

CHARO CHICKEN® FRANCHISE OFFERING CIRCULAR

ITEM 1. THE FRANCHISOR, ITS PREDECESSOR, AND AFFILIATES

The purpose of this offering circular is to familiarize you with important legal and business aspects of Charo Chicken Systems, Inc., a franchisor, and of the franchise we offer. To simplify the language, we will refer to ourselves as "Charo Chicken," "we" or "us." We will call the person or company to which we grant a franchise "you." The word "you" does not include your owners. We will call them your "Related Parties."

We were incorporated in California on June 20, 1997. We have no predecessors or affiliates.

Our principal business address is 2134 Main Street, Suite 220, Huntington Beach, California 92648. The name and address of our agent for service of process in this state are stated in Exhibit A-2 to this offering circular.

We have been offering these franchises since March 1997. We have never offered any other franchise. We have never operated a business that is similar to the franchise that we offer but our management, as described in Item 2, has extensive experience in operating chicken restaurants. We have no other business.

The business you will operate under the franchise agreement is a fast-food restaurant featuring gourmet chicken, charbroiled according to an original recipe. The food appeals to members of the general public, particularly those who are concerned with the health advantages of this naturally delicious food. The market for small neighborhood restaurants like Charo Chicken is growing as two-worker families proliferate. Service is very quick and the chain features home and office delivery. Most of our restaurants are located in in-line shops or end caps in shopping centers. Although each restaurant has seating for about 20 to 30 people, approximately 75% of the business is take-out or delivery business.

Your principal competitors will be other chicken restaurants, including El Pollo Loco, Church's Fried Chicken, Kentucky Fried Chicken, Popeye's, Boston Market and Koo Koo Roo.

To provide for our assistance while you are seeking a site for your Restaurant and to compensate us for reviewing your proposed site or sites, you must sign a prefranchise agreement and pay us a prefranchise fee unless you are an area developer. A prefranchise agreement does not convey any territorial rights. If you later enter into a franchise agreement, we will apply the entire prefranchise fee against the initial franchise fee.

If you meet our qualifications, you may enter into an area development agreement under which you will have the exclusive right and obligation to develop and operate multiple

Restaurants under individual franchise agreements within a specified Development Area. When you sign an area development agreement, you must pay a development fee [^]of \$25,000 for the first franchise plus \$10,000 multiplied by the number of additional Restaurants you have agreed to develop within the Development Area. The development fee may be incrementally applied against these initial franchise fees as you sign each franchise agreement.

We do not know of any laws or regulations specifically relating to the franchised business other than state and local health and safety laws and regulations that are generally applicable to eating establishments.

ITEM 2. BUSINESS EXPERIENCE

Raymond J. Perry, President, Chief Executive Officer and Director

Raymond J. Perry joined Charo Chicken on January 1, 2002, as President, Chief Executive Officer and a Director. Before that, beginning in 1999, he was a self-employed consultant to the restaurant industry in Villa Park, California. From April 1998 through November 1998, he served as President and Chief Executive Officer of Juice Stop International, Denver, Colorado. Earlier, from October 1997 through March 1998, he was President and Chief Executive Officer of East Coast Bagel in Santa Monica, California. Before 1997, he was Executive Vice President and Chief Operating Officer with Hardee's Restaurants, Rocky Mount, North Carolina, President and Chief Operating Officer of El Pollo Loco, Irvine, California, Executive Vice President and Chief Operating Officer of Carl's Jr.'s Restaurants, Anaheim, California, and President and Chief Operating Officer of Straw Hat Pizza, Inc., Dublin, California, in each case acting as a turn around specialist to reposition the chains.

Moe Bonakdar, Secretary, Chief Financial Officer and Director

Moe Bonakdar has been our Secretary, Chief Financial Officer and a Director since we were incorporated in June 1997. Until January 1, 2002, he was also President and Chief Executive Officer. He has been a self-employed restaurateur for 23 years. He currently owns and operates four CHARO CHICKEN® Restaurants.

Louis D. Franson, Franchise Broker

Louis Franson has been a self-employed franchise broker for us since May 1, 2002. He has served as Executive Vice President of Business Development for Ultra Life, Inc., of Huntington Beach, California since December 2001. Prior to that, he was the Chief Operating Officer of Juice Stop, LLC, Irvine, California, from July 2001 to January 2002. [^]Earlier, from August 1997 through September 2000, he was employed by Winchell's, Inc., of Santa Ana, California, as its Vice President of Brand Management.

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ITEM 3. LITIGATION

There is no litigation to disclose in this offering circular.

ITEM 4. BANKRUPTCY

No person identified in Items 1 or 2 of this offering circular has been involved as a debtor in a bankruptcy proceeding.

ITEM 5. INITIAL FRANCHISE FEES

^Prefranchise Agreement

The purpose of a prefranchise agreement is to provide for our limited assistance while you are looking for a site and to cover its expenses of inspecting sites that you propose or that it seeks out specifically for you. When you sign a prefranchise agreement, you will pay us a prefranchise fee of \$10,000 in immediately accessible funds. The ^prefranchise fee is not refundable. It is uniform for all ^prefranchises currently being granted. Only prospective franchisees without Approved Locations and existing franchisees who want an additional site enter into prefranchise agreements. Area Developers do not sign prefranchise agreements.

Franchise Agreement

When you sign a franchise agreement, you will pay us an initial franchise fee of \$25,000 in immediately accessible funds, less any prefranchise fee or applicable portion of a development fee that you have paid under a prefranchise agreement or area development agreement. The initial franchise fee is not refundable. Except for the second and subsequent franchises granted under area development agreements, described below, the initial franchise fee is uniform for all franchises currently being granted.

Area Development Agreement

When you sign an area development agreement, you will pay us \$25,000 for the first Restaurant plus \$10,000 multiplied by the number of additional Restaurants required to be opened during the Term under the Development Schedule (the "Development Fee"). The Development Fee is not refundable. It will be credited against your initial franchise fees, as described in each franchise agreement, at the rate of \$25,000 for the first Restaurant plus \$10,000 for each additional Restaurant opened under this Agreement until the full amount of the Development Fee has been credited against your initial franchise fees.

ITEM 6. OTHER FEES

NAME OF FEE ¹	AMOUNT OR FORMULA	WHEN DUE
Royalties	5% of Restaurant Sales ² or <u>\$350, whichever is more</u>	Weekly
Advertising Fund	<u>^2%</u> ³ of Restaurant Sales	Weekly
Secret Shopper ^{^Service}	\$60 - \$80 a month	Monthly
POS Software Upgrade And Support	<u>^Approximately \$1,500</u>	Annually
Audit Cost ⁴	Our out-of-pocket cost	Upon invoice
Annual Meeting Registration Fee	Not to exceed \$500 per person	If meeting is held, due one week before attending
Ongoing Training Fees	Our direct costs	Before training
Ongoing Training Costs	Your cost of travel, lodging and meals during training	Before, during and after training
Interest On Late Payments	18% per year	Upon invoice
Transfer Fee	\$5,000	Before we grant our consent

- 1: Payments to us are not refundable. Whether payments to others are refundable depends on the arrangements you make with them.
- 2:[^] Restaurant Sales is defined in Article 3 of the Franchise Agreement as "the total amount of money or other consideration you and your Related Parties receive for all goods sold and services rendered from the Approved Location or in association with our Trade Name or Marks, less sales tax, within an accounting period."
- 3: ^We have the right to increase the weekly Advertising Fund contributions to three percent in the future if we consider it necessary for the continued development of the Franchise Network. Franchise Network is defined in Article 3 of the Franchise Agreement as "the interdependent network composed of us, all CHARO CHICKEN® franchisees, our Related Parties, and any other people or companies that we have licensed to use our Trade Name or Marks."
- 4: Payable only if the audit shows an underpayment of 3% or greater or if we had to take the audit because you did not submit required financial reports to us.

