

**INFORMATION FOR PROSPECTIVE FRANCHISEES
REQUIRED BY THE 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.

FEDERAL TRADE COMMISSION
Washington, D.C. 20580

Name of Franchisor: Churro Station Franchises, LLC

Date of Disclosure Document: March 31, 2006. The effective date of this circular in certain states is as noted on the State-Specific Addendum to this Franchise Offering Circular.



FRANCHISE OFFERING CIRCULAR

Churro Station Franchises, LLC
a California Limited Liability Company
2 Fifer Avenue, Suite 110
Corte Madera, California 94925
(415) 927-7141

Churro Station franchisees operate retail shops featuring churros and, Mexican hot chocolate produced in their shops as well as other food items and nonalcoholic beverages. *Churro Station* franchisees may also be authorized or required to acquire and service wholesale accounts to which they sell items they produce.

The franchise fee for a single Churro Station shop is \$25,000.00. The initial franchise fee is discounted for any additional shops covered by the Franchise Agreement. The estimated initial investment required to open a single *Churro Station* shop, including the initial franchise fee, is ~~\$73,250.00~~ 76,750.00 to ~~\$158,200.00~~ 162,600.00.

Risk Factors:

1. THE FRANCHISE AGREEMENT REQUIRES YOU TO MEDIATE, ARBITRATE, AND/OR LITIGATE WITH US ONLY IN SAN FRANCISCO, CALIFORNIA. REQUIRING YOU TO MEDIATE, ARBITRATE, AND LITIGATE IN SAN FRANCISCO MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST MORE TO MEDIATE, ARBITRATE, AND LITIGATE IN CALIFORNIA THAN IN YOUR HOME STATE.
2. THE FRANCHISE AGREEMENT STATES THAT, EXCEPT FOR CERTAIN PROVISIONS, CALIFORNIA LAW GOVERNS THAT AGREEMENT, AND THAT LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.
3. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

Information comparing franchisors is available. Call the state administrators listed on Exhibit 1 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 that anything in this offering circular is untrue, contact the Federal Trade Commission and your state agencies.

Effective Date: The issuance date of this Franchise Offering Circular is March 31, 2006. The effective date in states that require franchise registration are listed on the State-Specific Addendum to this circular.

CHURRO STATION FRANCHISES, LLC

FRANCHISE OFFERING CIRCULAR

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1. THE FRANCHISOR AND ITS PREDECESSORS AND AFFILIATES

In this Franchise Offering Circular the words "we", "us", and "our" refer to Churro Station Franchises, LLC, the franchisor of *Churro Station* shops. The words "you" and "your" refer to the person, people, or entity who buy a *Churro Station* franchise.

We are a limited liability company that was formed in California on July 20, 2005. We do not do business under any other names. Our business address is 2 Fifer Avenue, Suite 110, Corte Madera, California 94925.

We are licensed to franchise *Churro Station* shops by Churro Station, LLC, a California limited liability company, which is referred to in this Franchise Offering Circular as "our licensor". Our licensor is currently our only affiliate.

The first *Churro Station* shop was opened by our licensor in June, 2003, in San Rafael, California. We have contracted with our licensor to perform certain services for us, such as some aspects of franchisee training. However, our licensor is an independent entity without liability for our acts and omissions and we are without liability for the acts and omissions of our licensor.

Our only business is granting franchises for *Churro Station* shops. We currently do not operate any *Churro Station* shops. Neither we nor our licensor has offered franchises in any other lines of business.

The principal product sold by *Churro Station* shops is churros, fluted sticks of fried dough rolled in cinnamon sugar or with fillings. Churros originated in Spain and now are common in Latin America. *Churro Station* shops also serve Mexican hot chocolate, and other food items as well as soft drinks.

The market for the type of food served by *Churro Station* shops is developing although it is well developed in the Hispanic community, members of which are currently the primary customers of *Churro Station* shops. *Churro Station* shops cater to the general public although the Hispanic market provides our primary customer base.

Churro Station shops compete for customers with other sellers of churros, as well as other marketers of snack products, such as donut shops. *Churro Station* shops normally are located in leased spaces, usually in neighborhood business districts, in local shopping centers, or similar retail areas. It is likely that *Churro Station* shops will have to compete for customers with other food providers in the same business districts, shopping centers, or other areas in which they are located.

Churro Station shops are subject to laws and regulations affecting sellers of food products, including health and safety codes and environmental laws, as well as other laws and rules applicable to businesses in general.

2. BUSINESS EXPERIENCE

The principal officer and other executives who have responsibility concerning our franchises are:

Melanie L. Farkas – Chief Executive Officer

Ms. Farkas has been our Chief Executive Officer since our formation. She began developing the *Churro Station* concept in January, 2000. Ms. Farkas became the Chief Executive Officer of our licensor upon its formation in July, 2002, a position she continues to hold.

Karol Caballero – Director of Franchise Development

Ms. Caballero assumed her position with us in May, 2005. From September, 2004, until May, 2005, Ms. Caballero was a public relations assistant with Allison Speer Public Relations in San Francisco, California. She was Franchise Sales Coordinator of Gymboree Play Programs, Inc. in San Francisco from April, 1999, until April, 2004.

Zoila Aldana – Director of Operations and Training

Ms. Aldana joined us in her present capacity upon our formation. Since April, 2003, she has also been the General Manager of the *Churro Station* shop owned and operated by our licensor. From October, 2000, until April, 2003, she owned and operated a housekeeping business in Vallejo, California.

3. LITIGATION

No litigation is required to be disclosed in this offering circular.

4. BANKRUPTCY

No person or entity identified in Item 1 or Item 2 of this offering circular has been involved as a debtor in proceedings under the U. S. Bankruptcy Code that are required to be disclosed in this Item 4.

5. INITIAL FRANCHISE FEE

The initial franchise fee for each *Churro Station* shop depends on the number of shops that you agree in the Franchise Agreement to open. The franchise fee for a single *Churro Station* shop is \$25,000.00. If you agree to open 2 *Churro Station* shops, the total franchise fee for both shops is \$45,000.00. If the Franchise Agreement covers 3 shops, the total franchise fee for all 3 shops is \$63,000.00. The franchise fee for 4 shops is \$78,000.00 with additional shops over 4 covered by the same Franchise Agreement being \$15,000.00 each.

Once you are a *Churro Station* franchisee, if you want to open *Churro Station* shops in addition to those covered by your initial Franchise Agreement, the franchise fee for each

additional shop will be equal to 80% of the single-shop franchise fee we are charging at the time you enter into your subsequent Franchise Agreement or Franchise Agreements.

The initial franchise fee is payable in full when your Franchise Agreement is signed. The refundability of that fee is discussed below.

Once you have signed your Franchise Agreement, if you are opening a single *Churro Station* shop, you are given the exclusive right to look for a location for your shop in an area designated in your Franchise Agreement. We must approve any proposed location before you can sign a lease or otherwise acquire it. If you do not find a location acceptable to us within the concerned area within 30 days from the date of your Franchise Agreement, you will have another 60 days on a nonexclusive basis within which to find a location in that area that we find acceptable. During the nonexclusive 60-day period, we can allow other *Churro Station* franchisees to, and can ourselves, seek and take locations for *Churro Station* shops within the designated area. The taking of sites in your designated area by us, or by others, may limit or eliminate the acceptable locations available to you.

If you do not find an acceptable location in your designated area within 90 days from the date of your Franchise Agreement, we can terminate the Franchise Agreement and refund one-half of your initial fee. We can retain the balance of your initial fee as consideration for our efforts in connection of granting you the franchise.

Once you have identified a location that we find acceptable, you must obtain a lease, or if no lease is then available a letter of intent, within 90 days of our approving the site. If you do not, we can terminate the Franchise Agreement and refund one-half of your initial franchise fee. Once you sign your lease, the franchise fee is not refundable.

