to do so except that the additional investment will not exceed \$10,000 per year.

(1) All fees are imposed by and are payable to RRC. All fees are non-refundable. If we give 30 days notice we intend to do so, all fees may be automatically withdrawn and electronically transferred to our account from your bank when due.

(2) If payment is late (must be received in our office on or before ~~Wednesday~~Thursday of every other week), you will be charged interest until paid at an Annual Percentage Rate ("APR") of 18% or the highest rate permitted by law, whichever is lower.

(3) Interest begins from the date of underpayment.

ITEM 7:
INITIAL INVESTMENT.

	Amount	Method of Payment	When Due	To Whom Payment is Paid
Initial Franchise Fee ¹	\$25,000	Lump sum	When you sign the Franchise Agreement	RRC
Travel / Living Expenses for Initial Training ²	0 to \$2,500	As incurred	During training	Airlines, hotels and restaurants
Build Out, Decor and Furnishings ³ , including architect ³	\$75,000 to \$150,000	As incurred	When you open	Vendors, landlord
Grand Opening	\$2,500	As incurred	When you open	Media, advertisers
Signs (menu board and exterior) ⁴	\$3,500 to \$15,000	As incurred	When you open	Approved supplier
Equipment Package (this includes Small Wares) ⁵	\$50,000 to \$80,000	As incurred	When you open	Equipment dealer
Point of Sale System ⁶	\$10,000 to \$15,000	Lump sum	When you open	Vendors
Initial Inventory	\$3,000 to \$5,000	Lump sum	When you open	Approved suppliers
Rent ⁷	\$4,000 to \$11,000	Lump sum	When you open	Lessor
Rent Security Deposit	\$4,000 to \$11,000	Lump sum	When you open	Lessor
Insurance	\$2,000 to \$4,000	Lump sum or monthly installments	When you open and during the year	Insurance company
Business License and Permits	\$1,500 to \$3,000	Lump sum	When you open	Government authorities
Additional Funds - 3 months ⁸	\$35,000 to \$70,000	As incurred	As incurred	Various vendors
TOTAL⁹	\$215,500 to \$394,464,000			

1. The initial franchise fee is \$25,000. Fees received by RRC under the Franchise Agreement are not refundable. RRC does not offer financing of any fees.

2. There is no separate fee for the RRC training program for up to 2 attendees. The costs for the initial training program are a part of the Initial Franchise Fee. Additional trainees might each have to pay RRC up to \$250 per day for tuition.

3. The figures include all necessary tenant improvements.
4. RRC highly recommends that you purchase these items.
5. RRC highly recommends that you purchase the equipment package, which includes small wares.
6. You must purchase at least 2 point of sale cash registers.
7. Actual cost of real property will vary and will be determined by general market conditions, including geographic area, location, desirability, improvements, size, utilities, term of lease, your negotiating ability and other competitive forces involved in the acquisition of real property. RRC restaurants are typically from 700 to 1,800 square feet in size and building costs will vary depending on location. These figures are based on an assumption that the lessor will require the first month's rent and a security deposit equal to 1 month's rent in advance.
8. Although RRC does not require minimum funds for you to start your business, there are some expenses you will incur after you begin your franchise operations, such as inventory, supplies and salaries. It is always a good idea to have some cash reserves available to cover initial operating expenses.
9. This estimates your initial start up expenses. RRC relied on the experience of its Chief Operating Officer (more than 30 years in the retail food service industry) to compile these estimates. You should review these figures carefully with your business or financial advisor before making any decision to purchase a RRC franchise. These figures are estimates and RRC cannot guarantee that you will not have additional expenses starting the business.

ITEM 8: RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

1. The initial franchise fee for the first Chili Restaurant is \$25,000. Fees received by RRC under the Franchise Agreement are not refundable. RRC does not offer financing of any fees. If you sign the Area Development Agreement, you will pay the initial franchise fee of \$25,000 for your first Chili Restaurant; \$20,000 for your second Chili Restaurant, and \$15,000 for your third and each subsequent Chili Restaurant thereafter; plus an option fee of \$5,000 for each additional Chili Restaurant you commit to open after the first, and the option fee is applied towards each franchise fee for each additional Chili Restaurant.
2. There is no separate fee for the RRC training program for up to 2 attendees. The costs for the initial training program are a part of the Initial Franchise Fee. Additional trainees might each have to pay RRC up to \$250 per day for tuition.
3. The figures include all necessary tenant improvements.
4. RRC highly recommends that you purchase these items.
5. RRC highly recommends that you purchase the equipment package, which includes small wares.
6. You must purchase at least 2 point of sale cash registers.
7. Actual cost of real property will vary and will be determined by general market conditions, including geographic area, location, desirability, improvements, size, utilities, term of lease, your negotiating ability and other competitive forces involved in the acquisition of real property. RRC

restaurants are typically from 700 to 1,800 square feet in size and building costs will vary depending on location. These figures are based on an assumption that the lessor will require the first month's rent and a security deposit equal to 1 month's rent in advance.

8. Although RRC does not require minimum funds for you to start your business, there are some expenses you will incur after you begin your franchise operations, such as inventory, supplies and salaries. It is always a good idea to have some cash reserves available to cover initial operating expenses.
9. This estimates your initial start up expenses. RRC relied on the experience of its Chief Operating Officer (more than 30 years in the retail food service industry) to compile these estimates. You should review these figures carefully with your business or financial advisor before making any decision to purchase a RRC franchise. These figures are estimates and RRC cannot guarantee that you will not have additional expenses starting the business.

