



## **ACE DuraFlo Systems, LLC**

711 West Kimberly Avenue, Suite 100, Placentia, California 92870-6356 USA  
(714) 256-0220 or (888) 775-0220  
[www.aceduraflo.com](http://www.aceduraflo.com) / [www.fixmypipes.com](http://www.fixmypipes.com)

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

To protect you, we have 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**

Issuance Date: March 28, 2006



## FRANCHISE OFFERING CIRCULAR

### ACE DURAFLO SYSTEMS, LLC

A Nevada Limited Liability Company  
711 West Kimberly Avenue, Suite 100  
Placentia, California 92870-6356  
(714) 256-0220 or (888) 775-0220

[www.aceduraflo.com](http://www.aceduraflo.com)

[www.fixmypipes.com](http://www.fixmypipes.com)

The franchise offered is for the operation of a pipe restoration business using specific technology licensed by ADF.

The Initial License Fee for an ACE DuraFlo® franchise is \$24,900 for a territory of up to 1 Million population, plus \$5,000 for each increment of up to 250,000 population in the territory that you purchase. In addition to the Initial License Fee, before you begin operating, you will pay us initial fees for equipment and an initial supply of epoxy. The initial fees that you pay to us, including the Initial License Fee for a territory of up to 1 Million (\$24,900) will range between approximately \$123,400 to \$133,400.

These are not the total costs necessary to begin operating an ACE DuraFlo® pipe restoration business. For a territory of up to 1 Million, the total initial investment to begin operating, including initial fees, is estimated at between \$139,700 and \$236,100 if you are an existing plumbing business, and between \$184,700 and \$390,100 if you are a new business. See Items 5 and 7 of the Offering Circular.

#### Risk Factors:

1. THE LICENSE AGREEMENT PERMITS YOU TO ARBITRATE WITH ADF ONLY IN ORANGE COUNTY, CALIFORNIA. ARBITRATION OUT OF YOUR HOME STATE MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT. IT MAY ALSO COST MORE TO ARBITRATE WITH US IN ORANGE COUNTY, CALIFORNIA THAN IN YOUR HOME STATE.
2. THE LICENSE AGREEMENT STATES THAT NEVADA LAW GENERALLY GOVERNS THE AGREEMENT, AND THIS 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 in Exhibit F or your public library for sources of information. Registration of this franchise by a 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.

State Effective Dates: See Exhibit K - State Addendum

## DISCLOSURES REQUIRED BY MICHIGAN LAW

THE STATE OF MICHIGAN PROHIBITS CERTAIN UNFAIR PROVISIONS THAT ARE SOMETIMES IN FRANCHISE DOCUMENTS. IF ANY OF THE FOLLOWING PROVISIONS ARE IN THESE FRANCHISE DOCUMENTS, THE PROVISIONS ARE VOID AND CANNOT BE ENFORCED AGAINST YOU.

1. A prohibition on the right of a franchisee to join an association of franchisees.
2. A requirement that a franchisee assent to a release, assignment, novation, waiver or estoppel which deprives a franchisee of rights and protections provided in this act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.
3. A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
4. A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) The term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of the franchisor's intent not to renew the franchise.
5. A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
6. A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
7. A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. This subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:

- (a) The failure of the proposed transferee to meet the franchisor's then current reasonable qualifications or standards.
  - (b) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.
  - (c) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
  - (d) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.
8. A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision (c).
9. A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless provision has been made for providing the required contractual services.

THE FACT THAT THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION, OR ENDORSEMENT BY THE ATTORNEY GENERAL.