If at any time before we have approved a location for your shop, we present you with a location that we consider acceptable, you will have 5 days from being notified of the location within which to accept the location. If you do not accept the location in writing within the 5-day period, we can offer the location to another *Churro Station* franchisee, we can retain the location for a company-owned *Churro Station* shop, and/or we can terminate your Franchise Agreement and refund one-half of the franchise fee you have paid.

In connection with our approval of your location, we both must agree on any protected territory granted to you. See Item 12 below for more information about protected territories. If, within a reasonable time we cannot agree on a protected territory, or agree that there will be no protected territory granted to you in connection with your shop, we can terminate the Franchise Agreement and refund one-half of your initial franchise fee.

If the Franchise Agreement grants you the right to open more than one *Churro Station* shop, your Franchise Agreement will set forth your shop-opening schedule. You must open each shop by the date specified in that schedule or you will lose your right to open any shops not then open or under construction. If you default under your shop-opening schedule, we can retain all fees you have paid to us as consideration for holding your designated area from the market and granting you development rights.

Since we charge reduced fees if you purchase multiple shops, in our discretion we can reduce or eliminate the initial services we provide in connection with the opening of your second and subsequent shops.

Other than as discussed above, none of our franchise fees are refundable and are the same for all franchisees.

6. OTHER FEES

The following chart lists the other fees you must pay to us in connection with a single-shop *Churro Station* franchise.

Name of Fee (See Note 1)	Amount	Due Date	Remarks
Royalty	5% of your gross receipts	Monthly by the 10th day of each month based on your gross receipts for the prior month.	"Gross receipts" includes all revenues you receive from your <i>Churro Station</i> business. "Gross receipts" does not include sales or use taxes, or certain other items. (See Note 2)
Advertising Fund	Up to 3% of your gross receipts	Monthly by the 10th day of each month based on your gross receipts for the prior month.	This fee is not currently payable. It is due only if we begin a national or regional cooperative advertising program. We will determine the amount payable to this program but it will not exceed 3% of your gross revenues. (See Note 3)
Regional Advertising Fund	Up to 2% of your gross receipts	Monthly or as specified at the time	This fee is not currently payable. It is due only if we begin a regional cooperative advertising program. We will determine the amount payable to this program but it will not exceed 2% of your gross revenues.
Relocation Fee	30% of the franchise fee we are charging for new single-unit franchises at the time of your relocation (See Note 4)	Upon our approval of the site for your relocated shop	If you relocate your shop on renewal you will pay both the renewal fee and the relocation fee.

Name of Fee (See Note 1)	Amount	Due Date	Remarks
Renewal Fee	10% of the franchise fee we are charging for new single-unit franchises at the time of your renewal or the amount of the time and expenses we incur in connection with your renewal, whichever amount is greater. (See Note 4)	Upon our approval of your renewal	If you relocate your shop on renewal you will pay both the renewal fee and the relocation fee.
Transfer Fee	50% of the franchise fee then being charged for new <i>Churro Station</i> franchises. If the transfer is to an existing <i>Churro Station</i> franchisee, the transfer fee will be equal to 25% of the then-current franchise fee or the amount of our time and costs, whichever amount is greater (See Note 4)	Upon approval of the transfer	Payable when there is a cumulative transfer of over 50% of the ownership of the franchise or any entity owning it. The transfer fee is not charged if you transfer the franchise to a wholly-owned entity. If the transferee is not then a <i>Churro Station</i> franchisee, and more than one shop is being transferred, the transfer fee will be 50% of our then-current initial fee for the first shop being transferred, 25% of that fee for the second shop, and no additional fee for shops over 2.
Special Shop Opening Charge (See Note 5)	Up to \$300.00 per day plus our out of pocket expenses for travel, lodging, and related costs.	As we direct	This fee is payable only if you have notified us that your shop is ready for opening but it is not ready for our representative to assist with the set up and opening when he or she arrives.
Additional Training Fee	Not to exceed \$250.00 per person per day (See Note 5)	In advance of the service or as we otherwise specify	This fee is only for extra training. We do not charge for your initial training.
Special Visit Fee	\$250.00 per day plus our out of pocket costs (See Note 5)	In advance of the service or as we otherwise specify	This fee is only for assistance at your shop location over and above that which we routinely provide to you at no extra charge.

Name of Fee (See Note 1)	Amount	Due Date	Remarks
Meeting Fees	As specified at the time	As specified at the time	We can charge you a reasonable fee for attending our meetings, conventions, seminars, courses, sessions, events, and programs.
Late Charge	1½% per month	Monthly	Payable on past due balances.
Audit Fees	Cost of audit and our out of pocket expenses	On demand	Due only if an audit shows an understatement of at least 5% of gross receipts in any monthly report you make to us or if you fail to send us the financial reports required by your Franchise Agreement.

NOTES:

1. These fees are payable to us and are not refundable.
2. See Section 9.10 of the Franchise Agreement for a complete definition of "Gross Receipts".
3. We can charge the advertising fund for the time, expenses, and overhead of our employees who work on shop-related advertising, promotion, and public relations activities and for the administration of, and accounting for, the fund. Rather than trying to determine the exact amount of this charge, we can charge the fund in an amount equal to 10% of the sums collected by the fund.
4. If we are not granting new franchises at the time the fee is to be paid, this fee is based on the franchise fee we were charging for single-shop franchises at the time we stopped granting new franchises, adjusted by any increase in the Consumer Price Index between the time we stopped granting new franchises and the date of the transaction on which the fee is being charged.
5. This fee can be adjusted if there has been any increase in the Consumer Price Index between the date of your Franchise Agreement and the date of the service or transaction for which we charge this fee.

7. INITIAL INVESTMENT

Below is the estimated initial investment for a single *Churro Station* shop.

YOUR ESTIMATED INITIAL INVESTMENT

Cost Category	Amount	Method Of Payment	When Due	To Whom Payment Is Made
Initial Franchise Fee (See Note 1)	\$25,000 for a single shop with reduced fees for multiple shops	Lump sum	Upon signing your Franchise Agreement	Us
Architects and Engineers	\$500 to \$3,000	Lump sum or progress payment	As agreed with providers	Architects and engineers
Leasehold Improvements (See Note 2)	\$0 to \$60,000	Progress Payments	Over course of construction	General contractor
Furniture, Fixtures, Equipment, and Décor (See Note 3)	\$25,000 <u>\$27,500</u> to \$34,000 <u>\$37,400</u>	Lump sum	Before opening	Suppliers
Interior and Exterior Signs (See Note 4)	\$500 to \$3,000	Lump sum	Before opening	Suppliers
Point of Sale System	\$2,000 <u>\$3,000</u>	Lump sum	Before opening	Supplier
Lease and Utility Deposits, Insurance, Licenses, and Permits (See Note 5)	\$1,000 to \$1,200	Lump sum	As required	Landlord, utility companies, government agencies, etc.
Opening Inventory	\$1,200 to \$1,500	Lump sum	Before opening	Vendors
Grand Opening Promotion	\$800 to \$2,000	As needed	Before and right after opening	Vendors
Travel and Living Expenses While Training	\$750 to \$1,500	As incurred	As needed	Airlines, hotels, restaurants, etc.
Other Initial Expenses	\$500 to \$1,000	As needed	Prior to or after opening	Legal and accounting services, employee salaries during training, advertising for employees, and other miscellaneous expenses
Real Estate Lease (See Note 6)	\$1.00 to \$3.50 per square foot per month plus any related occupancy costs	Lump sum	Monthly	Landlord

Cost Category	Amount	Method Of Payment	When Due	To Whom Payment Is Made
Additional Funds During First 3 Months of Operation (See Note 7)	\$18,000 to \$24,000	As incurred	As incurred	Working capital; employee salaries, supplies, utilities, operating expenses, etc.
TOTALS: (See Note 9)	\$ 73,250.00 <u>76,750.00</u> to \$ 158,200.00 <u>162,600.00</u>			

Notes:

1. See Item 5 of this circular for the conditions under which this fee is refundable. We do not finance any of the foregoing fees or charges.