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

To insure that the highest degree of quality and service is maintained, you must operate your Chili Restaurant in strict conformity with the methods, standards and specifications we may periodically designate in our Operations Manual or otherwise in writing. These standards will regulate the types, models and brands of required fixtures, furnishings, equipment, signs, materials and supplies to be used in operating your Chili Restaurant, and designated or approved suppliers of these items (which may be limited to or include us).

Any materials containing the RRC marks must be obtained only from us or from suppliers we have approved, which are listed in the Operations Manual. We approve suppliers after careful review of the quality of the products they provide to RRC and our franchisees. If you would like us to consider another supplier, we will do so at no charge to you, but the supplier must provide us with samples of its products. If the supplier meets our specifications for quality control and accurate reproduction of our Service Mark, we will approve it as an additional supplier. A review of a proposed new supplier typically is completed within 30 days. RRC will not unreasonably withhold consent of a proposed new supplier.

We have approved other suppliers of items you will need to operate your business which are listed in the Operations Manual. We anticipate that the cost of our proprietary products which you must purchase from RRC or approved suppliers on an ongoing basis will be approximately 19% to 30% of your monthly investment. The portion of your total investment purchased from RRC or approved suppliers in establishing your business (including the proprietary products that must be purchased from approved suppliers) ranges from 11.4% to 14.6%. (See Item 7 above.)

You must purchase or lease a point of sale ("POS") system that we specify. We currently require the Versatouch POS. If this changes, you will be notified. The POS includes the RRC management system and related materials to be used as your cash register system. You must purchase all fixtures, furniture, and equipment in accordance with RRC's specifications, which will be provided to you when you sign your Franchise Agreement.

If you request RRC employees to assist you in setting up your POS system, you may be charged a reasonable set up fee (not to exceed 20% of the cost of the POS system). RRC also recommends you have a business computer available, but there are no specific requirements regarding computer equipment or software.

One of the most important rights you have as a Red Rock Chili franchisee concerns the strength of the brand we are licensing to you. The continued validity of our service marks is dependent on all Red Rock Chili franchisees following our rules on displaying the brand. Carefully review Article VI of the Franchise Agreement, which provides details of the requirements on usage and display of the Red Rock Chili brand and service marks.

RRC is not presently involved in any purchasing or distribution cooperatives. However, in the future we may implement advertising cooperatives. We do not provide any material benefit to franchisees for use of approved suppliers. And we may establish commissaries from which you will purchase Red Rock Chili Products. In our last fiscal year, RRC did not obtain any revenue payments from its approved suppliers. RRC has not yet received any revenues. We do not currently receive payment from any suppliers due to such suppliers' transactions with us or our franchisees. We may negotiate purchase arrangements with some of our suppliers (including price terms) for the sale of proprietary products. benefit of our franchisees, but we are under no obligation to do so.

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 THIS CIRCULAR.~~

	Obligation	Section or Article in Franchise Agreement	Item in Offering Circular
a.	Site selection and acquisition/lease	3.01, 3.02, 3.04	7, 11
b.	Pre-opening	3.06, 4.04, 7.02, 8.01, 8.09, 8.11, 8.12	8, 11
c.	Site development and other pre-opening requirements	3.02, 3.05, 3.06, 8.12	6, 7, 11
d.	Initial and ongoing training	1.09, 7.01, 7.04, 7.05	11
e.	Opening	III, 8.01	7, 11
f.	Fees	IV, 5.02(a), 7.01, 7.02, 7.03, 9.02(b)	5, 6
g.	Compliance with standards and policies/Operating Manual	3.03, 3.05, 8.01, 8.03, 8.04, 8.08, 8.16	8, 11, 13
h.	Trademarks and proprietary information	1.10, II, VI, 7.06, 8.03	13, 14
i.	Restrictions on products/services requirements	2.02, 2.04, 6.02, VIII	8, 16
j.	Warranty and customer service requirements	None	11
k.	Territorial development and sales quotas	None	12
l.	Ongoing product/service purchases	8.01, 8.05	8
m.	Maintenance, appearance and remodeling requirements	3.02(e), 3.04, 5.02(d), 8.04, 8.11	11
n.	Insurance	8.13	7
o.	Advertising	4.03, 8.08, 8.09	6, 11
p.	Indemnification	13.02	14
q.	Owner's participation/management/ staffing	7.01, 8.01, 9.02	11, 15
r.	Records/reports	8.02	6, 11
s.	Inspections/audits	8.14, 8.15	6
t.	Transfer	IX	17
u.	Renewal	5.02	17
v.	Post-termination obligations	8.09, 12.01	17