Michigan law provides that a franchisor whose most recent statements are unaudited and which show a net worth of less than \$100,000 shall, at the request of a franchisee, arrange for the escrow of initial investment and other funds paid by the franchisee or subfranchisor until the obligations to provide real estate, improvements, equipment, inventory, training, or other items included in the franchise offering are fulfilled. At the option of the franchisor, a surety bond may be provided in place of escrow. In the event that an escrow is so established, the escrow agent shall be a financial institution authorized to do business in the State of Michigan. The escrow agent may release to the franchisor those amounts of the escrowed funds applicable to a specific franchisee or subfranchisor upon presentation of an affidavit executed by the franchisee and an affidavit executed by the franchisor stating that the franchisor has fulfilled its obligation to provide real estate, improvements, equipment, inventory, training, or other items. This portion of the Michigan law does not prohibit a partial release of escrowed funds upon receipt of affidavits of partial fulfillment of the franchisor's obligation.

SHOULD THE PROSPECTIVE FRANCHISEE HAVE ANY QUESTIONS REGARDING THE NOTICE OF THIS FILING WITH THE ATTORNEY GENERAL, SUCH QUESTIONS SHOULD BE ADDRESSED TO:

Department of the Attorney General  
Consumer Protection Division  
Antitrust and Franchise Section  
PO Box 30213  
Lansing, MI 48909  
(517)373-7117

ACE DURAFLO SYSTEMS, LLC  
FRANCHISE OFFERING CIRCULAR  
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Exhibits

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## **ITEM 1: THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES**

In this Offering Circular, "ADF", "we", "us" or "our" means ACE DuraFlo Systems, LLC or ACE DuraFlo®, the franchisor. "You" or "your" means or refers to the person who buys the ACE DuraFlo franchise. If you are a corporation, a limited liability company, or a partnership, certain provisions of the agreement will also apply to the stockholders, members, or partners of that entity, and will be noted. For purposes of this Offering Circular, ADF refers to our franchisees as either licensees or franchisees, and we use those terms interchangeably.

Our principal business address is 711 West Kimberly Avenue, Suite 100, Placentia, California 92870-6356. Our telephone number is (714) 256-0220. We disclose our agents for service of process on **Exhibit J**.

ADF does business under the name ACE DuraFlo Systems, LLC and ACE DuraFlo. ADF is a Nevada limited liability company that was organized on August 24, 1999. The franchise we offer will allow you to use the ACE DuraFlo proprietary process to clean and recondition pipelines of various compositions. The procedure involves a drying process, and then cleaning the pipes with an abrasive material, and blowing the pipe clean with compressed air and lining the pipe with specialized, proprietary epoxies by applying controlled pressure and air. This proprietary process allows the building owner to have its pipe systems restored in lieu of replacement. This process minimizes the disruption to the building owner, and may be more cost effective than replacing worn out, damaged or corroded pipes and avoids most of the demolition and repair to the building associated with replacing the pipes.

The application of epoxy lining to small diameter piping systems is a relatively new process in North America. ADF believes its process qualifies for patent protection and we have applied for U.S. patents on systems and methodologies relating to the process (see Item 14). We believe that your principal competition will come from plumbers and others who seek to repair damaged or worn pipes or piping systems without replacing the piping, and from plumbing contractors who would re-pipe some or all of the piping in a building. There are other companies that install epoxy lining in existing pipes. As we disclose in Item 13, in the future, we may enter into arrangements with one or more national or regional plumbing chains allowing them and their licensees to use of our proprietary process under our ePIPE brand.

The market for our pipe restoration services includes any building with pipe systems having pipe diameters of 3/8 inch to 2 inches of varying lengths. Houses and other buildings that were built more than 30 years ago with galvanized steel piping, and newer structures that were built with copper piping in areas that present environmental challenges, aggressive water, or particular water treatment challenges, or pipes with faulty installation, are particular targets for our process.

The "Licensed Business" that we offer will allow you to use the ACE DuraFlo proprietary process to clean and recondition plumbing pipes of various types (with the exception of fire sprinkler systems) having diameters of up to 2 inches in two types of applications: "residential" and "limited commercial" applications. "Residential" applications involve



single family homes and multi-family (up to 4 units) residential structures. "Limited commercial" applications involve small commercial structures, like apartment buildings, strip centers, and schools, that have no more than 3 stories. In this Offering Circular, we sometimes refer to these services as the "Authorized Services." The Authorized Services expressly exclude the reconditioning of fire sprinkler systems in all types of dwellings and applications.