2. The cost of leasehold improvements can vary depending, among other things, on the previous use of the space, cost of labor and materials in the area in which the shop is located, local building, health, and other code requirements, the amount of the landlord's contribution to leasehold improvement expenses, if any, and other such factors.

3 The costs of furniture, fixtures, equipment and decor can vary depending on the size of the space and the items offered in your shop. This category includes food storage and preparation equipment and display fixtures.

4. Sign costs can vary depending on the sign requirements of the shopping center or other development in which your shop is located.

5. Lease security deposits normally equal 1 or 2 months rent.

6. *Churro Station* shops normally occupy 800 to 1,000 square feet of space. Occupancy costs will vary depending on the type of shopping center or other location occupied by your shop. Other occupancy costs can include your share of common area maintenance charges, shopping center insurance costs, heating, ventilating, and air conditioning charges, shopping center real estate and other taxes and assessments, and similar fees. We have made no allowance in this chart for any rent that you may have to pay before your shop is open for business. The need for rent payments before opening will depend on the terms of your lease.

7. This is an estimate of the additional cash you will need over and above the net income of your shop for your initial 3 months of operation. The need for, and amount of, additional funds can vary greatly. The need for these additional funds will depend on such factors as: your management skill, experience, and business ability, local economic conditions, the local market for our type of shop, *Churro Station* name recognition in your market, prevailing wage rates, competition, your marketing efforts, the sales levels you reach during your initial period of

operation, your ability to control your payroll and food cost, and other such factors.

8. No allowance has been made in this chart for any principal or interest expenses or equipment lease payments required before the opening of your shop. The need for these outlays will vary with the terms of any financing you get in connection with your shop. No amounts have been shown for financing or equipment lease deposits and/or charges since this chart assumes the cash purchase of all of your equipment and the other items you need to open your shop.

8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

Because we want to develop the public image and increase consumer acceptance of *Churro Station* shops, and because we have to protect the *Churro Station* service marks, we must control the appearance of *Churro Station* shops and the goods and services provided under the *Churro Station* name. For this reason, we require you to purchase and use all of the equipment, décor, furniture, and fixtures we specify. We must approve all of the goods and services you provide under the *Churro Station* name, including all of the ingredients and products you use in the preparation of the food and other items sold in your shop. We must also approve all of the uniforms, packaging material, containers, and the other items used in your shop.

Your shop location must meet our standards and must be approved by us in writing before you can acquire it.

You have to use the cash register or other sales recordation and reporting systems we specify. See Item 11 below for a further discussion of the system we currently require.

We give you our specifications and standards for each of the items you must use in your *Churro Station* shop. We specify items used in *Churro Station* shops either by describing the physical characteristics of the items, by listing the features, materials, capabilities, or other characteristics of the items, or by indicating the specific brands and model numbers of the items you are authorized or required to purchase and use.

We develop our standards and specifications in a variety of ways. We consider new equipment based on its ability to perform needed functions, the manufacturer's ability to fill orders promptly, the warranties provided, the serviceability of the equipment, the quality of manufacture, and its ability to be licensed by the National Sanitation Foundation and Underwriters Laboratories, among other things. Our criteria for food items include the manufacturer's and supplier's ability to provide a consistently high quality product, its ability to service all of our shops, the price of the items, the manufacturer's and supplier's customer service, and its ability to protect our trade secrets.

We can change the specifications of the items we approve for use in or by *Churro Station* shops when we think that is in the best interest of the *Churro Station* system. If we change the specifications of the items you are using or providing, we will tell you when you have to stop using the items you are currently using and start using the new items. If we want you to start using new items, we will give you enough time to use up your supply of the old items before you have to start using the new ones. If an item we change is not used up in the normal operation of

your business, we will give you a reasonable time to amortize the cost of the old item before you have to buy a new one.

We must approve the manufacturers and suppliers of all of the items you purchase. We will advise you upon your request of our supplier criteria. We can change our supplier criteria when we decide that is in the best interest of the *Churro Station* system. We can revoke our approval of any approved supplier or item when we think that is justified.

We will make our specifications for items authorized to be purchased by *Churro Station* shops available to suppliers meeting our supplier criteria upon their request. We will review and decide whether to approve any items submitted to us within a reasonable time after the items, and all appropriate data on the items, are given to us.

We can charge suppliers a reasonable fee for the time and effort we take in reviewing items submitted to us for approval and for investigating and deciding whether to approve a proposed supplier or item.

We can limit the number of suppliers to whom we reveal any information or product specifications we consider to be our trade secrets. We also can decide that we or an affiliate will be the only supplier of any trade secret items.

We do not charge suppliers for doing business with *Churro Station* shops. If any suppliers pay us any money based on purchases by our franchisees, we return those funds to the franchisees who have made the purchases on a pro rata basis. If any suppliers pay us any advertising, promotional, or similar allowances, we will use that money for advertising the *Churro Station* system or put that money into our advertising fund.

We and our licensor are the sole suppliers of certain items used in the decoration or operation of *Churro Station* shops. These items are our decorative tiles, churro maker, churro fryer, and a replacement parts kit for both. In addition, if we direct, you must purchase from us or our licensor our churro mix, hot chocolate mix, and such other items as we may periodically specify. If we sell items to you, we and our licensor will derive revenue from these sales. We anticipate that your purchases from us and our licensor will amount to about 10% to 25% of your initial purchases and approximately 5% to 20% of your ongoing purchases depending on the items we decide to sell to you and the volume of business done by your shop. For items you are required to purchase from us or our licensor, you will be charged our, or its, cost of the items plus any costs we, or it, incur in connection with the items purchased, such as for modifying the churro maker and fryer to meet United States standards, in addition to shipping, handling, and administrative costs.

You may be required to purchase various marketing and training materials from us or our licensor. You will be charged for these items at cost, plus shipping, handling, and administrative costs.

As we grow, we may enter into national purchasing contracts or establish national accounts for items used in *Churro Station* shops in order to get the best possible prices for those items. If we do enter into that type of contract or establish a national account, you agree in the

Franchise Agreement to buy reasonable amounts of the goods covered by those contracts and accounts so that the minimum amounts we are required to buy under the contracts and accounts will be purchased by our shops.

Although we do not do so now, it is possible that in the future we or an affiliate will manufacture, or we may have manufactured for us, private-labeled merchandise. If we do so, it is possible that we or our affiliates may become approved suppliers of these items. It is also possible that we or our affiliates may be the only approved supplier of these items. If we sell these items to you, we will derive income from those sales.

You are required to carry insurance meeting the minimum specifications set forth in your Franchise Agreement or as we otherwise specify.