THE REMAINDER OF THIS PAGE IS INTENTIONALLY OMITTED

ITEM 7. INITIAL INVESTMENT

EXPENSE ¹	LOW	HIGH	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAID
Initial Franchise Fee ²	\$25,000	\$25,000	Single payment	At agreement signing	Us
Business Premises ³	\$ [^] 9,000	\$ [^] 12, [^] 600	Single payment	At lease signing	Landlord
Tenant Improvements ⁴	[^] \$245, [^] 200	\$ [^] 266,000	As arranged	Before opening	[^] Contractor ⁵
Furniture And Equipment ⁶	\$ [^] 159, [^] 650	[^] \$224, [^] 000	As arranged	Before opening	Suppliers
Deposits And Permits ⁷	\$ [^] 3, [^] 000	\$ [^] 4, [^] 000	As incurred	Before opening	Utilities and Government Agencies
Insurance	\$ [^] 3, [^] 500	\$ [^] 4, [^] 500	As arranged	Before opening	Insurer
Initial Training Costs ⁸	\$ [^] 10,000	[^] \$12, [^] 500	As incurred	Before, during and after training	Hotels, carriers, restaurants and Employees
Organizational Expenses ⁹	\$ [^] 3, [^] 000	\$ [^] 4, [^] 000	As arranged	As arranged	Attorney and Accountant
Grand Opening Advertising	\$ [^] 10, [^] 000	\$ [^] 10, [^] 000	As arranged	Varies	Advertising agencies and Media
Additional Funds ¹⁰	\$ [^] 50, [^] 000	\$ [^] 50, [^] 000	Varies	Varies	Others
TOTAL	[^] \$518, [^] 350	[^] \$632, [^] 600			

FIGURES ONLY ARE ESTIMATES

- 1: Item shows estimated expenses through the third month of operation. None is refundable, except for insurance, which may be partially refundable, and deposits.
- 2: This table is applicable to a first Restaurant only. If you enter into a prefranchise agreement, your prefranchise fee is fully applicable to the initial franchise fee. If you are purchasing franchises under an area development agreement, you must pay, when you sign the area development agreement, a development fee of \$25,000 for the first Restaurant and \$10,000 for each additional franchise to be developed under the Development Schedule. The fees paid in advance will be credited toward the initial franchise fee for each Restaurant developed under the Agreement until all fees have been credited.
- 3: Figures are based on the assumption that premises will be rented and that lessor will require an initial payment of one month's rent and a security deposit of one month's rent. The premises will

probably be located in in-line or end caps in shopping centers. The size will probably average between 1,800 and 2,000 square feet.

- 4: Figures are based on the assumption that landlord will provide a "Vanilla Shell" before you begin improvements to the property. Tenant allowances, if any, are not included and may reduce the cost of tenant improvements.
- 5: Figures are based on the assumption that you use our recommended contractor.
- 6: This category includes such items as alarm system, signs, food preparation equipment[^], cash registers and dining furniture.
- 7: This category includes sales tax deposits or bonds, construction permit, sewer hookup charges, and utility deposits.
- 8: We include pre-opening wages for your employees in your training costs.
- 9: This figure includes attorney review and negotiation of the lease for the franchised Restaurant.
- 10: This category includes opening cash and other miscellaneous expenses incurred before opening and during the first three months of operations. We relied on our experience in developing these figures. You should review them carefully in light of local conditions and the current economic outlook, consulting a business advisor if necessary.
- 11: We do not provide financing for any of these fees or payments.

ITEM 8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

We do not sell any goods or services that you will use or sell in your Restaurant.

We will give you prototype or sample plans and specifications, or plans and specifications for one or more existing Restaurants to guide you in constructing tenant improvements to, furnishing, and equipping your Restaurant. You must, at your own expense, tailor the plans and specifications we provide for your individual use and then submit the customized plans and specifications to us for written approval.

You must purchase and maintain a policy or policies of comprehensive public liability insurance, including products liability coverage, covering all Restaurant assets, personnel, and activities on an occurrence basis with a combined single limit for bodily injury, death, or property damage of not less than \$2,000,000. We may increase the minimum coverage requirement annually if necessary to reflect inflation or other changes in circumstances. You must also carry (1) casualty insurance in a minimum amount equal to the replacement value of your interest in the Restaurant premises, including furniture, fixtures, and equipment, and (2) business interruption insurance in an amount sufficient to cover the rent of the Restaurant premises, salary, or wages of key personnel, minimum royalties, and other fixed expenses. In addition, you must maintain policies of workers' compensation insurance, disability insurance, and any other types of insurance required by applicable law. Each insurance policy that we require under this Agreement must contain a provision that the policy cannot be canceled without 30 days' written notice to us. It must be issued by an insurance company of recognized responsibility, designate us as an additional named insured and be satisfactory to us in form, substance, and coverage.

You must deliver a certificate of the issuing insurance company evidencing each policy to us as soon as the policy is issued or renewed.

You may buy food inventory, paper supplies, software, and equipment only from suppliers we have approved and according to our specifications. Otherwise, you do not have to obtain our approval of your suppliers.

We evaluate and approve suppliers upon the basis of their ability to meet quality specifications and to replicate the products and services provided by currently approved suppliers. All food and beverage suppliers **must** demonstrate Hazard Analysis Critical Control Points ("HACCP") compliance. Systemwide price agreements will also be taken into account and, in some cases, will eliminate any consideration of another supplier. If you would like to use or sell any product that must be purchased from an approved supplier, you must ask for our approval and, if we ask for them, give us product specifications, sample products, and information about the supplier. We will promptly communicate to you either our approval or our reasons for withholding our approval.

We do not charge a fee for evaluating a supplier. As a condition of approving a supplier of any product that bears the Trade Name or Marks, we may require that the supplier sign our License Agreement so that we may maintain quality standards. Normally, we will not take longer than 30 days to evaluate a supplier. We may withdraw our approval of a supplier if the supplier no longer meets our standards. In that case, we will advise you in writing.

Our existing standards and specifications were evolved through our management's operations experience. We will communicate our standards and specifications to you in writing, usually in the Manual.

We do not receive any revenue based upon your purchase of goods or services from us or from approved or designated suppliers except for supplier rebates on volume purchasing which we contribute to the Advertising Fund.

Approximately 25% of your start-up expenses and 30% of your ongoing expenses, other than fees disclosed in Items 5 and 6, will be for purchases from approved or designated suppliers or according to our specifications.

We negotiate purchase arrangements with suppliers, including advantageous price terms, for the benefit of all members of the Franchise Network. In some cases, we may decide that all Restaurants must purchase certain items from a designated supplier in return for systemwide benefits.

We will not provide material benefits, such as renewal or granting additional franchises, to you based on your voluntary use of designated or approved sources. Your failure to purchase items from approved or designated suppliers or according to specifications when we instruct you to do so would be a serious breach of the franchise agreement and could be grounds for termination of your franchise.

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 offering circular.