Depending on your qualifications, you may request that we expand the scope of Authorized Services so that you can apply the ACE DuraFlo proprietary process (i) to pipes in "Commercial" applications, including mid-rise and high-rise office buildings (4 stories and greater), larger school facilities, apartment buildings, condominiums and hotels and (ii) in small pipe remediation applications using portable single line equipment ("Single Line Remediation applications"). We have discretion in considering your request taking into account the factors we believe are most relevant to the scope of work and your qualifications. We may grant or deny your request in our sole discretion.

Under the license that we grant to you, you may not (i) use or sell our proprietary epoxy except incidental to performing Authorized Services; (ii) market or solicit customers by, among other activities, placing local advertising in media that circulates or broadcasts outside of your territory; (iii) market, solicit or advertise for restoration jobs that are outside the scope of the Authorized Services; or (iv) perform Authorized Services outside of your territory.

ADF has been offering franchises for this business since November, 2001. Although our franchise company has never operated a business restoring pipes, we have affiliates that operate businesses restoring piping in residential and commercial buildings using the ACE DuraFlo technology (patent pending). The first one began operating in March, 2000. ADF has never offered franchises for any other type of business.

Our parent company Pipe Restoration Technologies, LLC ("PRT") owns the ACE DuraFlo proprietary technology, and has granted ADF an exclusive license to exploit this technology in North America. PRT is a Nevada limited liability company that was organized on August 11, 1998. Its principal offices are at 7469 West Lake Mead, Suite 200, Las Vegas, Nevada 89128. It has never sold any franchises in any line of business, and it does not itself operate a pipe restoration business. However PRT's affiliated company, ACE EnviroTech, Inc. ("ETI"), 711 West Kimberly Avenue, Suite 100, Placentia, California 92870-6356, was granted a license to operate a pipe restoration business in the United States. Although ADF has an affiliate that operates a pipe restoration business, ADF does not have any affiliates that offer franchises in any line of business or that provide products or services to our licensees.

Most states have plumbing regulations that regulate this business. The regulations will follow either the Uniform Plumbing Code or regulations of the International Plumbing Code, or other state or local specific codes influenced by these Codes. On a local basis, these regulations are generally contained in housing and building codes. You should check with the cities in which you will operate to determine how these regulations will apply to your business in each city. Numerous local, state and federal laws also will regulate the operation of businesses in general and will apply to your business. ADF urges you to become familiar with these laws and regulations.

## **ITEM 2: BUSINESS EXPERIENCE**

Larry Gillanders - Chief Executive Officer, Chief Technology Officer and Managing Member: Mr. Gillanders is a co-founder of our company and co-inventor of the ACE DuraFlo System of PRT. He has been a managing member of ADF (serving in the capacity equivalent to a director of a business corporation) since August 1999 and has served us in several additional capacities since that time. Through August 2002, Mr. Gillanders was our Chief Operating Officer-Canada. From September 2001 to August 2002 he also served as an Executive Vice President. From August 2002 to February 2003, he was our President and Chief Financial Officer. He was promoted in February 2003 to Chief Executive Officer and Chief Technology Officer. From June 1999 to the present, Mr. Gillanders has also been a managing member, Co-Chief Executive Officer, and Chief Operating Officer-Canada for PRT. Since June 1986, he has also been the president of Coastline Appraisal/Consulting, a Vancouver, Canada firm that conducts real estate appraisals.

### W. Stuart Tucker – President:

Mr. Tucker has been President of ADF since July 2005. He joined ADF as Chief Operating Officer in October 2003 and held that position until his promotion to President in 2005. From January 2003 to September 2003 Mr. Tucker was a financial consultant to prospective and existing franchisors based in Irvine, California. From June 2000 to December 2002 he was Chief Financial Officer of Touch Screen Marketing International, LLC, based in Irvine, California. Mr. Tucker received an MBA degree from the University of California, Irvine in 2005.