9. FRANCHISEE'S OBLIGATIONS

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

Obligation	Section in Franchise Agreement	Item in Offering Circular
a. Site selection and acquisition/lease	Sections 3 and 5	Items 7, 8, and 11
b. Pre-opening purchases/leases	Sections 5, 6, 8, and 12	Items 6, 8, and 11
c. Site development and other pre-opening requirements	Sections 5, 6, and 7	Items 7 and 11
d. Initial and on-going training	Section 7	Items 6 and 11
e. Opening	Sections 7, 8, and 10	Items 7 and 11
f. Fees	Sections 3, 4, 5, 7, 8, 9, 11, 15, and 16	Items 5 and 6
g. Compliance with standards and policies/Operating Manual	Sections 5, 6, 8, 10, 11, 12, 14, and 19	Items 8 and 11
h. Trademarks and proprietary information	Sections 2, 8, and 14	Items 13 and 14
i. Restrictions on products/services offered	Section 8	Items 8, 11, 12, and 16
j. Warranty and customer service requirements	Section 8	Item 15
k. Territorial development and sales quotas	Sections 3, 5, 7, 14, and 15	Items 5 and 12
l. On-going product/service purchases	Sections 8 and 10	Items 8 and 16
m. Maintenance, appearance, and remodeling requirements	Sections 4 and 6	Items 8 and 11
n. Insurance	Section 12	Items 6 and 8
o. Advertising	Sections 9 and 10	Items 6 and 11
p. Indemnification	Section 13	None

Obligation	Section in Franchise Agreement	Item in Offering Circular
q. Owner's participation/management/staffing	Sections 7 and 8	Items 11 and 15
r. Records and reports	Sections 8 and 11	Items 6 and 11
s. Inspections and audits	Sections 6, 8, and 11	Items 6 and 11
t. Transfer	Section 15	Item 17
u. Renewal	Section 4	Item 17
v. Post-termination obligations	Sections 16 and 17	Item 17
w. Non-competition covenants	Section 17	Item 17
x. Dispute resolution	Section 18	Item 17

10. FINANCING

We do not offer direct or indirect financing for your *Churro Station* shop. We do not guaranty any lease or financing you may obtain.

11. FRANCHISOR'S OBLIGATIONS

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

Pre-Opening Assistance

Before you open your *Churro Station* shop, we will:

1. Grant you a 30-day exclusive, and an additional 60-day nonexclusive, right to locate your shop within a designated area. (Franchise Agreement Section 3.02)
2. Consult with you on the location for your *Churro Station* shop. (Franchise Agreement Section 5.02)
3. Review the lease, sublease, or other document of occupancy for your shop location. (Franchise Agreement Section 5.06)
4. Designate your protected territory. (Franchise Agreement Section 5.10)
5. Provide you with typical plans and specifications for your shop. (Franchise Agreement Section 6.01)
6. Review your final plans and specifications. (Franchise Agreement Section 6.02)
7. Be available by telephone to consult with you about the construction of your shop. (Franchise Agreement Section 6.04)

8. Provide you with a listing of approved furniture, fixtures, decor, sales recordation system, equipment, signs, inventory, and other items needed for the opening of your shop. (Franchise Agreement Section 6.03)

9. Train you and your shop manager in the operation of a *Churro Station* shop. (Franchise Agreement Sections 7.01 and 7.02)

10. For your first *Churro Station* shop we will provide a member of our staff to help you with the setup and initial operation of your shop. (Franchise Agreement Section 7.14)

Continuing Assistance

During the operation of your *Churro Station* shop we provide the following services:

1. You have the continuing use of our operations and any other manuals we develop for use by *Churro Station* shops. These manuals are confidential and are our property. Our manuals are subject to change at our discretion. You have to follow these changes when they are made. (Franchise Agreement Sections 8.01 - 8.05)

2. Our representatives are available on the telephone during our normal business hours to consult with you on the operation of your *Churro Station* shop. (Franchise Agreement Section 8.24)

3. We will send a representative to visit your *Churro Station* shop periodically to inspect your shop and work with you on the operation of your shop. (Franchise Agreement Section 8.25)

4. You are allowed to operate your shop and sell products using our trade names, trademarks, service marks, commercial symbols, shop format, and other proprietary property. (Franchise Agreement Section 14.01)

Advertising

We have the right to form national and regional advertising funds that we will use for national and regional advertising, public relations, and promotional activities. If and when they are formed, you must contribute to these funds the amounts we specify, as described in Item 6 above. These funds will be used to promote the business of *Churro Station* shops, not the sale of franchises. We can use these outside advertising and public relations agencies, as well as our own staff, to develop advertising, promotional, and public relations material. (Franchise Agreement Sections 9.03 - 9.05) We can use various media to disseminate our advertising including print, radio, television, Internet, billboards, direct mail, and any other means on which we decide. We plan to use local and regional media unless and until we are large enough to use national media.

We are not required to spend all the money received by the advertising funds within any particular time. (Franchise Agreement Section 9.05) Any money not spent in any given year is carried over to the next year.

We intend that all *Churro Station* franchisees will contribute to the advertising funds on the same basis and at the same rates as you do. If we own and operate any *Churro Station* shops, we will contribute to the advertising funds on the same basis as our franchisees. (Franchise Agreement Section 9.05)

We need not spend the money collected by our national advertising fund in the areas in which those funds were collected. (Franchise Agreement Section 9.05) The funds of any regional advertising association will be spent in the region where it is collected.

We do not have to audit the financial statements of the advertising funds but we will send you annual financial reports on the funds to which you contribute showing all of the receipts of and expenditures from those funds. (Franchise Agreement Section 9.04)

We will administer the advertising funds. We can charge these funds for our time and expenses, or up to 10% of the amounts collected by the funds, for the administration of the funds. (Franchise Agreement Section 9.06)

We have the right to form national and regional advertising councils made up of our franchisees to advise us on the use of our advertising funds. If we form one or more of these councils, you must follow the rules of the councils and, if we request, participate in the activities of those councils. (Franchise Agreement Section 9.07)

In addition to your payments to our advertising funds, you are required to spend at least 1% of your gross receipts on the local advertising of your *Churro Station* shop. As part of your local advertising, you are required to advertise monthly in your local Spanish language newspapers, or on local Spanish language radio or television stations. You can decide how to spend this money but we have to approve your plans and the material you plan to use. (Franchise Agreement Section 10.01) If the shopping center in which your *Churro Station* shop is located requires you to participate in any advertising or promotional activities, one-half of the amounts you spend on those activities will be credited to your local advertising requirement. (Franchise Agreement Section 10.02)

You are required to conduct a grand opening advertising, promotion, and public relations campaign in the manner and at the time we specify or approve. You are not required to spend over \$2,000.00 in this activity. (Franchise Agreement Section 10.04)

We have the right to approve any advertising, promotion, and public relations activities you propose to use, including any Internet, or other alternative, advertising that you propose, and any charitable donations and participation in charitable activities you plan. (Franchise Agreement Section 10.05)

Without our consent, you cannot use any of our trademarks, service marks, or other identification on the Internet or in any other alternative media, whether it now exists or is developed in the future. We can require that your only Internet presence be through our Internet site. (Franchise Agreement Section 8.40)

See also Items 6 and 9 above.

Electronic Cash Recording/Inventory Control System

You are required to use the sales recordation system that we specify. (Franchise Agreement Section 8.32) We currently require you to purchase and use a Sharp UP700 small business cash register. The cash register is designed for the restaurant industry and features 2 displays--one customer and one operator, compact cabinet design, standard 7 bill/5 coin heavy duty cash drawer, full range of PLU/UPC/EAN codes, price inquiry for PLU, group discounts, tray subtotal, multiple menu levels, tip with edit tip function, macro function key, PLU menu keys, and standard credit/debit card interface. This machine is a product of Sharp Electronics Corporation, Sharp Plaza, Mahwah, New Jersey 07430-2135; Telephone (201) 529.8200; www.sharpUSA.com. This machine is available from any Sharp small business equipment dealer. We will help you find a dealer for your cash register.

We can require you to upgrade the cash register to a computerized point of sale system using the hardware and software we specify. There are no contractual limits on when we can require you to make these changes or the cost of the modifications we can require. However, we will give you a reasonable time to amortize the cost of any component of your system that we require to be replaced. (Franchise Agreement Section 8.32)

We have the right to access the information in your cash register and computer system when we visit your shop without limitation. We can require you to install a computer system that allows us to independently access system, the data in it, and the reports it creates. (Franchise Agreement Sections 8.32 and 8.33)

Operations Manuals

Before you purchase a *Churro Station* franchise, you will be allowed to review our manuals. Before we let you see these manuals, you will have to sign the Disclosure and Confidentiality Agreement that is attached to this circular. Your examination of our manuals has to take place at our offices unless we allow you to examine the manuals elsewhere.