w.	Non-competition covenants	8.18, 12.01(e)	15, 17
x.	Dispute resolution	XI	17

ITEM 10: FINANCING

**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 THIS CIRCULAR.

	<u>Obligation</u>	<u>Section or Article in Franchise Agreement</u>	<u>Section or Article in Area Development Agreement</u>	<u>Item in Offering Circular</u>
a.	Site selection and acquisition/lease	3.01, 3.02, 3.04		7, 11
b.	Pre-opening	3.06, 4.04, 7.02, 8.01, 8.09, 8.11, 8.12		8, 11
c.	Site development and other pre-opening requirements	3.02, 3.05, 3.06, 8.12		6, 7, 11
d.	Initial and ongoing training	1.09, 7.01, 7.04, 7.05	1.05	11
e.	Opening	III, 8.01		7, 11
f.	Fees	IV, 5.02(a), 7.01, 7.02, 7.03, 9.02(b)	IV	5, 6
g.	Compliance with standards and policies/Operating Manual	3.03, 3.05, 8.01, 8.03, 8.04, 8.08, 8.16	3.01	8, 11, 13
h.	Trademarks and proprietary information	1.10, II, VI, 7.06, 8.03	3.02	13, 14
i.	Restrictions on products/services requirements	2.02, 2.04, 6.02, VIII		8, 16
j.	Warranty and customer service requirements	None	3.04	11
k.	Territorial development and sales quotas	None	II	12
l.	Ongoing product/service purchases	8.01, 8.05		8
m.	Maintenance, appearance and remodeling requirements	3.02(e), 3.04, 5.02(d), 8.04, 8.11		11
n.	Insurance	8.13		7
o.	Advertising	4.03, 8.08, 8.09	3.02	6, 11
p.	Indemnification	13.02	9.01	14
q.	Owner's participation/management/staffing	7.01, 8.01, 9.02		11, 15
r.	Records/reports	8.02		6, 11
s.	Inspections/audits	8.14, 8.15		6
t.	Transfer	IX	V	17

<u>u.</u>	<u>Renewal</u>	<u>5.02</u>	<u>1.03</u>	<u>17</u>
<u>v.</u>	<u>Post-termination obligations</u>	<u>8.09, 12.01</u>	<u>VIII</u>	<u>17</u>
<u>w.</u>	<u>Non-competition covenants</u>	<u>8.18, 12.01(e)</u>		<u>15, 17</u>
<u>x.</u>	<u>Dispute resolution</u>	<u>XI</u>	<u>VII</u>	<u>17</u>

ITEM 10
FINANCING

RRC does not offer direct or indirect financing of the Initial Franchise Fee. However, RRC may assist in arranging the lease or purchase of equipment you need to operate your Chili Restaurant. RRC does not guarantee any of your note or lease obligations.

ITEM 11: FRANCHISOR'S
FRANCHISOR'S OBLIGATIONS

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

Before you open your business, RRC will:

1) _____ Assist you in locating the site for the Chili Restaurant (section 3.04 of the Franchise Agreement). The layout of the Chili Restaurant must be solely in accordance with RRC's specifications. If you don't complete the build out of the Chili Restaurant in a reasonable time, RRC can complete the build out, all expenses of which shall be paid or reimbursed by you. Before opening of the Chili Restaurant and before final inspections by any governmental agency, RRC will conduct a final "walk through" inspection of the Chili Restaurant and issue a written consent to the location. You must correct any deficiencies noted by RRC as a result of this inspection within 30 days or the Franchise Agreement may be terminated by RRC without any liability to us. You may have to sign a Lease Assignment Agreement, the form of which is attached to this circular as Exhibit D.

2) _____ Train you (there is no additional fee for training up to 2 people), using the following training schedule (section 7.01 of the Franchise Agreement and Section 1.05 of the Area Development Agreement). (In our discretion, we may decide to conduct training at your Chili Restaurant, and if we do so, the RRC training schedule may be adjusted.)

SUBJECT	TIME BEGUN	INSTRUCTIONAL MATERIAL	HRS OF CLASSRM TRAINING	HRS OF ON THE JOB TRAINING	INSTRUCTOR
Phase 1					
Orientation; employee manual; operations overview; operations manual	9:00 am Days 1-2	Handouts/ Operations Manual	16	0	CEO and COO
Kitchen; chilis; salads; soups; summary review	9:00 am Day 3-6	Handouts/ Operations Manual	24	0	CEO, COO and Franchise Support Staff
Phase 2					
Open with front line	9:00 am	Handouts/	4	12	CEO, COO and

cook; opening set up	Days 7-8	Operations Manual			Franchise Support Staff
Close with front line cook; closing	9:00 am Days 9-10	Handouts/ Operations Manual	4	12	CEO, COO and Franchise Support Staff
Closing; back house prep; dishwashing	9:00 am (Day 11)	Handouts/ Operations Manual	2	6	CEO, COO and Franchise Support Staff

SUBJECT	TIME BEGUN	INSTRUCTIONAL MATERIAL	HRS OF CLASSRM TRAINING	HRS OF ON THE JOB TRAINING	INSTRUCTOR
Review of closing; back house prep; dishwashing	9:00 am Day 12	Handouts/ Operations Manual	8	0	CEO, COO and Franchise Support Staff
Phase 3					
Front counter; samples	9:00 am Days 13-16	Handouts/ Operations Manual	8	24	CEO, COO and Franchise Support Staff
Review closing front counter	9:00 am Day 17	Handouts/ Operations Manual	8	0	CEO, COO and Franchise Support Staff
Phase 4					
Open and work with manager	9:00 am Days 18-22	Handouts/ Operations Manual	10	30	CEO, COO and Franchise Support Staff
Final company review	9:00 am Day 23	Handouts/ Operations Manual	8	0	CEO and COO

RRC's Chief Operating Officer determines the actual time each day's training begins. The instructional material consists of appropriate handouts and information directly from the Operations Manual. The principal instructor will be RRC's Chief Operating Officer, Carol Collis, who has more than 30 years of experience in the restaurant business. Most of the time it is reasonable to complete the training in 20 working days, but it is up to the President whether the program will be completed in a different time frame.