### Lawrence Soskin - Executive Vice President:

Mr. Soskin joined ADF as Executive Vice President in February 2002. From February 1975 to January 2002, Mr. Soskin was Chief Plumbing Inspector for the City of Los Angeles Department of Building and Safety, Los Angeles, California.

### Ronald W. Davies - Managing Member:

Mr. Davies was appointed a managing member of ADF in January 2003 (serving in the capacity equivalent to a director of a business corporation). From 1991 until his retirement in 2005, Mr. Davies was Chief Technology Officer of MBNA America Bank N.A., in Wilmington, Delaware. In May 2002, he was appointed Executive Vice Chairman of that company. He also served as Senior Vice Chairman of MBNA America Bank N.A. from December 1997 to May 2002. In addition, Mr. Davies has been Chairman and Chief Executive Officer of MBNA Technology, Inc., since October 1996. From April 1997 to August 2002, Mr. Davies was also Executive Vice President of MBNA Corporation. Mr. Davies is now a management consultant and an owner and director of a number of different privately held organizations.

### FRANCHISE BROKER: Jerry Cole Franchise Consultants, Inc.: Jerry Cole, President

In March, 2006, we retained the services of Jerry Cole Franchise Consultants, Inc., located in Newport Beach, California, as our franchise broker. Mr. Jerry Cole has been the President of Jerry Cole Franchise Consultants, Inc. since January 1, 2003. From January 1, 2001 to January 1, 2003, Mr. Cole was a self-employed/sole proprietor franchise consultant doing business as Jerry Cole Franchising and Consulting. Neither

Jerry Cole Franchise Consultants, Inc., nor Mr. Cole, have authority to make any representations, promises, assurances or commitments on our behalf that are contrary to the content of this Offering Circular, and only we are authorized to offer and sell franchises.

### **ITEM 3: LITIGATION**

Ace DuraFlo Systems, LLC and Pipe Restoration Technologies, LLC v. Bill Howe Plumbing, Pipe Renovations Systems, Inc., Nu Flow Technologies, American Pipe Lining, Inc., et al, United States District Court, Central District California, Case No. SA CV 05-01039 DDP (MCx). We and our affiliate, PRT, filed this action on October 21, 2005 against our former franchisee, Bill Howe Plumbing, Inc. ("Howe Plumbing"), which did business as Ace DuraFlo San Diego and Pipe Renovations Systems, Inc., American Pipe Lining, Inc. ("APL"), Nu Flow Technologies 2000, Inc. and Nu Flow America Inc. (together, "Nu Flow"), and various individuals associated with Howe Plumbing. APL licenses from the United States another type of pipe restoration epoxy, which is the subject of a patent issued to the United States, and APL sublicenses the other epoxy material to Nu Flow, a competitor of ours, which we believe is controlled by Howe Plumbing and other related individual defendants. Our complaint seeks specific performance and damages for breach of contract, breach of the implied covenant of good faith and fair dealing, trade secret misappropriation, trademark infringement, intentional interference with economic advantage, common law unfair competition, violation of California Business & Professions Code Section 17200, civil conspiracy, and defamation. We also seek declaratory relief that our pipe restoration epoxy material does not infringe the United States' patent. Defendant Howe Plumbing purported to terminate its franchise agreement with us based on its statement that we failed to disclose our alleged infringement of the United States' patent. Our claims in this lawsuit assert that our pipe restoration epoxy material does not infringe the United States' patent and, therefore, Howe Plumbing's purported termination of the franchise agreement was invalid and a breach of contract. As of the effective date of this Offering Circular, Defendants have not yet answered the complaint. Management denies all allegations of patent infringement and misrepresentation and intends to vigorously prosecute its claims.