Selection Of Your Shop Location

When we sign your Franchise Agreement we specify the area in which you can seek a location for your *Churro Station* shop. You are given the exclusive right to find a location within this area for 30 days following the signing of your Franchise Agreement. If you do not find an acceptable location for your *Churro Station* shop within the 30-day period, you have another 60 days to find a site for your shop on a nonexclusive basis. That means that other prospective *Churro Station* franchisees, and we ourselves, can look for, and take, locations within that area within the 60-day period. (Franchise Agreement Section 3.02) We are available to consult with you concerning the characteristics a location must have to get our approval. (Franchise Agreement Section 5.02) If you do not find an acceptable location in your designated area within the 60-day period, we can terminate the Franchise Agreement and refund one-half of your initial fee to you, the balance of which we can retain as consideration for our efforts in connection with granting you the franchise. (Franchise Agreement Section 3.02)

Before you can lease or otherwise acquire a site for your *Churro Station* shop we have to approve the site and the lease, or any other document giving you the right to occupy the premises. (Franchise Agreement Sections 5.05 and 5.06)

Once we have approved the location for your *Churro Station* shop you have 90 days within which to acquire use of the space. (Franchise Agreement Section 5.06) If you do not obtain a lease within that time period, we can terminate the Franchise Agreement and retain one-half of your initial franchise fee as consideration for granting you the franchise. If you refuse or fail for any reason to go forward with your *Churro Station* shop after you sign your lease, we can terminate the Franchise Agreement without any refund to you. (Franchise Agreement Section 5.06)

Most *Churro Station* shops will be located in areas with a large Hispanic population. When we evaluate a site we look at the demographics of the area, traffic patterns, competitive shops in the area, the location's visibility, accessibility, convenience, size, layout, parking, other businesses in the area, and similar things. We agree in the Franchise Agreement to notify you promptly of our approval or disapproval of your proposed location. If we disapprove the location but our objections can be rectified, we will advise you of what needs to be done in order to obtain our approval of the site. (Franchise Agreement Section 5.05)

If we find a location in your area before you have located a site acceptable to us, we will offer that location to you. If we present you with such a location, you will have 5 days from being notified of the location within which to accept the location. If you do not accept the location in writing within the 5-day period, we can offer the location to another *Churro Station* franchisee, we can retain the location for a company-owned *Churro Station* shop, and/or we can terminate this Agreement and refund one-half of ~~your~~ the initial franchise fee to you, the balance of which we can retain as consideration for granting you the franchise and presenting you with the proposed location. If we do not terminate this Agreement for that reason, the provisions concerning your obligation to obtain a location for your shop, and the time periods within which you must do so, remain in effect.

Time Needed To Open A Churro Station Shop

It should take you no more than 90 days to find a suitable location for your *Churro Station* shop. Finding a suitable location, negotiating an approved lease, having your plans and specifications prepared, obtaining bids for any improvements required, obtaining the required construction permits, completing the construction of your shop, and the installation of your equipment and décor should take between 3 and 6 months. If the location is not ready for your improvements, or if unusual complications exist, the time required for the design, construction, and opening of your shop can be longer.

Other things can affect the time in which your *Churro Station* shop can be built and opened. Such things as difficulty in getting building and health permits, zoning laws, local ordinances, weather, availability of labor and materials, delay in installing equipment, fixtures, decor, and similar things can delay your opening. We will do our best to help you overcome any difficulties that come up during this process.

Training

Our franchisee training program is conducted as often as we deem necessary. It is conducted by members of our staff and by shop operating personnel of our licensor. Training is discussed in detail in Section 7 of the Franchise Agreement.

A month or so before the opening of your *Churro Station* shop, we will train you and your shop manager for approximately 5 days at our corporate offices in Corte Madera, California and at our licensor's *Churro Station* shop in San Rafael, California. You and your manager must attend our training course at the same time. (Franchise Agreement Sections 7.01-7.03)

You and your manager must satisfactorily complete our training course before we will allow your shop to open for business. If you do not satisfactorily complete training, we can terminate your Franchise Agreement. (Franchise Agreement Section 7.08) If a partnership, limited liability company, corporation, or other entity plans to have a principal active in the operation of the shop, that person must take and pass our training course. If they do not, they cannot assume a supervisory role in the operation of the shop and you must send another principal to our training course. (Franchise Agreement Section 7.09) If your manager does not satisfactorily complete our training course, he or she cannot manage your shop and you will be required to send another manager to our training course. (Franchise Agreement Section 7.07) If you are required to send another principal or manager to our training course, or want to send others to our training course at any time, we can charge our additional training fee, as described in Item 6 above, for each such person trained. (Franchise Agreement Section 7.11)

If you own more than one *Churro Station* shop, you need only attend the training course given in connection with the opening of your first shop. After that, we will train one manager for each subsequent shop that you open. (Franchise Agreement Section 7.04) If we decide that you do not have to send anyone to training in connection with any of your shops, there is no refund of any portion of the initial franchise fee. (Franchise Agreement Section 7.04)

You are not charged an additional fee for the initial training course, except as noted above. You do have to pay for your own costs of travel and living while you are at training and those of your employees who attend the training. We do not pay you or your employees any type of salary while you attend training. You have to pay the salaries of your employees while they attend our training course. (Franchise Agreement Section 7.06)

If we sponsor conventions, courses, seminars, programs, or other meetings for our franchisees or for their employees, you must attend, and have the appropriate employees attend, those meetings, but not more than one such meeting in any 12-month period. In addition, if we sponsor any regional training seminars or other meetings in the region in which your *Churro Station* shop is located, you are required to attend these meetings and to send to these meetings those of your employees we designate but not more than one such meeting in any 6-month period. (Franchise Agreement Section 7.15) In addition, you must pay your own expenses, and those of your employees, for travel, lodging, salaries, benefits, and the other costs incurred in attending these events. (Franchise Agreement Section 7.15) We can charge reasonable fees for your and your employees' attendance at any such meetings.

Following is our tentative schedule for our training course, the principal instructional material you will use, where the training will take place, and who the instructors will be.

FRANCHISEE TRAINING PROGRAM

Subject	Instructional Material	Hours of Class-room Training	Hours of On The Job Training	Instructor
Introduction to the <i>Churro Station</i> system		1		Melanie Farkas
Marketing	Operations Manual	2		Melanie Farkas and Karol Caballero
Shop Operations and Equipment Maintenance	Operations Manual	6	16	Zoila Aldana
Financial Management and Reporting	Operations Manual	2		Melanie Farkas
Wholesale Marketing and Service	Operations Manual	4		Melanie Farkas and Zoila Aldana
Special Events	Operations Manual	2		Zoila Aldana
Health and Safety	Operations Manual	1	2	Zoila Aldana and Melanie Farkas
Human Resources	Operations Manual	2		Melanie Farkas
Totals:		20	18	

The background of our instructions is described in Item 2 above.

12. TERRITORY

Your Protected Territory

The franchise is granted only for the specific location or locations we approve. As a condition of approving a *Churro Station* shop location, we must mutually agree on any protected territory that will be granted in connection with that shop. Except under the circumstances discussed below, a protected territory is the geographic area within which we agree not to open another company-owned or franchised *Churro Station* shop. We base the boundaries of your protected territory on the population, and the demographics of that population, within those borders and the nature of the market in that area. There is no minimum area that we grant as a protected territory. Once it is decided, your protected territory will be described on an exhibit to your Franchise Agreement.

By granting you a protected territory we are not precluded from owning or being the franchisor of competing units owned, operated, and/or franchised by any person or entity with whom or which we merge, by whom or which we are acquired, or which we acquire or otherwise become affiliated after the date of your Franchise Agreement. However, no such affiliate will own, operate, or franchise shops using the *Churro Station* names or marks. We have the right to open and franchise *Churro Station* shops at any location outside your protected territory even if those shops compete with you or otherwise adversely affect your business.