PREFRANCHISE AGREEMENT

OBLIGATION	SECTION IN PREFRANCHISE AGREEMENT	ITEM IN OFFERING CIRCULAR
a. Site selection and acquisition/lease	Article 3	11
b. Pre-opening purchases/leases	Article 3.1	5, 8
c. Site development and other pre-opening requirements	None	11
d. Initial and ongoing training	None	11
e. Opening	None	11
f. Fees	Article 1	5, 6, 7
g. Compliance with standards and policies/Operating Manual	3.1	8, 11, 16
h. Trademarks and proprietary information	None	13, 14, 15
i. Restrictions on products/services offered	None	16
j. Warranty and customer service requirements	None	N/A
k. Territorial development and sales quotas	None	12
l. Ongoing product/service purchases	None	8
m. Maintenance, appearance and remodeling requirements	None	17
n. Insurance	None	7, 8
o. Advertising	None	11
p. Indemnification	None	N/A

OBLIGATION	SECTION IN PREFRANCHISE AGREEMENT	ITEM IN OFFERING CIRCULAR
q. Owner's participation/management/staffing	None	15
r. Records/reports	None	N/A
s. Inspections/audits	None	6
t. Transfer	None	17
u. Renewal	None	17
v. Post-termination obligations	None	17
w. Noncompetition covenants	None	17
x. Dispute resolution	Article 8	17

FRANCHISE AGREEMENT

OBLIGATION	SECTION IN FRANCHISE AGREEMENT	ITEM IN OFFERING CIRCULAR
a. Site selection and acquisition/lease	None	11
b. Pre-opening purchases/leases	None	5, 8
c. Site development and other pre-opening requirements	7.2.2	11
d. Initial and ongoing training	7.2.1, 7.3	11
e. Opening	7.2.3	11
f. Fees	Article 6	5, 6, 7
g. Compliance with standards and policies/Operating Manual	7.2.4	8, 11, 16
h. Trademarks and proprietary information	<u>7.1, 7.2.10, 8.1</u>	13, 14, 15
i. Restrictions on products/services offered	7.2.5	16
j. Warranty and customer service requirements	7.2.6, <u>7.2.8</u>	N/A

OBLIGATION	SECTION IN FRANCHISE AGREEMENT	ITEM IN OFFERING CIRCULAR
k. Territorial development and sales quotas	None	12
l. Ongoing product/service purchases	<u>^7.2.5</u>	8
m. Maintenance, appearance and remodeling requirements	7.2.7	17
n. Insurance	7.7	7, 8
o. Advertising	7.5	11
p. Indemnification	8.5	N/A
q. Owner's participation/management/staffing	7.4.1	15
r. Records/reports	<u>7.6.^1, 7.6.2</u>	N/A
s. Inspections/audits	<u>6.5, 7.2.6, 7.2.9</u>	6
t. Transfer	Article 9	17
u. Renewal	4.5.2	17
v. Post-termination obligations	<u>8.6, 10.3, Attachments 3 & 4</u>	17
w. Noncompetition covenants	8.6, Attachment <u>3</u>	17
x. Dispute resolution	Article 11	17

AREA DEVELOPMENT AGREEMENT

OBLIGATION	SECTION IN AREA DEVELOPMENT AGREEMENT	ITEM IN OFFERING CIRCULAR
a. Site selection and acquisition/lease	6.1	11
b. Pre-opening purchases/leases	6.1	5, 8
c. Site development and other pre-opening requirements	<u>^Attachment 2</u>	11
d. Initial and ongoing training	None	11
e. Opening	None	11
f. Fees	<u>Article 5</u>	5, 6, 7

OBLIGATION	SECTION IN AREA DEVELOPMENT AGREEMENT	ITEM IN OFFERING CIRCULAR
g. Compliance with standards and policies/Operating Manual	None	8, 11, 16
h. Trademarks and proprietary information	None	13, 14, 15
i. Restrictions on products/services offered	None	16
j. Warranty and customer service requirements	None	N/A
k. Territorial development and sales quotas	4.2, [^] <u>Attachment 2</u>	12
l. Ongoing product/service purchases	None	8
m. Maintenance, appearance and remodeling requirements	None	17
n. Insurance	None	7, 8
o. Advertising	None	11
p. Indemnification	[^] <u>9.5</u>	N/A
q. Owner's participation/management/staffing	None	15
r. Records/reports	None	N/A
s. Inspections/audits	None	6
t. Transfer	<u>Article 7</u> [^]	17
u. Renewal	4.4 [^]	17
v. Post-termination obligations	9.3	17
w. Noncompetition covenants	[^] <u>Article 8</u>	17
x. Dispute resolution	11.7, 11.8, 11.9, 11.10	17

ITEM 10. FINANCING

We do not offer direct or indirect financing. We will not guarantee your note, lease, or obligation.

ITEM 11. FRANCHISOR'S OBLIGATIONS

Except as described below, we do not have to give you any assistance:

Preopening Services

Site Approval

You must, on your own initiative and at your own expense, locate, lease or buy and occupy the site for the Restaurant. When you locate a proposed site, we will review it and decide if it is suitable, from our point of view. You must obtain our written approval of the proposed site and proposed lease before you sign the lease. We may not withhold our approval unreasonably.

To seek our approval of a site, you must complete and submit to us our site submittal form. We will base our approval of the site on general guidelines for suitable franchise premises that we will give you in writing. **By approving a particular site for the premises of a restaurant, we do not guarantee that the Restaurant operating at that location will be successful.** Success will depend on many factors, including your ability, hard work and financial resources, that are not within our control.

To seek our approval of the lease for the premises of the Restaurant, you must give us a copy of the proposed lease or a lease summary. The lease must, in our reasonable opinion, allow you to operate profitably under the terms of the Franchise Agreement. A lease must grant us an option, without cost or expense to us, to assume or authorize our assignee to assume the lease if the franchise agreement is terminated or if you should fail to cure a material default under the lease within the time it allows. Your lessor and you may meet this requirement by adding the Lease Provisions in Attachment 1 to the Prefranchise Agreement to the Lease. (Prefranchise Agreement, Article 3)

Some of the factors that we consider in approving a site are that the site must conform to general guidelines described in the manual and that the lease must contain satisfactory provisions, similar to those listed in Attachment 1 to the Prefranchise Agreement. We will normally approve or disapprove your proposed site within 14 days after you present the information described above to us. If we do not agree with you about a site, you may not use that site for your Restaurant. If you do not find a site that we approve within the term of the agreement, the agreement will terminate unless we decide to extend the agreement. If we extend the agreement, we will inform you in writing. Whether or not to extend the term is within our sole discretion (Prefranchise Agreement § 4). We do not refund the prefranchise fee. We estimate that the average length of time between signing of a franchise agreement and opening of a franchised business will be six months. This

period does not include time spent looking for a site because you must have an acceptable site before entering into a CHARO CHICKEN® Franchise Agreement.

Factors that may affect the length of time it takes to open include length of time it takes to obtain government permits and complete construction.

Training

The initial training program will cover the following:

SUBJECT	HOURS OF CLASSROOM TRAINING	HOURS OF ON THE JOB TRAINING	TYPE OF FACILITY
Cooking	3	160	Classroom and Company-related Restaurant
Counter Service	3	20	Classroom and Company-related Restaurant
Cleaning	0	60	Classroom and Company-related Restaurant
Inventory	4	6	Classroom and Company-related Restaurant
Financial Management	2	6	Classroom and Company-related Restaurant
Marketing	16	16	Classroom and Company-related Restaurant
TOTAL	28	268	

The initial training program will take place at a franchised Restaurant in Southern California and at your Restaurant.

The entire training program consists of 28 hours of classroom training and 268 hours of on-the-job training, beginning several weeks before opening. The primary instructional material for the initial training program will be the Manual. There will be no additional charge for training material.

The training program will be supervised by Robert Castaneda, our Director Of Operations, who has been with us since 1997.

You or your Designated General Manager must faithfully attend all phases of the initial training program and complete it to our satisfaction, as certified by us in writing. Failure to successfully complete any aspect of the training program, as we determine in our sole discretion, constitutes grounds for immediate termination of your franchise, but we have the right to offer you one or more remedial courses of action, such as additional training or employment of supplemental personnel, if we believe the alternative or alternatives may make it unnecessary for us to terminate your franchise. If you do not accept the alternative course of action within the time we allow, we may terminate your franchise, effective immediately. (Franchise Agreement § 7.2.1)

We may, at our sole discretion, arrange an Annual Meeting or other training programs to provide updates, offer continuing education, and encourage discussion of topics of importance to the Franchise Network. If we designate attendance at the Annual Meeting as mandatory, you OR your Designated General Manager must attend at your own expense^ (Franchise Agreement § 7.3). We do not expect to charge a fee for continuing education programs, but may assess payment sufficient to reimburse ourselves for training costs. We have the right to charge a registration fee of up to \$500 per person for an Annual Meeting.