Except for the 1 case disclosed in this Item 3, no litigation is required to be disclosed 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 proceedings under the U.S. Bankruptcy Code required to be disclosed in this Item.

**ITEM 5: INITIAL LICENSE FEE**

The Initial License Fee for an ACE DuraFlo® franchise is \$24,900 for a territory of up to 1 Million population, plus \$5,000 for each increment of up to 250,000 population in the territory that you purchase. The Initial License Fee is due in full when you sign the License Agreement. It is not refundable. We identify your territory before you sign the License Agreement. In determining the population in the territory, we rely on the most recent U.S. census data compiled by the federal Office of Management and Budget or comparable statistical information.

In addition to the Initial License Fee, you will buy an equipment package from us that includes a compressor and epoxy mixer, air distribution header, sander, filters and air dryers. A residential equipment package will cost approximately \$95,000, plus tax and shipping charges. You must order the equipment package by no later than the date that you (or your principal owner) complete the one-week initial training program (see Item 11) and before you may begin performing Authorized Services. When you place your order, you must remit payment of 20% of the cost of the equipment, and the balance is due before ADF ships the equipment. You also must buy your epoxy from us. ADF expects your initial purchase of epoxy will cost between \$3,000 and \$4,200. You must pay for the epoxy when you place the order. These payments are not refundable. (For additional information as to these additional items, see Item 7, and in particular footnotes 4 and 5 to Item 7.)

**ITEM 6: OTHER FEES**

Name of Fee (Note 1)	Amount	Due Date	Remarks
Royalty	8% of Gross Receipts up to \$1 million, and 6% on additional Gross Receipts (Notes 2 and 4)	Weekly, on or before Wednesday of each week for the 7 day Monday-Sunday period before payment	Gross Receipts include revenues from the sale of products or services in connection with the performance of Authorized Services, including (without limitation) revenues from the replacement of tub and shower valves, angle stops and supply lines, and any other revenues as a result of the application of Epoxy, use of equipment purchased or leased from Licensor to operate the Licensed Business or use of the Names and Marks. We may require payment by electronic funds transfer. See Item 11 and <b>Exhibit L</b> .
Advertising Contribution	1.5% of Gross Receipts (Note 3)	At the same time, and for the same period, as Royalty Fees	You must also spend a minimum amount on local advertising (see Note 3). You do not pay us for local advertising activities.
Additional Training (Note 5)	Up to \$500/person to attend our one-week initial training program, and up to \$500/day for us to	Upon receipt of an invoice	We do not charge any training fee to provide our one-week initial training course to up to 6 persons whom you enroll during the term by mutual arrangement, or to provide field training in connection with your first 2

Name of Fee (Note 1)	Amount	Due Date	Remarks
	provide field training		residential jobs if you complete field training within 60 days after you complete the initial training program. (see Item 11).
Late Charges	\$25, plus interest on unpaid balances at the lesser of 1.5% per month or the maximum rate permitted by applicable law	Immediately after notice from us	This fee is only due when you do not timely pay fees that you owe us.
Transfer Fee (Note 6)	40% of our then current initial license fee at the time you ask for our consent to the transfer, or if we are not selling new licenses at the time, \$10,000	Before completing a transfer of the license	This fee is only due when you transfer control of the License Agreement, the license, or your ACE DuraFlo® business.
Renewal Fee	\$1,000	Within 30 days after we deliver the agreements to you to renew your license	This fee is only due if you decide to renew your license.
Audit Expenses	Cost of audit	Immediately after notice from us	Payable only if you understate your Gross Receipts by 2% or more.
Costs and Attorneys' Fees	Will vary under circumstances	Immediately after notice from us	If ADF is successful in any judicial or arbitration action that we bring against you or you bring against us.
Indemnification	Will vary under circumstances	As incurred	You have to reimburse us if we are sued or held liable for claims arising out of your operations.