You can make retail sales only at your *Churro Station* shop. With our consent, you can also solicit and service wholesale accounts. Unless we specify otherwise, you can solicit wholesale orders in the protected territories of other *Churro Station* franchisees or near company-owned *Churro Station* shops. Similarly, we, our affiliates, and other *Churro Station* franchisees can solicit wholesale sales and accept such orders in your protected territory. Neither we nor other *Churro Station* franchisees have to pay you anything if we or they make sales in your protected territory. You do not have to pay us or other *Churro Station* franchisees if you make sales in our or their protected territories, except for the required royalty and advertising payments on such sales.

The continuation of your protected territory does not depend on your doing any particular sales volume, making a certain degree of market penetration, or other contingency.

Even though we grant you a protected territory, we can solicit national or regional accounts from businesses and other entities whether their offices are located within your protected territory or elsewhere. A "national or regional account" is an arrangement we may make with larger businesses or other entities in which we may agree to provide *Churro Station* products to, and perhaps, discount the price of those products for, those affiliated with the designed business or entity. If we establish a national or regional accounts program and authorize or require you to service any of those accounts, you must honor our commitment to the concerned and abide by the discount we establish for such accounts.

We, our affiliates, or others that we or our affiliates authorize, can market goods bearing the *Churro Station* name and marks, names or marks similar or related to them, or other names and marks, to independent retail outlets, at wholesale, by means of catalogs, mail order, by electronic means, including over the Internet, or by other alternative sources of distribution, even if these sales are made to outlets, or to people, located in your protected territory. You will not be entitled to any compensation or other benefit as a result of these sales.

Unless we agree otherwise, you are allowed only to make sales to individuals who make their purchases of approved items at your shop and to wholesale accounts we approve. We can withdraw our approval of any or all of your wholesale accounts at any times we chose if we have a reasonable business basis for doing so. In considering whether to grant, or withdraw, our approval of your wholesale accounts, we will consider, among other things, the satisfactory operation of your existing *Churro Station* shop or shops, your compliance with your Franchise Agreement, your ability to provide products of the highest quality to your wholesale accounts, your ability to provide them with professional customer service, the proximity of the locations

operated by your wholesale customer to *Churro Station* shops currently operating as well as those developed in the future, and for similar business reasons.

If we learn of any prospective wholesale account that we feel you can adequately service, we can require you to service that account. If we do not feel that you can service any such account, we can offer that account to another *Churro Station* franchisee, can service that account ourselves, or refer the account to our affiliates, even if the facilities of that account are located in your protected territory.

The Franchise Agreement does not prevent us or our affiliates from providing goods or services under the *Churro Station* names or marks, or under different names and marks, in your protected territory, as long as such goods are not materially similar to the goods provided in a standard *Churro Station* shop.

Other than as allowed by your Franchise Agreement, you have no right to open another *Churro Station* shop without our prior written consent. If we do consent to your opening additional *Churro Station* shops, you must sign the Franchise Agreement we are using at that time for new *Churro Station* shop franchises and pay the franchise fee called for by that agreement.

If your Franchise Agreement grants you the right to open more than one *Churro Station* shop, you must adhere to the shop-opening schedule attached as an exhibit to your Franchise Agreement or you will lose your right to open any additional shops. If you lose those rights by not meeting your shop-opening schedule, you can continue to own and operate any *Churro Station* shops you have opened to the date your expansion rights end, as well as those shops that are actively under construction on that date, as long as you are not in default under the Franchise Agreement governing those shops.

If you have the opportunity to provide *Churro Station* merchandise at special events in your protected territory, such as fairs, exhibitions, charity events, concerts, conventions, and the like, you agree to advise us of the opportunity. You must also advise us whether you want to participate in the event. If you advise us that you want to participate in the event, you agree to do so and to follow our requirements in that regard. If you do not want to participate in the special event, we, or any person or entity we designate, can do so even though the event is in your protected territory. If you do not participate in the special event and we, an affiliate, or a person or entity we designate, does so, you will not be entitled to any compensation because of that participation, or otherwise.

Relocating Your Shop

You can relocate your *Churro Station* shop only with our prior written consent. As a condition of giving you our consent, you must sign a general release of all claims against us, our members, officers, employees, and agents, and sign the Franchise Agreement we are using for new *Churro Station* franchises at the time of the relocation.

You can only relocate your shop within your protected territory. Your relocated shop cannot be within the protected territory granted to another *Churro Station* franchisee, or within

an area reserved for or to a *Churro Station* shop that we own or one that is owned by our affiliates. The site, lease, design, construction, decoration, equipping, stocking, and every other aspect of your relocated *Churro Station* shop must be accomplished in accordance with the requirements that exist at the time for new *Churro Station* shops. You must also pay us our relocation fee as described in Item 6 above. We may design a new protected territory for you depending on new location of your store.

If we grant our consent to your relocation but think your current location is viable, we have the right to require you to assign or sublease your lease to us, or our nominee, as a condition of our approval of your relocation. We also have the right to enter into a new lease for the space you are vacating, or one in the same shopping center or commercial area, or to have another *Churro Station* franchisee do so, or to open a company-owned or franchised *Churro Station* shop in that location.

13. TRADEMARKS

Our licensor is the owner of the service mark "*Churro Station*" which was registered on the Principal Register of the United States Patent and Trademark office on February 8, 2004, and bears Registration Number 2925115. All affidavits required to keep this registration in effect have been filed.

Under our License Agreement we are allowed to use the names, marks, and symbols of our licensor for the operation and franchising of *Churro Station* shops throughout the world. However, we must use these names, marks, and symbols in a manner that is consistent with the quality standards established by our licensor. We cannot allow our franchisees to operate under the *Churro Station* name in any way that would jeopardize our rights to the names, marks, and symbols licensed to us. Our licensor can terminate our License Agreement if we make improper use of the licensed names, marks, or symbols or violate any of the other terms of the License Agreement and do not correct the default as allowed by the agreement. The initial term of our License Agreement is 10 years, with annual renewals thereafter, as long as we do not permit an uncured default under the agreement. We can lose our right to franchise *Churro Station* shops if we have less than 5 franchised *Churro Station* shops operating after the initial term or at any annual renewal of the agreement. However, if we lose our right to continue franchising *Churro Station* shops for that reason, we do not lose our rights and obligations under the Franchise Agreements existing at that time. If for any other reason we lose our right to use the marks, at our Licensor' election we must assign all of the Franchise Agreements covering *Churro Station* shops to our licensor. In that event, our licensor is not obligated to assume our obligations under the Franchise Agreements, other than allowing *Churro Station* franchisees in good standing to continue to use the marks and manner of operation as allowed by their Franchise Agreements.

Except for our License Agreement, there are no agreements currently in effect which significantly limit our rights to use or license the use of the foregoing names, marks, or symbols in any manner material to your franchise.

To the best of our knowledge, there are no presently effective determinations of the Patent and Trademark Office, the Trademark Trial and Appeal Board, the trademark administrator of any state, or any court relevant to your use of the licensed names, marks, and symbols in any state.

There are no pending interference, opposition, or cancellation proceedings, nor any litigation, involving the licensed names, marks, and symbols.

Even though we license you to use our names, marks, and symbols, you are not allowed to use the name *Churro Station*, or any similar name, in the name of the partnership, limited liability company, corporation or other business entity that owns your *Churro Station* franchise, or in the name of any other corporation or other business entity in which you have an interest.

If your use of any of the names, marks, or symbols we license to you is ever challenged, you must notify us immediately and we will decide what action to take. We will pay all fees and costs in any action resulting from that challenge. We also will pay any damages for which you are held liable in any such action as long as you have used the licensed names, marks, and symbols as required by your Franchise Agreement and have notified us promptly of the claim. You should also notify us immediately if you learn of anyone using any names, marks, or symbols that are similar to ours. You agree in the Franchise Agreement to cooperate with us in handling any proceedings involving the licensed names, marks, or symbols.