RRC does not charge for this training or service for your General Manager and 1 additional trainee (RRC prefers this be an owner), but you must pay their travel and living expenses (each additional trainee must pay RRC \$250 per day per instructor for training). Initial training is provided within 30 days before you open the Chili Restaurant. RRC may require attendance at training courses, seminars, conferences or other programs other than Initial Training, which provide updated information on Red Rock Chili operations. These required programs will be held not more often than once each 3 months and will last no longer than 3 days. RRC may provide you with proprietary information and related materials for use in training your staff. These materials are the sole property of RRC and must be returned to us when you are finished with them. All classroom training occurs at RRC's Chili Restaurant in Fashion Island, Newport Beach, California or another training center designated by RRC.

3)-___Provide you with copies of the standard business forms designated in the Operations Manual (see section 7.01(c)(vi) of the Franchise Agreement).

4)-___Lend you 1 copy of the Confidential Operations Manual and other applicable manuals during initial training (see section 7.01(c)(viii) of the Franchise Agreement). The Confidential Operations Manual contains 75 pages and 23 forms. Its Table of Contents is attached to this circular as Exhibit E.

During the operation of the franchised business, RRC:

1)-___Assist you at your Chili Restaurant for up to ~~10 business days~~ 80 hours after you open, without charge, to set-up and instruct in all phases of the Red Rock Chili Franchise (see section 7.01(c)(i) of the Franchise Agreement).

2)-___Will provide you access to RRC's proprietary gourmet chili recipes and an adequate supply of other RRC proprietary products, which you must purchase from approved suppliers (see section 3.03 of the Franchise Agreement). Also, we will continue to develop new recipes and food products. (See Item 8 of this circular for more proprietary product information.)

3)-___Will expend Marketing and Advertising Fees collected from all Red Rock Chili franchisees for national and local advertising, public relations, market research, and promotional campaigns designed to promote and enhance the value of the Red Rock Chili brand and its general public recognition and acceptance (see section 4.03 of the Franchise Agreement). All Red Rock Chili franchisees contribute to the advertising fund based on monthly gross sales (see Item 6 of this circular). RRC-owned outlets will contribute to the advertising fund on the same basis as all other franchisees. Our Affiliate will not contribute to the advertising fund on the same basis as all other franchisees. We intend to use print media initially and, subsequently, electronic media where appropriate and cost effective. We will be using in-house advertising personnel, but we also intend to engage the services of advertising and public relations firms to assist in our advertising program. For supervising the advertising program, RRC will receive an administrative fee of 20% of the annual aggregate Marketing and Advertising Fees. Marketing and Advertising Fees will be deposited into our general operating account and no interest is imputed for your benefit or paid to you.

In fiscal year 2004, Marketing and Advertising Fees were not collected until December, so no money was spent by the advertising fund.

RRC is not presently involved in any advertising cooperatives; however, we reserve the right to create advertising cooperatives in the future for your benefit.

We will determine, in our sole discretion, the cost, form or media, content, format, production and timing, including regional or local concentration and seasonal exposure, location and all other matters involving advertising, public relations and promotional campaigns (see section 4.03 of the Franchise Agreement). On a national or regional basis, RRC may impose an additional assessment on all affected Red Rock Chili franchisees for special advertising or promotional activities if Red Rock Chili franchisees owning 2/3 of all affected franchised Chili Restaurants agree to this additional assessment, confirmed in writing by each franchisee. (See section 4.03(c) of the Franchise Agreement and Item 6 of this circular.)

No funds which you pay to us for advertising will be used for advertising that is principally a solicitation for the sale of franchises.

You may develop advertising materials for your own use, at your own cost. But we must approve all advertising materials in advance and in writing. Advertising funds are used to promote Red Rock Chili Products sold by you and are not used to sell additional Red Rock Chili Franchises. If we do not expend all Advertising Fees collected for one year, the remaining monies are retained for future advertising years. (See Item 9 of this circular for more information about your responsibilities as a franchisee.) We are not absolutely required to spend any advertising fees in your Territory; however, advertising fees are spent to benefit all franchises, including you. None of our advertising funds are used primarily for the solicitation of franchised sales.

4)-_____ Will provide you (if requested in writing) with a statement of annual receipts and expenditures of Marketing and Advertising Fees during the prior calendar year on or before each March 31. (See section 4.03(d) of the Franchise Agreement.)

5)-_____ Will be available by phone and telefax for guidance concerning the operation and management of the Franchised Business and provide additional on-premises assistance. However you must pay travel and living expenses of our representatives at the rate of \$250 per day (see section 7.01 of the Franchise Agreement).

We will approve or disapprove the site for a Chili Restaurant within 5 business days after we receive the form of lease of the Chili Restaurant premises. In approving the site for your Chili Restaurant, we consider availability within retail strip centers and the following additional factors: potential competition within the retail strip center or immediate vicinity of the Chili Restaurant, the general location and neighborhood where the Chili Restaurant would be located, traffic patterns, availability of parking, physical characteristics of existing buildings, availability of necessary space for the Chili Restaurant and master lease terms.