- (1) Unless otherwise stated, all fees are paid to ADF and are nonrefundable.
- (2) We do not suggest or represent that your business will reach any particular level of Gross Receipts. However, if the cumulative Gross Receipts of your ACE DuraFlo business over the term of the License Agreement exceed \$1 million, we reduce the percentage rate of Royalty Fees for the balance of the term to 6% of your Gross Receipts over \$1 Million.
- (3) In addition to Advertising Contributions, you must spend a minimum amount each month on local advertising in your territory starting with the first calendar month that is at least 30 days after you sign the License Agreement. See Item 11. Expenditures for local advertising are paid to third parties, not to us. We currently have a local advertising rebate program in place whereby we will rebate to you up to 50% of your Advertising Contributions for qualified advertising that you place in your local market. Qualified advertising includes any print media that clearly

displays our trademarks (e.g., magazine and newspaper advertising, vehicle graphic wraps and mailers), but excludes telephone directory advertising and web site advertising or development. You must obtain our prior written approval of the local advertising before you use or place the advertising. To request a rebate, you must present the local advertising to us, together with the applicable invoice showing your expenditure using our rebate request form. You must submit written rebate requests on a timely basis in accordance with the procedures in our operations manuals. We do not allow you to carry-forward any unused local advertising credits. We reimburse you out of the Advertising Fund. We review the local advertising rebate program every 6 months to evaluate if we will continue it for the next 6 months, and may discontinue the rebate program at the end of any 6 month period upon 30 days written notice.

- (4) If your state, or any governmental body in your state, charges a tax on the Royalty Fees that ADF receives from you, then you must pay us, as an additional Royalty Fee, the amount of this tax. This does not apply to any federal or state income taxes that we must pay on the Royalty Fees that we receive from you.
- (5) As we explain in Item 11, we may also conduct an annual meeting or require you or designated personnel to complete additional training. (See License Agreement - sections 7.03, 7.04). We will not require that more than 2 persons complete mandatory additional training exceeding 2 days in any 12 month period. Nor will we require that more than 2 persons attend an annual meeting in any 12 month period exceeding 3 days in duration. We may charge additional training fees for additional mandatory training not to exceed \$500/person in any 12 month period. We may charge a registration fee for the annual meeting not to exceed \$500/person. You are responsible for all travel, living and salary expenses for your personnel in connection with attending additional training or the annual meeting. We intend to conduct additional training and the annual meeting (if we hold one) at locations in the United States.
- (6) The fee is 40% of our then current Initial License Fee. Today, this percentage would equal \$9,960 for a territory of up to 1 Million population. If we are not selling new franchises at the time you transfer your license, the fee will be \$10,000.

For additional information as to your initial investment, see Item 7.

**ITEM 7: INITIAL INVESTMENT**

<b>Expenditures (Note 1)</b>	<b>Estimated Low-High Range for an Existing Plumbing Business Performing Authorized Services (Note 2)</b>	<b>Estimated Low-High Range for New Business Performing Authorized Services (Note 2)</b>	<b>Method of Payment</b>	<b>When Due</b>	<b>To Whom Payment is to Be Made</b>
Initial License Fee	\$24,900	\$24,900	Lump Sum	Upon signing License Agreement	ADF
Real Property and Fixtures (Note 3)	\$0	\$2,500 - \$15,000			Landlord
Equipment (Note 4)	\$95,000 - \$105,000	\$95,000 - \$105,000	20% down, balance on delivery	Before Opening	ADF
Plumbing Tools, Supplies and Epoxy (Note 5)	\$3,000 - \$10,000	\$13,000 - \$16,000	As Ordered	Before Opening	ADF
Vehicle (Note 6)	0 - \$50,000	0 - \$50,000	As Ordered	Before Opening	Suppliers
Signage (Note 7)	\$2,300 - \$4,200	\$2,300 - \$4,200	As Ordered	Before Opening	Suppliers
Misc. Opening Costs, including Travel and Living Expenses While Training (Note 8)	\$12,000 - \$17,000	\$12,000 - \$25,000	As Incurred	Before and After Opening	Suppliers and ADF
Additional Funds - Three Months (Note 9)	\$2,500 - \$25,000	\$35,000 - \$150,000	As Incurred	As Incurred	Various Parties, Including Employees
<b>Total (Note 10)</b>	<b>\$139,700-\$236,100</b>	<b>\$184,700 - \$390,100</b>			