For all training programs, you must pay for your own expenses of travel, lodging and meals and those of your employees. We will not pay you or your employees for any work you perform during training.

Manual

We will lend to you or make available to you on an intranet a Manual containing explicit instructions for use of the Marks, specifications for goods that will be used in or sold by the Restaurant, sample business forms, information on marketing, management, and administration methods we have developed for use in the Restaurant, names of approved suppliers, and other information that we believe may be necessary or helpful to you in your operation of the Restaurant. We will revise the manual periodically to conform to the changing needs of the Franchise Network and will distribute updated pages containing these revisions to you, or, if the Manual has been placed on an intranet, will post revised pages there. (Franchise Agreement § 5.4)

We will give you a reasonable opportunity to examine the Manual under supervision of our employee at a mutually agreeable time and place before you sign a prefranchise agreement, franchise agreement, area development agreement, or any other binding commitment.

Selection and Installation of Computer Equipment and Software

You must buy an approved three- to five-terminal networked point of sale system. We recommend the Positouch system, but will approve other systems that meet our specifications. The system must include all necessary hardware, a back office software suite, a POS software suite, PCAnywhere and credit card software.

We estimate that, with programming, installation and training, the cost of your POS system will be between \$21,000 and \$27,000, plus shipping and handling charges. You will be expected to make your own arrangements for maintenance, repair, and upgrading of your cash register system.

The system will be connected with our terminal at headquarters. We will poll your sales and other information. We will have access to all information on your computer. You will use the data from the system to track sales and inventory, employee time cards, short/over amounts and voided tickets. The system will also gather historical data for the purpose of establishing trends.

You must establish and maintain a highspeed internet connection to communicate with us and others and to transfer data to and from us.

Postopening Services

Advertising Services

We have an advertising program which is implemented by an outside consultant. We will give you advertising slicks and other materials for reproduction and use in local advertising. These materials are prepared by an outside consultant. During 200⁵, 9.0% of the Fund was used for a marketing consultant, 24.9% for media, 5.0% for administration and 6.1% for production.

All Restaurants currently being granted contribute two percent of their Gross Revenue to the Fund. Some existing franchisees and licensees pay one percent. Limited offsets are permitted for amounts paid to regional advertising cooperatives or spent on individual local advertising by franchisees. We have the right to use up to 20% of the Fund to reimburse ourselves for direct costs of administration. If all the money in the Fund is not spent during the year in which it is collected, it will be retained in the Fund until it is spent.

All advertising and promotion that you undertake must be completely truthful, conform to the highest standard of ethical advertising and comply with any applicable laws and regulations. You must submit to us copies of all promotional and advertising materials that you propose to use at least two weeks before the proof approval deadline. This requirement is also applicable to regional advertising cooperatives. We will review the materials within a reasonable time and will promptly notify you or the regional advertising cooperative, as applicable, whether we approve or reject them. We may not withhold or delay our approval unreasonably. Even if we approve specified materials, we may later withdraw our approval if we reasonably believe it is necessary to make the advertising conform to changes in the System or to correct unacceptable features of the advertising. (Franchise Agreement § 7.1.3)

There will be a franchisee advisory council to advise us on advertising. We will choose its members and will have the power to dissolve it. The council's recommendations will not be binding on us.

We administer the Advertising Fund, which we will account for separately on the general ledger. The purpose of the Fund is to pool our advertising money and that of our franchisees so as to achieve greater benefits for all in promoting the Trade Name and Marks. We may use the Fund to pay for market research, advertising materials, media space and time for a national or regional advertising program, a referral program and public relations activities. The Fund may also be used for advertising grants to franchisees, collectively or individually. In addition, the Fund may be used to pay for point-of-purchase materials or public relations projects. We may use up to 20% of Fund money to compensate ourselves for overhead and other expenses incurred in connection with our administration of the Fund.

We will give preference to Advertising Fund projects that are systemwide in scope, but we may allocate some Advertising Fund money to regional groups of franchisees or individual franchisees when we consider it desirable. We reserve the unqualified right to decide, in our sole discretion, where, when and how Advertising Fund money will be spent. (Franchise Agreement § 5.5)

There is no requirement that we spend a specified amount of Advertising Fund money on advertising in your geographic area.

We will prepare an annual accounting for the Fund. You may review it upon request once a year. The report will not be audited. Most of the money in the Advertising Fund will be spent during the year in which it is contributed. Any unspent money will be retained in the account for use during the following year. (Franchise Agreement §5.5)

We have the right to lend money to the Advertising Fund, without interest, and to repay ourselves from Fund money during the same or a subsequent fiscal year. (Franchise Agreement § 5.5.3)

Cooperative advertising payments from vendors will be added to the Fund or used in another manner that benefits all members of the CHARO CHICKEN® Network.

We will not use money from the Advertising Fund to pay for advertising that primarily promotes franchise sales.

When five (5) or more company-owned or franchised Restaurants have been established in your Designated Marketing Area ("DMA"), we will call a meeting of their representatives to determine whether they would like to establish a regional advertising cooperative for the region. For all cooperative decisions, representatives will be entitled to one vote for each Restaurant or company-owned Restaurant they operate within the region. A regional advertising cooperative will be established upon a two-thirds (2/3) majority vote. The cooperative will elect a chairperson for a one year term and will decide, by simple majority vote, such matters as how often it will meet, what financial contribution it will assess from each member, and what advertising programs it will undertake. Regional advertising cooperative programs must be reasonably related to the general promotion of the Trade Name and Marks within the region. Fifty percent of your required contribution to a regional advertising cooperative, in the maximum amount of one percent of your

Restaurant Sales for the period, may be offset against your local advertising obligation for the period. (Franchise Agreement § 7.5.3)

You must spend at least two percent of your Restaurant Sales per year on local advertising and promotion in a manner that conforms with the Manual. You must submit, on or before the 15th day of each calendar quarter, copies of invoices for advertising materials, public relations activities, and/or media space and time showing that you have complied with the provisions of this paragraph during the immediately preceding quarter. You may use advertising expenditures in excess of the required minimum in any quarter to offset shortfalls in any later quarter, as long as your total advertising expenditures for the calendar year, on a cumulative basis, equal or exceed the stated minimum. (Franchise Agreement § 7.5.2)

ITEM 12. TERRITORY

Prefranchise Agreement

A prefranchise agreement is a contract under which we provide advice and support to you before you find an Approved Location. It does not grant any territorial rights to you.

Franchise Agreement

We grant to you and you accept from us the right and obligation to own and operate a Restaurant at an Approved Location within a Protected Area specified in Attachment 1 to the Franchise Agreement. The Protected Area will have an approximately two-mile radius. Except for the rights reserved below, we agree not to authorize any other franchisee or licensee to base a Restaurant within your Protected Area, base any company-owned Restaurant that uses the Trade Name or System within your Protected Area, or allow any other franchisee, licensee or company-owned Restaurant using the Trade Name or System to relocate to a site within your Protected Area.

We reserve the exclusive right to conduct or control Internet promotion and marketing and the exclusive right to establish rules for catering activities. We reserve all other rights not expressly granted to you in this Agreement, including the rights to establish Restaurants anywhere outside your Protected Area, despite how close the Restaurants are to your Restaurant and the right to sell food items prepared according to Proprietary Recipes through any means of distribution other than a CHARO CHICKEN® Restaurant.