RRC may make available to you optional annual staff training courses, seminars, conferences, or other programs at a location suitable to both you and RRC. We do not charge an attendance fee, but you must pay all travel and living expenses. These elective courses are approximately 2 to 3 hours in duration.

RRC may hold mandatory annual conferences to discuss Red Rock Chili Products, sales techniques, personnel training, bookkeeping, accounting, inventory control, performance standards, advertising programs and merchandising procedures. RRC does not charge a conference attendance fee, but you must pay all travel and living expenses. Any required conference will be held at our Santa Ana, California headquarters or other locations that we designate (see section 7.03 of the Franchise Agreement). The annual conference is approximately 8 hours in duration.

You will be required to purchase or lease a POS system. We will provide you with the RRC management system, proprietary accounting and reporting manuals and related materials designed to be used on a suitable point of sale system (see section 8.12 of the Franchise Agreement). The brand name of the POS system RRC currently uses is the Select One Business System. You will use your POS system to complete point-of-sale transactions, track your weekly sales and accounting, employee hours, labor timekeeping and inventory tracking. RRC may have independent access to your POS system. If RRC updates the POS system you will receive a 90 day notice and the cost will not exceed \$10,000 in any 12 month period.

RRC estimates the typical length of time between the signing of the Franchise Agreement and beginning of the Franchised Business will be 90 to 180 days. Factors that affect this time period include the satisfactory completion of initial training by your designated attendees and availability of a retail store ready to begin operations.

ITEM 12: **TERRITORY**

You are granted a Franchise to operate at and from your Chili Restaurant, within the "Territory" specified in Exhibit 1-U to the Franchise Agreement. While the Franchise Agreement is in effect, RRC will not locate another Red Rock Chili Restaurant within a specified radius (varies from 1/4 mile in densely populated urban areas (such as New York City) to 3 miles in less densely populated or rural areas) of your Chili Restaurant. And you cannot deliver chili dishes or other Red Rock Chili Products outside your Territory.

In assisting you to find a location for your Chili Restaurant, RRC considers population density, competition, area pricing, market potential and geographic area. RRC and our direct or indirect affiliates reserve the right to offer and sell other types of franchises that are not directly competitive with the Franchise. Before you sign the Franchise Agreement, RRC and you mutually determine the size and location of your Chili Restaurant. Territory. After you sign the Franchise Agreement, if you do not find an acceptable site within your Territory for your Chili Restaurant within 6 months from the date the Franchise Agreement is executed, we may, at our option, keep the entire franchise fee and terminate your agreement. You must devote all of your business activities and to use your best efforts to develop and promote the franchised business, utilizing the trademarks, within your Chili Restaurant. You must comply with all applicable laws, regulations and ordinances (including zoning laws) in establishing a Chili Restaurant and must obtain all required business licenses and other permits. The continuation of your rights to the Chili Restaurant is not dependent upon you attaining a certain sales volume, revenues, market penetration or other contingency. The Chili Restaurant may not be altered except with the mutual agreement of RRC and you.

You must not engage in activities that are equivalent to the franchised business outside your Chili Restaurant without the prior written consent of RRC.

Unless you have signed an Area Development Agreement, you must not open additional Chili Restaurants without our prior written consent. You must diligently promote and market the Franchised Business, develop to the best of your ability the potential for Franchised Business at your Chili Restaurant, and devote and focus your attentions and efforts to this promotion and development.


If you desire or are required to relocate your Chili Restaurant, you must request our consent to relocate the Chili Restaurant if at least 180 days before the desired date of relocation (unless prior notice is impractical because of a required relocation, then notice shall be made as soon as possible), you make a written request for consent to relocate, describing the reasons for the relocation and providing details respecting the proposed new Chili Restaurant. Within 21 days after receiving your request, we either approve or disapprove the new Chili Restaurant in writing in the exercise of our reasonable business judgment, which may include consideration of the following: alternative locations, proximity of the proposed location to existing and potential locations, increased market penetration expected, quality of location and the effect on the System. If we disapprove, you may request an alternative proposed new Chili Restaurant under section 3.06 of the Franchise Agreement.

RRC and our related entities reserve the right to use or allow others to use the Service Marks, including the express right to establish in the future company-owned stores selling Red Rock Chili Products using the Red Rock Chili brand or other marks, but not in the ~~shopping mall~~ Territory where your Chili Restaurant is located. Neither we nor our affiliate currently operate, franchise, or conduct business through alternative channels of distribution offering products or services similar to those offered by the Restaurant under different marks.

ITEM 13: **TRADEMARKS**


You are licensed to operate the franchise business under the name "Red Rock Chili" and other current or future trademarks. Carol Collis owns the trademark and is licensing it to RRC for a term that lasts until the last Red Rock Chili franchise agreement terminates. By "trademark," RRC means trademarks, trade names, service marks and logos RRC may authorize for you to identify your franchised business.