- (1) None of these payments are refundable.
- (2) We define "Authorized Services" in Item 1.
- (3) In most cases, we expect our licensees will own and be operating an existing plumbing business and will operate the Ace DureFlo® licensed business out of their existing offices. If you do that, we do not expect you to incur any additional costs for real property and fixtures. We have no minimum requirements for your office space. Within 90 days after you sign the License Agreement, you must obtain our approval of the street address of your business office and be ready to receive and conduct business there. Our estimate for a new business assumes you lease office space at a cost of \$1,200 to \$2,000 per month and pay security

deposits equal to two months' rent. We also assume you will spend up to \$10,000 for fixtures and leasehold improvements for a new business.

- (4) For applications within the scope of Authorized Services, the cost of the equipment will generally be about \$95,000, plus tax and shipping.
- (5) If you are already in the plumbing business, you may not have to buy any plumbing tools. Otherwise, ADF estimate tools for residential applications will cost approximately \$8,000. ADF anticipates the supplies you will need to operate your business will be \$2,000 to \$3,000 for hoses, clamps, etc. You will also need epoxy kits to operate your business. The epoxy kits for your main epoxy mixer presently cost \$300 per kit, with a 10-kit minimum. When you purchase your initial epoxy dispenser, ADF will give you a smaller, backup epoxy mixer. If you want to use this mixer, you will need to purchase epoxy for this mixer. This epoxy is sold in kits that presently cost \$100 each, with a 6-kit minimum. Therefore, the high estimate assumes you also purchase epoxy for this backup mixer.
- (6) You will need at least one vehicle to operate your business. Our low estimate assumes you either use an existing vehicle, or lease one with no down payment. Our high estimate assumes you purchase a new plumbing truck, and a trailer to tow your equipment.
- (7) These figures include exterior signage, and signage for one vehicle. If you have additional vehicles, ADF estimates that the additional signage costs for each vehicle will range between \$500 and \$2,200.
- (8) Miscellaneous opening costs include security deposits (excluding lease deposit, which we include under the Real Property category), business licenses, attorneys' fees, initial insurance, and prepaid expenses. This category also includes an estimate for travel and living expenses (i) for you and your personnel to attend the initial training program in Placentia, California before you begin performing Authorized Services, and (ii) that you must reimburse us to send a technician to your territory to provide field training in connection with your first two residential jobs. Our estimates assume that you complete field training within the first 60 days after you complete the initial training program and, therefore, do not pay any training fees to us for field training. See Item 11.
- (9) We include in the category of additional funds allocations for grand opening advertising (\$2,500), local advertising, costs for local telephone directory listings, and other marketing expenses that you will incur during the first 3 months. See Item 11 regarding minimum advertising obligations. The amount for an existing plumbing business is primarily for marketing expenses; since you will already have an existing business, ADF is assuming you will not need to hire additional employees, or incur additional office expenses for your ACE DuraFlo® business. For a new business, you will have significantly greater expenses during the first 3 months to hire employees, establish an office and market your business. These figures are estimates and ADF cannot guarantee you will not have additional



expenses either in starting the business or during the first 3 months. Your costs will depend on factors like: how closely you follow our promotional methods; your management skill, experience and business acumen; local economic conditions, and the local market for your services; the prevailing wage rate; competition; and the sales level reached during the initial period.

- (10) In putting together these estimates, ADF relies on the experience of our affiliate, ETI and our existing licensees. Your actual investment could be different. ADF does not offer financing for any part of the initial investment. The availability and terms of financing will depend on factors like the availability of financing generally, your credit worthiness, your relationship with local banks, and any additional collateral you may offer to a lender to secure the loan. Our estimates do not include any finance charges, interest or debt service obligations.