If, for any reason, we decide to change our principal names, marks, or symbols, you agree to use our new names, marks, or symbols, and to discontinue using the names, marks, or symbols we stop using. If we require you to stop using any of the names, marks, or symbols we license to you, we will reimburse you for the reasonable out of pocket costs you incur in replacing items which bear the affected names, marks, or symbols as long as you comply with our directives concerning their use and disposition. If we require you to use any names, marks, or symbols in connection with *Churro Station* shop in addition to those existing on this date of your Franchise Agreement, you must pay the costs of using these additional items.

You agree in your Franchise Agreement not to apply for registration of any of the licensed names, marks, or symbols or to contest their ownership. You also agree not to assist anyone else in doing so.

You acquire no rights in the licensed names, marks, or symbols because of your use of them. All of the rights and goodwill associated with the licensed names, marks, or symbols belong to us and our licensor.

14. PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION

There are no registered patents or copyrights that are material to the franchise.

Our Operations Manual and any other manuals and materials we provide to you contain information that we consider to be our trade secrets. We claim copyright protection for these manuals and material although we have not filed any copyright applications concerning them.

You have to follow our directions in protecting our manuals and other trade secrets from unauthorized disclosure. We can require your employees to sign a confidentiality agreement in which they promise to keep all of our proprietary information confidential and to follow our directions regarding its use. You can use our proprietary material only in the way we authorize.

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

You do not have to be the actual on-premises manager of your *Churro Station* shop. However, we recommend that you do so in order to maintain better control over your shop's operation.

Unless we agree otherwise, your *Churro Station* shop must be managed by someone who has taken and successfully completed our training course. Other than that, we place no restrictions on who you can hire to supervise your *Churro Station* shop. Your manager does not have to have any ownership interest in your shop or any entity owning it. Since a large portion of your customer base will be Hispanic, we strongly suggest that the on-premises manager of your shop be fluent in both Spanish and English. We can require your managers and other employees to sign a confidentiality agreement to protect our proprietary information.

As discussed in Item 12 above, you can be required to service the national, regional, and wholesale accounts we specify.

16. RESTRICTION ON WHAT THE FRANCHISEE MAY SELL

As discussed in Item 8 above, you are only allowed to provide the goods and services, we designate or approve in advance in your *Churro Station* shop. You can only use the containers, napkins, serving items, and other such materials that we specify or approve for use in your *Churro Station* shop. You must use the uniforms, signs, menu formats, and other material we require.

You have to follow our directions regarding the preparation, presentation, and serving of all of the items in your shop.

There are no restrictions on the retail customers to whom you can sell authorized goods and services. As discussed in Item 12 above, you may be granted the right to solicit and service wholesale customers. You may also be required to serve national, regional, or wholesale accounts.

You have to carry all of the menu items we specify for your *Churro Station* shop. You also have to carry all of the resale items we designate. We can change the menu to be used in your shop when we see fit and you have to serve all of the items on the new menu.

17. RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION

The following table lists important provisions of your Franchise Agreement. You should read these provisions in the Franchise Agreement attached to this offering circular.

Provision	Section in Franchise Agreement	Summary
a. Term of the Franchise	Section 4	10 years beginning on the date of your Franchise Agreement. If your lease begins after the date of your Franchise Agreement, the term will be extended by up to one year to cover your lease term, but not more than a 10 year lease term. If your lease is for less than 10 years and it is not renewed, the franchise ends when your lease ends. If you own the building in which your <i>Churro Station</i> shop is located, the term of your Franchise Agreement begins on the date your shop opens for business.
b. Renewal or extension of the term	Section 4	You can renew your franchise for one additional 10-year period as long as you can renew your lease for that term or relocate your shop to a property within your protected territory and can obtain a 10-year lease term.
c. Requirements for you to renew or extend	Section 4	Give written notice at least 6 months before your term ends; you must not have received 2 or more notices of default concerning material violations of your Franchise Agreement during any 3 year period; you must not be in default under your Franchise Agreement; you must sign the form of Franchise Agreement we are using at the time; you may have to update your shop; you must sign a general release of all claims against us; you must pay us 10% of the then-current franchise fee or reimburse us for any costs we incur in connection with the renewal of your franchise, whichever sum is greater. We can require you to relocate your shop as a condition of renewal if we think you can do materially better elsewhere. If you relocate, you will also have to pay us our relocation fee.
d. Termination by you	Section 16	If we violate a material term of the Franchise Agreement and fail to cure the violation within 20 days after notice, plus such additional time as reasonably may be needed, you may pursue your rights as allowed by applicable law.
e. Termination by us without cause	None	
f. Termination by us with cause	Section 16	We can terminate your Franchise Agreement only for cause.
g. "Cause" defined-defaults which can be cured	Section 16	You have limited time periods to cure various types of defaults: You have 5 days to vacate any seizure of your assets and 30 days to satisfy any judgment against you; you have 5 days after notice to pay us any fees or other sums that are overdue; you have 5 days to reopen your shop if it is closed during any period during which it is required to be open. Except for defaults that allow us to terminate your Franchise Agreement immediately and for those listed above, you will be given 20 days after notice to cure any other defaults. If, in our opinion, 20 days are insufficient to cure the default, we will give you additional time to cure the default as long as you begin the cure within the initial 20 day period. If, without fault, you lose the right to occupy your business

Provision	Section in Franchise Agreement	Summary
		location, you can relocate your <i>Churro Station</i> shop as long as you can reopen within 90 days. If you do not complete the correction of any default within the required time period, we can terminate your Franchise Agreement without further notice.
h. "Cause" defined-defaults which cannot be cured	Section 16	Defaults that cause immediate termination include: failure to complete our training course as required; bankruptcy; mutual agreement to terminate; material misrepresentation in the acquisition of the franchise; engaging in conduct that reflects in a materially negative manner on your shop or the <i>Churro Station</i> system; failure to comply with material federal, state or local laws; committing 2 or more defaults in any 12 month period; conviction of a felony or another crime that relates to, or adversely reflects on, your shop or the <i>Churro Station</i> system; intentional underreporting of receipts; underreporting receipts in the amount of 10% or more in any reporting period; operation of your shop in a way that results in danger to public health or safety; any attempt to make an unapproved transfer; failure to transfer the interest of a deceased or legally incompetent owner within the time allowed; if you default under another franchise or other agreement between us or between you and any of our affiliates; if you lose your lease because of your default; or if you improperly disclose any of our trade secrets.
i. Your obligations on termination/nonrenewal	Sections 16 and 17	When your Franchise Agreement ends you must: pay all amounts due to us and our affiliates; stop using the licensed proprietary property; remodel your shop so that it does not look like a <i>Churro Station</i> shop; return all manuals and other materials; cancel fictitious business name; notify all suppliers and concerned others that you are no longer a <i>Churro Station</i> franchisee; obtain a new telephone number and listing and, if we wish, assign us your telephone number and listing and any Internet or similar address; not identify yourself as having been associated with <i>Churro Station</i> ; if we request, sell us some or all of your shop assets and assign your lease to us, pay liquidated damages, and not compete with us as described below. If you breach your agreement we have all other remedies available to us at law and in equity. You must pay us an amount equal to your average royalty and advertising fee payments until you comply with all of your obligations. We will both sign a mutual release after you complete your obligations.
j. Assignment of contract by us	Section 15	We can transfer the Franchise Agreement without your prior approval. Any such transfer will not materially interfere with your rights under the Franchise Agreement.
k. Transfer by you-definition	Section 15	Any full or partial transfer of the franchise, the property used in your shop, or any ownership interest in any entity owning the franchise or the concerned property.