The following trademark has been submitted for registration by Carol Collis with the United States Patent and Trademark Office ("USPTO") on the principal register, and is pending:

registration number	trademark	registration date
78460382 <u>3409418</u>		Pending; Filed August 2, 2004 <u>January 24, 2006</u>

~~By not having a Principal Register federal registration for the marks whose registration is pending, RRC does not have certain presumptive legal rights granted by a registration.~~

Carol and Paul Collis doing business as Red Rock Chili Co. registered the following trademark with the California Secretary of State:

registration number	trademark	registration date
058014		August 7, 2003

You must follow our rules when you use this mark. You cannot use a name or mark as part of a corporate name or with modifying words, designs or symbols except for those which RRC licenses to you. You may not use our registered name in the sale of unauthorized products or services or in a manner not authorized in writing by RRC.

No agreements limit our rights to use or license the use of our trademarks.

You must notify RRC immediately when you learn about an infringement or challenge to your use of our trademark. We then will take the action we think appropriate. At a minimum, and at our cost, we will defend you against any claim or action challenging or attempting to stop or limit your use of the RRC trademark and otherwise protect your right to use our marks in the manner permitted under the Franchise Agreement.

You must modify or discontinue the use of a trademark if RRC modifies or discontinues it. You must not directly or indirectly contest our right to our trademarks, trade secrets or business techniques that are part of our business.

RRC does not know of any superior prior rights or infringing uses or material determinations of the USPTO, Trademark Trial and Appeal Board, trademark administrator of this state or of any court. Nor does RRC know of any pending infringement, opposition or cancellation proceedings that could materially affect your use of our trademark. There is no known litigation involving our trademarks.

ITEM 14:
PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

You do not receive the right to use an item covered by a patent or copyright, but you can use the proprietary information in our Operations Manual. The Operations Manual is described in Item 11 of this circular. Although RRC has not filed an application for a copyright registration for the Operations Manual, we claim a copyright and the information is proprietary. Item 11 describes limitations on the use of this manual by you and your employees. All recipes of RRC are proprietary trade secrets and you must not disclose them to any unauthorized persons. You must also promptly tell us when you learn about unauthorized use of any of our proprietary information. RRC is not obligated to take any action but will respond to this information as we think appropriate. RRC will indemnify you for losses brought by a third party concerning your authorized use of this information. All General Managers and employees must sign our non disclosure agreement when required.

ITEM 15:
OBLIGATIONS TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

The Franchise Agreement specifically requires that a principal of your franchise entity personally participate in the direct operation of the Chili Restaurant, and it is our intention to select only those Red Rock Chili franchisees whose principals plan to actively participate in the direct operation and daily affairs of the Chili Restaurant. RRC is not seeking to license franchisees if the principals of these franchisees are merely seeking a passive investment. You must participate for a minimum of six months. Additionally, as disclosed in section 8.01 of the Franchise Agreement, you must employ on a full time basis at least 1 General Manager for the Chili Restaurant (we recommend this be a principal of your franchise entity). The identity of the General Manager must be disclosed to us and if the General Manager changes, we must be notified in writing. The General Manager must devote his or her entire time during normal business hours to the management, operation and development of the Franchised Business. The General Manager must complete the training described in Item 11, maintain confidentiality of the trade secrets described in Item 14 and conform to the covenants not to compete described in Item 17. Under the Area Development Agreement, the General Manager is not required to have any equity interest in the franchise. You or your General Manager must be present at all times.

ITEM 16:
RESTRICTION ON WHAT FRANCHISEE MAY SELL

You must offer all Red Rock Chili Products and other goods and services that we designate for all Red Rock Chili Franchisees. Our franchisees will provide to their customers an array of chili dishes and related products. The precise recipes are contained in the Confidential Operations Manual, which you will be provided when you become a franchisee of RRC. Whenever you use our trademarks, you must only provide the goods and services that we authorize (see Item 8 of this circular).

You must not install standard box video games or vending machines. However we may permit you to install specified or approved electronic games and media centers which are designed as an integral part of the location. You must pay royalty payments on revenues earned from electronic games and media centers. RRC has the right to add other authorized goods and services that you will be required to offer.

There are no limits on our right to do so except that the additional investment required of you (for equipment, supplies and initial inventory) will not exceed \$10,000 per year.

Except for restrictions on deliveries outside your Delivery Area (see Item 12 of this circular), you are not limited as to the customers to whom you may sell Red Rock Chili Products (see Item 8 of this circular).

**ITEM 17:
RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION**

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

FRANCHISE AGREEMENT

	Provision	Section in Franchise Agreement	Summary
a.	Term of the franchise	5.01	Term is 10 years.
b.	Renewal or extension of the term	5.02	If you are in good standing, you can add additional term of 10 years.
c.	Requirements for you to renew or extend	5.02	Sign new agreement and new sublease (if necessary); pay fee; update and remodel Chili Restaurant if necessary; and sign release.
d.	Termination by you	None	
e.	Termination by RRC without cause	None	
f.	Termination by RRC with cause	10.01	RRC can terminate for material breach.
g.	"Cause" defined – defaults that can be cured	10.03	You have 30 days to cure non-submission of fees or reports, sanitation problems, and any other default not listed in Section 10.03.
h.	"Cause" defined - defaults that cannot be cured	10.02	Non-curable defaults: insolvency, inaccurate reporting of gross receipts, repeated defaults even if cured, abandonment, trademark misuse and unapproved transfers.
i.	Your obligations on termination/non-renewal	12.01	Obligations include complete removal of our trademarks and trade dress, and payment of amounts due (also see r., below).
j.	Assignment of contracts by RRC	9.01	No restriction on our right to assign.
k.	"Transfer" by you - definition	9.02	Includes transfer of assets or ownership change.
l.	RRC approval of transfer	9.02	RRC must approve all transfers, but we will not unreasonably withhold approval.
m.	Conditions for RRC approval of transfer	9.02	New franchisee qualifies, transfer fee paid, purchase agreement approved, training arranged, release signed by you and current agreement signed by new franchisee
n.	Our right of first refusal to acquire your business	9.03	RRC can match any offer for your business.