You may relocate the Restaurant within your Protected Area only with our prior written consent, which we will grant only if the following conditions are fulfilled:

- (a) You and your Related Parties are in Good Standing under the Franchise Agreement, any other Agreement between us or our Related Party and you, and the Manual,

- (b) You and any Related Parties that have signed the original Franchise Agreement have signed a copy of the Franchise Agreement that is currently effective at the time of relocation,
- (c) You agree to plan, construct, equip, and furnish your new Restaurant so that the premises meet the standards of appearance and function applicable to the premises of new CHARO CHICKEN® Restaurants at the time you relocate,
- (d) You and any Related Parties that are parties to the Franchise Agreement have signed a release of claims in a form satisfactory to us with respect to past dealings with us and our Related Parties,
- (e) You have paid us the relocation fee described in Article 6 of the Franchise Agreement, and
- (f) We have given our prior written approval to the new site and the provisions of the lease for the new premises.

Subject to the conditions listed above, we will not unreasonably withhold or delay our consent.

We do not compete or intend to compete with you under another trade name or marks.

You will not have an option or right of first refusal for additional franchises.

You do not have to meet a quota or other condition to maintain the exclusivity of your Protected Area.

Area Development Agreement

Under the Area Development Agreement, we grant to you and you accept the exclusive right, during the term of the Area Development Agreement, to develop CHARO CHICKEN® Restaurants in a specified Development Area. As long as the Area Development Agreement is in effect, we may not operate or grant a franchise to any other person to operate a competitive Restaurant or Restaurants within the Development Area.

There are no circumstances under which we would permit more than one area developer to operate under Area Development Agreements in a single Development Area. However, if you fail to meet your Development Schedule, we may terminate the Area Development Agreement while allowing you to continue operation of franchised Restaurants that are in Good Standing. After termination of your Area Development Agreement, at our sole discretion, we may permit you to apply any unallocated portion of your development fee against the initial franchise fees for additional franchises granted singly.

We may not modify your Development Area while the Area Development Agreement is in effect. You will not have an option or right of first refusal for additional areas near your Development Area.

ITEM 13. TRADEMARKS

On November 2, 1999, and November 16, 1999, our applications for registration of (1) the word mark CHAR O CHICKEN® and (2) the words CHARO CHICKEN NATURALLY DELICIOUS and design® were granted by the United States Patent and Trademark Office ("USPTO") for use in connection with restaurant, food, and carry-out services. The registration numbers are, respectively, 2289792 and 2291944.

There is no currently effective determination of the Patent Office, the trademark administrator of this State, or any court, nor any pending interference, opposition or cancellation proceeding, nor any pending material litigation involving the Marks.

No agreements limit our rights to use or license the use of our Marks or Trade Name in any manner that is or might be material to your franchise agreement.

We are not aware of any infringing uses of our Trade Name or Marks.

You must notify us immediately in writing if you become aware of any unauthorized use of our Trade Name, Marks, or System. You must promptly notify us in writing of any claim, demand, or suit against you or against your principals based upon or arising in connection with your use of the Trade Name, Marks, or System. In any action or proceeding arising from or in connection with any such claim, demand, or suit, we may select legal counsel and have the right to control the proceedings at our own expense.

There is no requirement in the Franchise Agreement that we take affirmative action to protect our Trade Name, Marks or System when notified of a claim, as described above. We have invested substantial time, energy, and money in the promotion and protection of our Trade Name and other Marks. We have no present intention of altering them. However, rights in intangible property such as the Trade Name and Marks are often difficult to establish and defend and changes in the cultural and economic environment within which the System operates may make changes in the Trade Name and Marks desirable or necessary. We therefore reserve the right to change our Trade Name and Marks and the specifications for each when we believe that these changes will benefit the Franchise Network. You agree that you will promptly conform, at your own expense, to any such changes.

ITEM 14. PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION

We have not registered any patents or copyrights. We claim common law copyrights for our advertising materials and Manual. We consider much of the information contained in the Manual to be confidential. Therefore, the Franchise Agreement contains noncompetition and confidentiality provisions in the form of Attachment 3. In addition, Related Parties must sign noncompetition and confidentiality agreements regarding the Manual's contents.

We are not aware of any infringing uses of our copyrights for our advertising materials and Manual.

ITEM 15. OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISED BUSINESS

You or your Designated General Manager must personally supervise your Restaurant. There is no requirement that your Designated General Manager have an equity interest in the Restaurant.

Your Designated Manager must sign the Nondisclosure and Noncompetition Agreement attached to the Franchise Agreement and you must forward a copy of it to us within ten days. If we determine that a Designated Manager is not properly performing his or her duties, we will advise you and you must immediately take steps to correct the situation. Failure to comply with this provision may lead to Termination.

Your original Designated Manager must complete the initial training program to our satisfaction, but replacement or successor managers do not. However, they must be certified by us, which may mean testing or supplemental training. You must obtain our approval of your Designated Manager.

You may not solicit the employment of any manager or other employee who is employed by us or by another CHARO CHICKEN® franchisee.

ITEM 16. RESTRICTIONS ON WHAT YOU MAY SELL

You must offer and sell all the products and services and only the products and services that we have authorized you to provide.

If you would like to use or sell any product which is sold by a supplier not previously designated or approved by us, you must advise us of this fact and, upon our request, give us product specifications, sample products, and/or information about the supplier. We will promptly communicate to you either our approval or our reasons for withholding our approval. Silence may not be construed as consent.

To maintain quality, as a condition of approving a supplier of any product that bears the Trade Name or Marks, we may require that the supplier sign our License Agreement.

You must operate the Restaurant in total compliance with the standards and specifications stated in the Manual. We may make changes in these standards and specifications, when, in our reasonable discretion, change is needed for the continued success and development of the Franchise Network. These changes may make it necessary for you to buy equipment, supplies, furnishings or other goods, pay for additional

training for your employees, or incur other costs. You must promptly conform to the modified standards and specifications at your own expense.

You must comply with our rules for catering, as stated in the current version of the Manual. Otherwise, there is no restriction on the customers you may serve.

ITEM 17. RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION

The tables below briefly summarize certain important provisions of the Prefranchise, Franchise and Area Development Agreements. You should read the complete provisions in the documents attached to this offering circular.

PREFRANCHISE AGREEMENT

PROVISION	SECTION IN PREFRANCHISE AGREEMENT	SUMMARY
a. Term	Article 2	[^] 12 months
b. Renewal or extension of the term	Article 4	Submit written request; we decide whether to extend
c. Requirements for you to renew or extend	Article 4	Submit written request; we decide whether to extend
d. Termination by you	NA	NA
e. Termination by Charo Chicken without cause	[^] NA	NA
f. Termination by Charo Chicken with cause	Article 5	We can terminate if [^] you default
g. "Cause" defined - defaults which can be cured	[^] None	None
h. "Cause" defined - defaults which cannot be cured	Article 5	Misrepresentation or omission in your franchise application; failure to proceed with franchise agreement in a timely manner; your failure to qualify now as a franchisee
i. Your obligations on termination/ nonrenewal	NA	NA
j. Transfer of contract by Charo Chicken	NA	NA
k. "Transfer" by you - definition	NA	NA
l. Charo Chicken's approval of your Transfer	NA	NA
m. Conditions for Charo Chicken's approval of Transfer	NA	NA
n. Charo Chicken's right of first refusal to buy your business	NA	NA
o. Charo Chicken's option to buy your business	NA	NA
p. Your death or disability	NA	NA

PROVISION	SECTION IN PREFRANCHISE AGREEMENT	SUMMARY
q. Noncompetition covenants during term of franchise	NA	NA
r. Noncompetition covenants after franchise is terminated or expires	NA	NA
s. Modification of the agreement	8.4	Modification of agreement only by written agreement of parties; Manual may change from time to time
t. Integration/merger clause	8.7	Agreement is what is written in Prefranchise Agreement; inconsistent promises are not enforceable
u. Dispute resolution by arbitration or mediation	Article 7	Arbitration will be conducted by AAA in Orange County, California
v. Choice of forum	[^] NA	[^] NA
w. Choice of law	8.2	California law, with specified exceptions