Provision	Section in Franchise Agreement	Summary
l. Our approval of transfer by you	Section 15	We must approve any transfer you propose to make.
m. Conditions for our approval of transfer	Section 15	The proposed transferee must meet our then-current standards; all information on the transferee and the terms of the transfer must be provided to us for approval; you and your transferee must sign all documents we require; you may be required to subordinate any debt to you from your transferee to your transferee's performance under the Franchise Agreement; upon the transfer of 50% or more of the ownership of the franchise, an updated Franchise Agreement must be signed; your transferee must complete our training course to our satisfaction; you must pay our transfer fee; you must sign a general release of all claims against us; you may have to guarantee the obligations of your transferee; your transferee may have to update the shop; if an entity owns the franchise, a new managing agent may have to be appointed and complete our training course.
n. Our right of first refusal to acquire your business	Section 15.17	With some exceptions, we can purchase any interest you propose to transfer on the same terms and conditions as you are proposing to transfer it.
o. Our option to purchase your business	Section 16.08	On the termination or expiration of your Franchise Agreement we can purchase such of your business assets as we choose, including your entire shop, at their fair market value.
p. Your death or disability	Section 15	Your interest in the franchise, and in any entity that owns the franchise, is transferable by will or intestate succession upon your death or by your court-appointed guardian if you are declared to be legally incompetent. Your estate can sell your interest in the franchise to an approved transferee within 6 months after your executor or administrator is appointed. All transfer conditions apply.
q. Noncompetition covenants during the term of the Franchise	Section 17	You can have no interest in, be employed by, or assist any competing business during the term of your Franchise Agreement.
r. Noncompetition covenants after the franchise is terminated or expires	Section 17	You can have no interest in, be employed by, or assist any competing business for 2 years after your Franchise Agreement ends within your protected territory or within 5 miles of any other <i>Churro Station</i> shop.
s. Modification of the agreement	Sections 8 and 19	The Franchise Agreement can be modified only by a written agreement signed by both of us. We can modify our manuals and all other aspects of the <i>Churro Station</i> system and you must comply with these changes.
t. Integration/ merger clause	Section 34	Commitments and agreements not contained in the Franchise Agreement, Franchise Offering Circular, or in a signed amendment, are not enforceable.

Provision	Section in Franchise Agreement	Summary
u. Dispute resolution by arbitration or mediation	Section 18	Except for certain types of claims, all disputes between us must first be mediated and then, if not resolved, arbitrated.
v. Choice of forum	Section 18	To the extent allowed by applicable law, all dispute resolution must take place in San Francisco, California.
w. Choice of law	Section 26	Except for the noncompetition covenants which are governed by the law of the state where your shop is located, the Franchise Agreement is to be interpreted by California law, except where applicable law requires otherwise. California franchise laws do not apply unless their jurisdictional requirements are met.

NOTE: These states have statutes which may supersede the terms of the Franchise Agreement in your relationship with us, including those regarding the termination and the renewal of your franchise: ARKANSAS [Stat. Section 70-807]; CALIFORNIA [Bus. and Prof. Code Sections 20000-20043]; CONNECTICUT [Gen. Stat. Section 42-133e et seq.]; DELAWARE [Code Title 6, Ch. 25, Sections 2551-2556]; HAWAII [Rev. Stat. Section 482E-1]; ILLINOIS [815 ILCS 705/19 and 705/20]; INDIANA [Stat. Section 23-2-2.7]; IOWA [Code Sections 523H.1-523H.17]; MICHIGAN [Stat. Section 19.854 (27)]; 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]; 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 with us including the terms concerning the termination and renewal of your franchise. See the state-specific addendum attached to this circular.

18. PUBLIC FIGURES

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

19. EARNINGS CLAIMS

We do not furnish, or authorize anyone else to furnish, any oral or written information concerning the actual or potential sales, costs, income, or profits of a *Churro Station* shop. Actual results will vary from shop to shop. We cannot estimate the results of any particular shop.

20. LIST OF OUTLETS

We do not have any franchised *Churro Station* shops operating as of the date of this circular. Our licensor owns and operates one *Churro Station* shop located at 23 Medway Road, #3, San Rafael, California.

PROJECTED OPENINGS AS OF October 1, 2005.

State	Franchise Agreements Signed But Shop Not Yet Open	Projected Franchised New Shops to be Opened in the Next Fiscal Year	Projected Company or Affiliate-Owned Shops to be Opened in the Next Fiscal Year
California	1	2	0
Totals:	1	2	0

21. FINANCIAL STATEMENTS

Following as Exhibit 2 is a copy of our audited financial statements as December 31, 2005, the end of our first fiscal year.

22. CONTRACTS

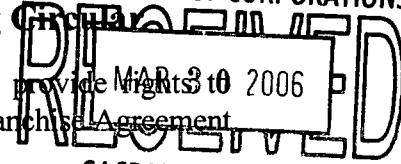
Exhibit A to this circular is a copy of our *Franchise Agreement*. Exhibit B is our *Addendum to Lease Agreement* reflecting our rights if you default under your lease or Franchise Agreement. Exhibit C is the *Disclosure and Confidentiality Agreement* that you must sign before we show you our Operations Manuals or other proprietary information. Exhibit D is a copy of the *General Release* that must be signed as a condition of renewing, relocating, or transferring the Franchise Agreement. Exhibit E is our current form of *Continuing Guaranty* and Exhibit F is an *Acknowledgement At Closing* that confirms various aspects of the franchise purchase transaction.

23. RECEIPT

The last page of this Franchise Offering Circular is a Receipt form that you must date, sign, and return to us immediately upon your receipt of this circular and the attached contracts.

California Addendum to *Churro Station* Franchise Offering Circular

DEPARTMENT OF CORPORATIONS



SACRAMENTO OFFICE

1. *California Business and Professions Code* Sections 20000 through 20043 provide rights to franchisees concerning the termination or nonrenewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.

2. 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.).

3. The Franchise Agreement contains a covenant not to compete that extends beyond termination of the franchise. These provisions may not be enforceable under California law.

4. The Franchise Agreement contains a liquidated damages clause. Under *California Civil Code* Section 1671 certain liquidated damages clauses are unenforceable.

5. The Franchise Agreement requires binding arbitration. The arbitration will occur at Francisco, California, with the costs of the arbitration, aside from the attorneys' fees of each party being borne equally by the parties. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as *Business and Professions Code* Section 1281 and the Federal Arbitration Act) to any provisions of a Franchise Agreement restricting venue to a forum outside the State of California.

6. Neither the franchisor nor any of the people identified in Item 2 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 such persons from membership in that association or exchange.

7. Please note that Section 5.13 of the Franchise Agreement requires the payment of a fee equal to 30% of our then-current franchise fee in the event you relocate your *Churro Station* shop. Our franchise fee is currently \$25,000.00 and may have increased by the time you relocate.

8. OUR WEBSITE, www.churrostation.com, 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 www.corp.ca.gov.

Our agent for service of process in California is Melanie L. Farkas, 2 Fifer Avenue, Suite 110, Corte Madera, California 94925.

THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE OFFERING CIRCULAR.

REGISTRATION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE CALIFORNIA COMMISSIONER OF CORPORATIONS.

IF CHURRO STATION FRANCHISES, LLC DOES NOT DELIVER THIS OFFERING CIRCULAR ON TIME OR IF IT CONTAINS A FALSE OR MISLEADING STATEMENT, OR A MATERIAL OMISSION, A VIOLATION OF FEDERAL AND STATE LAW MAY HAVE OCCURRED AND SHOULD BE REPORTED TO THE FEDERAL TRADE COMMISSION, WASHINGTON, D.C. 20580 AND TO THE CALIFORNIA DEPARTMENT OF CORPORATIONS AT ANY OF ITS OFFICES.

The effective of this circular in California is _____.