	Provision	Section in Franchise Agreement	Summary
o.	Our option to purchase	None	
p.	Your death or disability	9.06	Franchise must be assigned by estate to approved buyer within 6 months.
q.	Non-competition covenants during the term of the franchise	2.04, 8.01(a)	No involvement in competing business anywhere in U.S.
r.	Non-competition covenants after the franchise is terminated or expires	8.18, 12.01(e)	No competing business for 1 year within a 50 mile radius of your Chili Restaurant location or any other Red Rock Chili Restaurant.
s.	Modification of the agreement	14.02, 14.05	No modifications generally, but Operating Manual subject to change.
t.	Integration/merger clause	14.02, 14.06	Only the terms of the franchise agreement and Operations Manual are binding (subject to state law). Any other promises may not be enforceable.
u.	Dispute resolution by arbitration or mediation	11.01-11.06	Except for certain claims, all disputes must be arbitrated in Orange County, California before the American Arbitration Association. RRC and you waive punitive or exemplary damages, but courts may award attorneys' fees.
v.	Choice of forum	11.08, 11.04(d)	Litigation must be in Orange County, California. (See Exhibit H, State Specific Addendum for exceptions)
w.	Choice of law	14.01	Federal law and applicable state law apply to trademark and arbitration issues. California law applies to all other issues. (See Exhibit H, State Specific Addendum for exceptions)

AREA DEVELOPMENT AGREEMENT

	<u>Provision</u>	<u>Section in Area Development Agreement</u>	<u>Summary</u>
a.	<u>Term of the area development</u>	<u>1.03</u>	<u>Until you have opened all Unit Franchises to be developed in accordance with the Development Schedule</u>
b.	<u>Renewal or extension of the term</u>	<u>1.03</u>	<u>Not renewable</u>
c.	<u>Requirements for you to renew or extend</u>	<u>None</u>	
d.	<u>Termination by you</u>	<u>None</u>	
e.	<u>Termination by RRC without cause</u>	<u>None</u>	
f.	<u>Termination by RRC with cause</u>	<u>6.01</u>	<u>RRC can terminate for material breach.</u>
g.	<u>"Cause" defined – defaults that can be cured</u>	<u>6.01</u>	<u>You have 30 days to cure non-submission of fees or reports, sanitation problems, and any other default not listed in Section 10.03.</u>

<u>Provision</u>	<u>Section in Area Development Agreement</u>	<u>Summary</u>
<u>h. "Cause" defined - defaults that cannot be cured</u>	<u>6.01</u>	<u>Non-curable defaults: insolvency, inaccurate reporting of gross receipts, repeated defaults even if cured, abandonment, trademark misuse and unapproved transfers.</u>
<u>i. Your obligations on termination/non-renewal</u>	<u>8.01</u>	<u>Obligations include complete removal of our trademarks and trade dress, and payment of amounts due (also see r., below).</u>
<u>j. Assignment of contracts by RRC</u>	<u>5.01</u>	<u>No restriction on our right to assign.</u>
<u>k. "Transfer" by you - definition</u>	<u>5.03</u>	<u>Includes transfer of assets or ownership change.</u>
<u>l. RRC approval of transfer</u>	<u>5.02</u>	<u>RRC must approve all transfers, but we will not unreasonably withhold approval.</u>
<u>m. Conditions for RRC approval of transfer</u>	<u>5.02</u>	<u>New franchisee qualifies, transfer fee paid, purchase agreement approved, training arranged, release signed by you and current agreement signed by new franchisee</u>
<u>n. Our right of first refusal to acquire your business</u>	<u>5.02</u>	<u>RRC can match any offer for your business.</u>
<u>o. Our option to purchase</u>	<u>None</u>	
<u>p. Your death or disability</u>	<u>None</u>	
<u>q. Non-competition covenants during the term of the franchise</u>	<u>None</u>	
<u>r. Non-competition covenants after the franchise is terminated or expires</u>	<u>8.01</u>	<u>No competing business for 1 year within a 50 mile radius of your Chili Restaurant location or any other Red Rock Chili Restaurant.</u>
<u>s. Modification of the agreement</u>	<u>9.07</u>	<u>No modifications generally, but Operating Manual subject to change.</u>
<u>t. Integration/merger clause</u>	<u>9.07</u>	<u>Only the terms of the franchise agreement and Operations Manual are binding (subject to state law). Any other promises may not be enforceable.</u>
<u>u. Dispute resolution by arbitration or mediation</u>	<u>7.01</u>	<u>Except for certain claims, all disputes must be arbitrated in Orange County, California before the American Arbitration Association. RRC and you waive punitive or exemplary damages, but courts may award attorneys' fees.</u>
<u>v. Choice of forum</u>	<u>9.06</u>	<u>Litigation must be in Orange County, California. (See Exhibit H, State Specific Addendum for exceptions)</u>
<u>w. Choice of law</u>	<u>9.06</u>	<u>Federal law and applicable state law apply to trademark and arbitration issues. California law applies to all other issues. (See Exhibit H, State Specific Addendum for exceptions)</u>