FRANCHISE AGREEMENT

PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
a. Term of franchise	4.5.1	Ten years or length of lease, whichever is less
b. Renewal or extension of the term	4.5.2	If you meet conditions, you can add two consecutive ten-year terms
c. Requirements for you to renew or extend	4.5.2 (a) - (f)	Sign new agreement, be in good standing, modernize if necessary, give timely notice, pay fee, have right to renew lease and sign release
d. Termination by you	10.1	With our mutual consent
e. Termination by Charo Chicken without cause	None	NA
f. Termination by Charo Chicken with cause	10.2.1	We can terminate only upon uncured or noncurable material default
g. "Cause" defined - defaults which can be cured	10.2.2 (a) - (e)	You have 10 days to cure non-payment defaults; you have 30 days to cure other curable defaults
h. "Cause" defined - defaults which cannot be cured	10.2.2 (f) - (q)	Noncurable defaults include failure to successfully complete initial training, misuse of marks, misrepresentation in securing franchise, abandonment, repeated defaults, unapproved transfer, insolvency, and competition with Franchise Network

PROVISION	SECTION IN FRANCHISE AGREEMENT	SUMMARY
i. Your obligation on termination/ nonrenewal	10.3 (b) - (h)	Complete deidentification, payment of amounts due, honoring option to purchase or lease, assigning phone numbers and more
j. Assignment of contract by Charo Chicken	9.7	May assign to company that assumes obligations
k. "Transfer" by you - definition	3.1 ⁹ _≡	Includes transfer of agreement or sale of assets or ownership change
l. Charo Chicken's approval of your Transfer	9.1	We have the right to approve all Transfers upon conditions being met
m. Conditions for Charo Chicken's approval of Transfer	9.4 ⁴	New franchisee qualifies, Transfer fee paid, all debts paid, all defaults cured, bulk laws satisfied, purchase agreement approved, training completed, release signed, and new franchisee signs current agreement
n. Charo Chicken's right of first refusal to buy your business	9.3	We have the right to match any offer to buy your business
o. Charo Chicken's option to buy your business	10.3 (f)	We have an option to buy any of the assets of your business upon termination
p. Your death or disability	9.6	Heirs must qualify or have six months to sell
q. Noncompetition covenants during term of franchise	8.6, Attachment 3	No involvement in any competing business
r. Noncompetition covenants after franchise is terminated or expires	8.6, Attachment 3	No involvement in competing business for two years within 2 miles of any Restaurant
s. Modification of the agreement	11.4	Modification of agreement only by written agreement of parties; Manual may change from time to time
t. Integration/merger clause	11.6	Agreement is what is written in Franchise Agreement; inconsistent promises are not enforceable
u. Dispute resolution by arbitration or mediation	11.7 ¹ _± 11.8 ⁸ _≡	Mediation and/or arbitration will be conducted by AAA in Orange County, California ₂
v. Choice of forum	None	NA
w. Choice of law	11.2	California law, with specified exceptions

AREA DEVELOPMENT AGREEMENT

PROVISION	SECTION IN AREA DEVELOPMENT AGREEMENT	SUMMARY
a. Term of the franchise	4.4.1	Term is length of the Development Schedule

PROVISION	SECTION IN AREA DEVELOPMENT AGREEMENT	SUMMARY
b. Renewal or extension of the term	4.4.2	You have no right to renew, but we may negotiate new term upon expiration
c. Requirements for you to renew or extend	4. ⁸	<u>All obligations performed, demonstrate financial capability and adherence to development schedule</u>
d. Termination by you	None	NA
e. Termination by Charo Chicken without cause	None	NA
f. Termination by Charo Chicken with cause	9.1	<u>We</u> can terminate only if you default
g. "Cause" defined - defaults which can be cured	9.1 (b) and (c)	Failure to meet Development Schedule or make timely payment
h. "Cause" defined - defaults which cannot be cured	9.1 (a), 9.2	Your attempt to transfer or encumber agreements without our written consent or material default of another agreement
i. Your obligations on termination/nonrenewal	9.3	You cede remainder of Development Area
j. Assignment of contract by Charo Chicken	7.1	<u>We</u> may assign to company that assumes obligations and meets conditions
k. "Assignment" by you - definition	7.3 [^]	Includes assignment of contract or assets or ownership change
l. Charo Chicken's approval of your assignment	7.3.2	<u>We</u> ha [^] ve the right to approve all assignments but will not unreasonably withhold approval
m. Conditions for Charo Chicken's approval of assignment	7.3.2 (a) - (e)	New franchisee qualifies, assignee assumes obligations, assignee completes training, assignor is not in default, assignee is not in default
n. Charo Chicken's right of first refusal to buy your business	7.4	<u>We</u> ha [^] ve the right to match any offer to buy your business
o. Charo Chicken's option to buy your business	7.4.3	After 90 days of proposed transfer, <u>we</u> regain [^] another right of first refusal
p. Your death or disability	7.3.3	Transfer on death or disability constitutes an assignment, subject to same conditions as other assignments
q. Noncompetition covenants during term of franchise	8.1	No involvement in any competing business
r. Noncompetition covenants after franchise is terminated or expires	8.2	No involvement in competing business for two years within Development Area
s. Modification of the agreement	<u>8.3</u> , 11.4	Modification only by agreement of parties
t. Integration/merger clause	11.6	Agreement is only what is written in franchise agreement; other promises are unenforceable

PROVISION	SECTION IN AREA DEVELOPMENT AGREEMENT	SUMMARY
u. Dispute resolution by arbitration or mediation	11.7 [^] 11.8 ⁸	Mediation and/or arbitration will be conducted by AAA in Orange County, California
v. Choice of forum	None	NA
w. Choice of law	11.2	California law, with specified exceptions

Note: Please see "Specific State Disclosures" attached to this Offering Circular for important information concerning your rights under certain laws of various states, including your rights in connection with choice of law, choice of forum, termination and renewal.

ITEM 18. PUBLIC FIGURES

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

ITEM 19. EARNINGS CLAIMS

We do not give nor authorize our salespeople to give any oral or written information concerning the actual or potential sales, costs, income or profits of a CHARO CHICKEN® Restaurant. Actual results vary from Restaurant to Restaurant and we cannot predict the results of any particular Restaurant. If anyone connected with us gives you any information about sales, income or profits, you should regard it as completely unreliable and unauthorized and should report it immediately to Ray Perry.

ITEM 20. LIST OF OUTLETS

The following table gives the status of CHARO CHICKEN® prefranchisees in each state where we had prefranchisees at the end of each of our last three fiscal years:

PREFRANCHISEE STATUS SUMMARY ON DECEMBER 31, 2005 / 2004 / 2003[^]

STATE	CANCELLED	EXPIRED	REACQUIRED BY FRANCHISOR	SIGNED FRANCHISE AGREEMENT	TOTAL FROM LEFT	EXISTING AT YEAR END
						0/0/0

The following table gives the status of CHARO CHICKEN® franchised Restaurants in each state where we had Restaurants at the end of each of the last three fiscal years:

**FRANCHISED RESTAURANT STATUS SUMMARY
ON DECEMBER 31, 200⁵, 200⁴ AND 2003**

State	Transfers	Cancelled or Terminated	Not Renewed	Reacquired by Franchisor	Left the System - Other	Total From Left	Operating Last Year End
California	<u>3</u> / <u>1</u> / 0	0 / 0 / 0	0 / 0 / 0	0 / 0 / 0	<u>0</u> / 0 / <u>0</u>	<u>3</u> / <u>1</u> / 0	<u>18</u> / <u>14</u> / 7
Total	<u>3</u> / <u>1</u> / 0	0 / 0 / 0	0 / 0 / 0	0 / 0 / 0	<u>0</u> / 0 / <u>0</u>	<u>3</u> / <u>1</u> / 0	<u>18</u> / <u>14</u> / 7

The following table gives the status of company-related CHARO CHICKEN® Restaurants in each state where we had Restaurants at the end of each of our last three fiscal years:

**COMPANY-RELATED RESTAURANT STATUS SUMMARY
ON DECEMBER 31, 200⁵, 200⁴ AND 200³**

State	Opened	Closed	Total From Columns to Left	Restaurants Operating at Year End
California	0 / 0 / 0	0 / 0 / 0	0 / 0 / 0	4 / 4 / 4
Totals	0 / 0 / 0	0 / 0 / 1	0 / 0 / 0	4 / 4 / 4

PROJECTED OPENINGS IN 200⁶

State	Area Development Agreements Signed	Franchise Agreements Signed but Store Not Open	Projected Franchised New Stores in the Next Year	Projected Company Owned Openings in Next Year
<u>Arizona</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>0</u>
California	<u>8</u>	<u>4</u>	<u>9</u>	0
Nevada	<u>0</u>	0	<u>2</u>	0
Texas	1	1	1	0
Totals	<u>10</u>	<u>5</u>	13	0

Attached to this Offering Circular as Exhibit D-1 is a list of the names of all franchisees under franchise agreements with us with the addresses and phone numbers of each of their restaurants.