These states have statutes which may supersede the franchise agreement in your relationship with RRC including the areas of termination and renewal of your franchise: ARKANSAS [Stat. Section 70-807],

CALIFORNIA [Bus. & Prof. Code Sections 20000-20043], CONNECTICUT [Gen. Stat. Section 42-133e et. seq.], DELAWARE [Code, tit.], HAWAII [Rev. Stat. Section 482E-1], ILLINOIS [815 ILCS 705/19 and ~~705/20-44~~], INDIANA [Stat. Section 23-2-2.7], IOWA [Code Sections 523H.1-523H.17], MICHIGAN [Stat. Section 19.854(27)], MINNESOTA [Stat. Section 80C.14], MISSISSIPPI [Code Section 75-24-51], MISSOURI [Stat. Section 407.400], NEBRASKA [Rev. Stat. Section 87-401], NEW JERSEY [Stat. Section 56:10-1], RHODE ISLAND [Stat. Section 19-28.1-14], SOUTH DAKOTA [Codified Laws Section 37-5A-51], VIRGINIA [Code 13.1-557-574-13.1-564], WASHINGTON [Code Section 19.100.180], WISCONSIN [Stat. Section 135.03]. These and other states may have court decisions that may supersede the franchise agreement in your relationship with RRC, including the areas of termination and renewal of your franchise.

ITEM 18:
PUBLIC FIGURES

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

ITEM 19:
EARNINGS CLAIMS

We do not furnish or authorize our salespersons to furnish any oral or written information concerning the actual or potential sales, costs, income or profits of a RRC operation. Actual results may vary from unit to unit and RRC cannot estimate the results of any particular franchise.

**ITEM 20:
LISTS OF OUTLETS**

The attached charts describe RRC Chili Restaurant and Franchise status for the past 3 years:

**FRANCHISED RESTAURANT STATUS SUMMARY
FOR YEARS DECEMBER 31, 2005/2004/2003/2002**

State	TRANSFERS	Canceled or Terminated	Not Renewed	Reacquired by RRC	Left for Other Reasons	Total From Left Columns	Unit Franchisees Operating at Year End
California	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	3/0/0
TOTALS	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	3/0/0

State	Transfers	Canceled or Terminated	Not Renewed	Reacquired by RRC	Left for Other Reasons	Total From Left Columns	Unit Franchisees Operating at Year End
California	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	4/3/0
TOTALS	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	4/3/0

RRC began offering franchises in February 2004. There are ~~8~~ A list of our franchises in the Red Rock Chili system as of March 10, 2005 (see are provided on Exhibit G to this circular). Offering Circular. No Red Rock Chili franchisee has had a Red Rock Chili outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during the 12 months ended ~~March 10~~ December 31, 2005 or has not communicated with RRC within the 10 weeks ended ~~March 10, 2005~~ of the date of this Offering Circular.

**STATUS OF RRC OWNED OR AFFILIATED RESTAURANTS
FOR YEARS DECEMBER 31, 2005/2004/2003/2002**

State	Chili Restaurants Closed During Year	Chili Restaurants Opened During the Year	Total Chili Restaurants Operating at Year End
California	0/0/0	0/0/1	1/1/1
TOTALS	0/0/0	0/0/1	1/1/1

RRC does not own or operate Chili Restaurants. The affiliated Chili Restaurant listed in the table immediately above is owned and operated by Paul and Carol Collis.

**PROJECTED OPENINGS
FOR ~~THROUGH~~ THE 12 MONTH PERIOD ENDING DECEMBER 31, 2005 2006**

	Franchise Agreements	Projected New Franchised Chili	Projected RRC Owned Chili Restaurant

State	Signed But Not Open	Restaurants in Next 12 Months	Openings In Next 12 Months
California	<u>68</u>	<u>3</u>	<u>0</u>
TOTAL Colorado	<u>61</u>	<u>30</u>	<u>0</u>
Nevada	<u>1</u>	<u>0</u>	<u>0</u>
Texas	<u>1</u>	<u>0</u>	<u>0</u>
TOTAL	<u>11</u>	<u>3</u>	<u>0</u>

ITEM 21:
FINANCIAL STATEMENTS

RRC's audited financial statements for the fiscal years ending December 31, 2003, December 31, 2004, and December 31, ~~2004~~, 2005 are attached as Exhibit B to this circular. (RRC was formed on December 3, 2003.)

ITEM 22:
CONTRACTS

Exhibit A - Franchise Agreement
Exhibit C - Area Development Agreement
Exhibit D - Lease Assignment Agreement

ITEM 23:
RECEIPT

The very last page of this circular is a detachable document for you to return to RRC acknowledging receipt of this circular. The next to the last page is a duplicate receipt to be kept by you. If this page or any other pages or exhibits are missing from your copy, please contact RRC at the address and phone number on the cover page of this circular.