Attached to this Offering Circular as Exhibit D-3 is the name and last known home address and telephone number of each franchisee whose CHARO CHICKEN® franchise has, during the most recently completed fiscal year been [^]terminated, canceled, not renewed, or who has otherwise voluntarily or involuntarily ceased to do business under the franchise agreement or who has not communicated with [^]us during the past ten weeks.

ITEM 21. FINANCIAL STATEMENTS

Attached to this Offering Circular as Exhibit B are the [^]audited financial statements for the fiscal years ending December 31, 200[^]3, 200[^]4 and 200[^]5.

ITEM 22. CONTRACTS

The following agreements are proposed for use in this state in connection with a CHARO CHICKEN® franchise: Prefranchise Agreement, Franchise Agreement, Authorization Agreement for Prearranged Payment, Nondisclosure and Noncompetition Agreement, Personal Guaranty and Subordination Agreement, Release of Claims, [^]Area Development Agreement and Confidentiality Agreement.

ITEM 23. RECEIPT

Attached, as the last page of this Offering Circular (Exhibit E-2), is a receipt. Please sign it, date it as of the date you receive the offering circular, and return it to us. A duplicate of the receipt is also attached for your records.

ADDENDUM TO OFFERING CIRCULAR: SPECIFIC STATE DISCLOSURES

Alberta

Sections 13 and 14 of the Alberta Franchises Act provide that if we fail to give you this offering circular at least 14 days before you sign any agreement related to the franchise or pay any money to the franchisor, whichever is earlier, you have a right to cancel the franchise agreement by giving notice of cancellation to us. We must compensate you for any net losses that you have suffered in buying, setting up, and operating the franchised business within 30 days after receiving your notice of cancellation. Your right to cancel the franchise in this manner expires at the earlier of 60 days after you receive the offering circular or two years after the franchise is granted to you.

Section 9 of the Alberta Franchises Act provides that if you suffer a loss because of a misrepresentation contained in this offering circular, you have a right of action for damages against any or all of us and every person who signed the offering circular.

Under § 18 of the Alberta Franchises Act, any waiver or release by a franchisee of a right given by the Act or the regulations pertaining to the Act or a requirement of the Act or regulations is void.

California

Neither the franchisor, nor any person or franchise broker identified in Item 2 of this offering circular is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling the person from membership in the association or exchange.

California Business and Professions Code §§ 20000 through 20053 provide rights to the franchisee concerning termination or non-renewal of a franchise. If the franchise agreement contains a provision that is inconsistent with the law, the law will control.

The franchise agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 et seq.).

The franchise agreement contains a covenant not to compete that continues after the termination of the franchise. This provision may not be enforceable under California law.

Under both the California Franchise Relations Act and the Franchise Investment Law, a provision in a franchise agreement that requires you to waive your rights under either or both of these laws is void. Any release of claims that the franchisor asks you to sign will specifically exclude claims under these franchise laws.

Section 31125 of the California Corporations Code requires the franchisor to give the franchisee a special disclosure document before soliciting a proposed material modification of an existing franchise.

THE ADDRESS OF OUR WEBSITE IS [HTTP://WWW.CHAROCHICKEN.COM](http://www.charochicken.com). IT HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF CORPORATIONS. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF CORPORATIONS AT [HTTP://WWW.CORP.CA.GOV](http://www.corp.ca.gov).

THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF EACH PROPOSED AGREEMENT RELATING TO THE GRANT OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE OFFERING CIRCULAR.

Illinois

Many states have statutes concerning the relationship between franchisor and franchisee. These statutes deal with such matters as renewal and termination of franchises. Provisions of this sort will prevail over inconsistent terms in a franchise agreement. Illinois has such a statute (815 ILCS 705/19 and 705/20).

The franchise agreement provides for termination upon bankruptcy. A provision in a franchise agreement that terminates the franchise upon bankruptcy of the franchisee may not be enforceable under Title 11, U.S. Code § 101.

The franchise agreement includes a choice of law clause designating another state's law as the governing law. Under Illinois law, a franchise agreement may not provide for a choice of law of any state other than Illinois. Accordingly, Item ¹⁷w. is amended to state "none" under the heading for "Section in Franchise Agreement" and "none" under the heading for "Summary." The franchise agreement is amended to omit § 11.2.

The franchise agreement requires you to sign a release of claims as a condition of relocation, Transfer, or renewal of the franchise. Under the law of Illinois, any provision that purports to bind a person acquiring a franchise to waive compliance with the franchise disclosure law of Illinois is void. Accordingly, insofar as the franchise agreement requires you to waive your rights under the Illinois franchise law, these requirements are deleted from the franchise agreement. This provision will not prevent the franchisor from requiring you to sign a general release of claims as part of a negotiated settlement of a dispute.

Maryland

The franchise agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 et seq.).

The Franchise Agreement says that we may require you to sign a release of claims, other than claims that may not be waived in advance under applicable law, as a condition of renewal or Transfer of your franchise. Under Maryland law, the release will not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

Under the Prefranchise Agreement, the Franchise Agreement and the Area Development Agreement, you must disclaim the occurrence and/or acknowledge the

non-occurrence of acts that might constitute a violation of the Maryland franchise law. These representations are not intended to nor do they act as a release, estoppel or waiver of any liability incurred under the Maryland Franchise Registration and Disclosure Law.

Any claims arising under the Maryland Franchise Registration and Disclosure law must be brought within three years after the franchise is granted.

Minnesota

The Franchise Agreement requires binding arbitration. The arbitration will occur in a state other than Minnesota, with costs being borne by the non-prevailing party. Under Minnesota Statutes § 80C.21 and Minnesota Rule Part 2860.4400J, this provision may not in any way invalidate or reduce any of the franchise owner's rights that are listed in Chapter 80C of the Minnesota Statutes.

The Franchise Agreement requires application of the laws of a state other than Minnesota. Under Minnesota Statutes § 80C.21 and Minnesota Rule Part 2860.4400J, this § may not in any way invalidate or reduce any of the franchise owner's rights that are listed in Chapter 80C of the Minnesota Statutes.

With respect to franchises governed by Minnesota law, the franchisor will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4, and 5 which require, except in certain specified cases, that a franchisee be given 90 days notice of termination (with 60 days to cure) and 180 days notice of non-renewal of the Franchise Agreement.

The Franchise Agreement requires you to sign a release as a condition of renewing or Transferring a franchise. Minn. Rule 2860.4400J prohibits us from requiring you to sign a release of claims arising under the Minnesota Franchise Law. Therefore, any release we require you to sign will exclude claims arising under the Minnesota Franchise Law.

The Agreements provide that we may be entitled to a temporary injunction or decree of specific performance without bond if we can demonstrate to a court of competent jurisdiction that there is substantial likelihood of your breach or threatened breach of any of the terms of the Agreements. The Agreements are amended to provide that we are entitled to seek a temporary injunction or decree of specific performance under these circumstances, not that we are necessarily entitled to obtain this relief.

The Agreements provide for shortened statutes of limitations. Under Minnesota law, any claims arising under § 80C may be brought within three (3) years after the cause of action accrues. Therefore, in Minnesota the agreements are amended to provide for a three- (3-) year period within which to bring any Minnesota claims.

Nevada

The following disclosures are added to Item 2 concerning BMJ2 Development, LLC, our Area Director for Clark County:

Barry A. Ogawa, Managing Member

Barry A. Ogawa has been BMJ2's managing member since October 2004. He has also been the Director of Franchise Sales for QSC Development, Inc., (a subsidiary of Quizno's Subs Corporation) in Orange, California, since February 2004. He served as Director of Franchise Sales for Quizno's Subs Corporation, Denver, from January 2000 until August 2003. He was the Director of Sales and Marketing for Kelly's Enterprises, Inc., in Beverly Hills from January 1996 until January 2000.

James D. Merlo, Vice President of Development

James D. Merlo has been BMJ2's Vice President since October 2004. He was also Senior Vice President of Quizno's Subs Corporation from June 2000 until October 2005. Before that, from June 1998 until June 2000, he served as Regional Vice President for Quizno's Subs Corporation in Los Angeles. Prior to that, from November 1997 until June 1998, he was Vice President of Store Development for Quizno's Subs Corporation in Denver.

Martin L. Brenner, Director of Construction, Training and Operations

Martin L. Brenner joined BMJ2 in October 2004 as Director of Construction, Training and Operations. In addition, from January 1997 until March 2004, he served as Director of Construction, Training and Operations for Quizno's Subs Corporation, Denver, Colorado. Before that, from April 2004 until December 2005, he was Director of Membership and Sales for Sonoma Golf Club, Sonoma, California.

New York

THE FRANCHISOR MAY, IF IT CHOOSES, NEGOTIATE WITH YOU ABOUT ITEMS COVERED IN THE PROSPECTUS. HOWEVER, THE FRANCHISOR CANNOT USE THE NEGOTIATING PROCESS TO PREVAIL UPON A PROSPECTIVE FRANCHISEE TO ACCEPT TERMS WHICH ARE LESS FAVORABLE THAN THOSE SET FORTH IN THIS PROSPECTUS.

Except as stated in Item 3 of this prospectus, neither the franchisor, its predecessor or predecessors nor any person or sales agent identified in Item 2 of this prospectus: (i) has pending any administrative, criminal or material civil action (or a significant number of civil actions irrespective of materiality) alleging a felony, violation of any franchise law, securities law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property or comparable allegations; (ii) has been convicted of a felony or pleaded nolo contendere to a felony charge or, within the 10-year period immediately preceding the application for registration, has been

convicted of a misdemeanor or pleaded nolo contendere to a misdemeanor charge or been held liable in a civil action by final judgement or been the subject of a material complaint or other legal proceeding if such misdemeanor conviction or charge or civil action, complaint or other legal proceeding involved violation of any franchise law, securities law, fraud, embezzlement, fraudulent conversion, restraint of trade, unfair or deceptive practices, misappropriation of property or comparable allegations; (iii) is subject to any injunctive or restrictive order or decree relating to franchises or under any Federal, State or Canadian franchise, securities, antitrust, trade regulation or trade practice law as a result of a concluded or pending action or proceeding brought by a public agency.

Neither the franchisor, its affiliate, its predecessor, officers, nor general partner during the 10-year period immediately before the date of the offering circular: (a) filed as debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code; (b) obtained a discharge of its debts under the bankruptcy code; or (c) was a principal officer of a company or a general partner in a partnership that either filed as a debtor (or had filed against it) a petition to start an action under the U.S. Bankruptcy Code or that obtained a discharge of its debts under the U.S. Bankruptcy Code during or within 1 year after the officer or general partner of the franchisor held this position in the company or partnership.

The introduction to Item 17 is amended to read as follows:

THIS TABLE LISTS CERTAIN IMPORTANT PROVISIONS OF THE FRANCHISE AND RELATED AGREEMENTS PERTAINING TO RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION. YOU SHOULD READ THESE PROVISIONS IN THE AGREEMENTS ATTACHED TO THIS OFFERING CIRCULAR.

The Summary column of Item 17d is amended to read: "You may terminate upon any grounds permitted by law."

The Summary column of Item 17j is amended to read: "We may assign only to a financially responsible assignee that we reasonably believe[^] capable of performing our obligations under the franchise agreement and which expressly assumes these obligations in writing."

The Summary column of Item 17s is amended to add the following: "Revisions to the Manual will not unreasonably affect your obligations, including your economic obligations, under the Franchise Agreement."

The Summary column of Item 17w is amended to add the following: The foregoing choice of law should not be considered a waiver of any right conferred upon you by the General Business Law of the State of New York, Article 33."

Rhode Island

The Rhode Island Securities Division requires the following specific disclosures to be made to prospective Rhode Island franchisees:

In spite of the provisions of Item 17v and Item 17w of the Offering Circular, any litigation or arbitration arising under the Franchise Agreement will take place in Rhode Island or other place mutually agreed to by the franchisee and franchisor.

To the extent required by § 19-28.1-14 of the Rhode Island Franchise Investment Act, the Agreements will be governed by the laws of the State of Rhode Island.

South Dakota

The Franchise Agreement includes a covenant not to compete after termination of the franchise. Covenants not to compete upon termination or expiration of the franchise agreement are generally unenforceable in the State of South Dakota, except in certain instances provided by law. The Franchise Agreement provides for arbitration in California. Under South Dakota law, arbitration must be conducted at a mutually agreed upon site in accordance with § 11 of the Commercial Arbitration Rules of the American Arbitration Association.

The Franchise Agreement designates California law as the governing law, except that the arbitration clause is to be construed under the Federal Arbitration Act and trademark issues are to be construed under the Lanham Act. Franchise registration, employment, covenants not to compete, and other matters of local concern will be governed by the laws of the State of South Dakota, but contractual and all other matters will be subject to application, construction, enforcement, and interpretation under the governing law of California.

Under South Dakota law, any provision in a franchise agreement which designates jurisdiction or venue or requires the franchisee to agree to jurisdiction or venue outside South Dakota is void with respect to any cause of action which is governed by the law of South Dakota.

Under South Dakota law, termination provisions covering breach of the franchise agreement, failure to meet performance and quality standards, and failure to make royalty payments contained in the offering circular and franchise agreement must afford a franchisee thirty (30) days written notice with an opportunity to cure the default prior to termination. Under SDL 37-5A-86, any condition, stipulation or provision purporting to waive compliance with any provision of this chapter or any rule or order under it is void.

Any acknowledgment, provision, disclaimer or integration clause or a provision having a similar effect in a franchise agreement does not negate or act to remove from judicial review any statement, misrepresentation or action that would violate the South Dakota franchise law or a rule or order under the South Dakota franchise law.

Washington

The State of Washington has a statute, RCW 19.100.180, that may supersede the franchise agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the franchise agreement in your relationship with the franchisor, including the areas of termination and renewal of the franchise.

In Washington, provisions of the Franchise Agreement which unreasonably limit the statute of limitations or remedies under the Washington Franchise Investment Act, such as the right to jury trial, may not be enforceable.

The Franchise Agreement requires application of the laws of a state other than Washington. If there is a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chap. 19.100 RCW, will prevail.

The Franchise Agreement requires you to sign a release of claims as a condition of renewing or Transferring the franchise. A release or waiver of rights signed by a franchise owner may not include rights under the Washington Franchise Investment Protection Act.

Under Washington law, transfer fees may be collected only to the extent that they reflect the franchisor's reasonable estimated or actual costs in connection with the Transfer.