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

The equipment you need to operate your business must meet our specifications, and you must purchase the equipment from us or from suppliers ADF designates. As of the date of this Offering Circular, ADF is the only approved supplier for this equipment. The equipment includes your compressor, epoxy mixer, air distribution header, air dryers, sander, pre-filters and filter/dust collectors.

You must also purchase your epoxy from us or from suppliers ADF designates. The epoxy that you buy from us is manufactured by an affiliated company. As of the date of this Offering Circular, ADF is the only approved supplier for the epoxy.

ADF earns a profit on items we sell to our licensees. For the 12 months ending December 31, 2006, ADF's total sales of goods and services to ACE DuraFlo franchisees were \$1,245,898, or approximately 56% of our total revenues of \$2,225,664.

You will also need a vehicle to operate your business, but ADF does not have specifications for that vehicle, and ADF does not require you to buy the vehicle from us or from any supplier ADF approves or designates.

ADF may issue specifications for the other items you need to use in your business. If ADF does, these specifications will be issued either in one of our operations manuals, or in a separate memorandum. ADF may also provide lists to you of recommended suppliers for forms, signs, supplies, marketing materials and other items necessary to operate your business. The recommended source of supply may be us, an affiliate of ours, or an independent supplier.

ADF does not have any purchasing or distribution cooperatives. ADF does not currently receive any payments from third party suppliers from whom you make purchases.

The equipment and initial epoxy that you must purchase from us or from suppliers we designate will likely represent between 55% and 90% of the total purchases you make to begin operations if you are a new business. If you already own a plumbing business and a service vehicle, then the cost of the equipment, initial epoxy and the initial

franchise fee that you pay to us will represent closer to 90% of your total initial investment (see Item 7). Once you begin operating your business, the primary item you must purchase from us or from suppliers we designate is epoxy. ADF estimates your epoxy purchases will represent less than 5% of your total annual expenses.

## **ITEM 9: FRANCHISEE'S OBLIGATIONS**

**THIS TABLE LISTS YOUR PRINCIPAL OBLIGATIONS UNDER THE LICENSE AGREEMENT 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.**

Obligation		Section or Article in License Agreement	Item in Offering Circular
a.	Site selection and acquisition/lease	6.01	7, 11
b.	Pre-opening purchases/leases	6.02, 7.05, 13.02	5 - 8
c.	Site development and other pre-opening requirements	3.02, 6.01, 6.02, 13.02	7, 8, 11
d.	Initial and ongoing training	7.01-7.04, 7.10	11
e.	Opening	VI, IX	7, 11
f.	Fees	III, IV, V, XIII, XIV, 18.04	5 - 7, 17
g.	Compliance with standards and policies/Operating Manual	7.06, 9.04	8, 11
h.	Trademarks and proprietary information	1.02, 5.03-5.06, XII	13, 14
i.	Restrictions on products/services offered	2.02, VIII, X	16
j.	Warranty and customer service requirements	XI	11
k.	Territorial development and sales quotas	2.03	12
l.	Ongoing product/service purchases	3.02, VIII, XIII	8, 11
m.	Maintenance, appearance and remodeling requirements	6.02	7, 17
n.	Insurance	XV	7
o.	Advertising	V	6, 11
p.	Indemnification	23.02-23.04	6
q.	Owner's participation/management/staffing	7.02, IX	11, 15
r.	Records/reports	14.01, 14.02, 14.04	11
s.	Inspections/audits	14.05	6
t.	Transfer	XVIII	17
u.	Renewal	2.04	17
v.	Post-termination obligations	XXI	17
w.	Non-competition covenants	XVII	17
x.	Dispute resolution	XXII	17

## **ITEM 10: FINANCING**

ADF does not offer direct or indirect financing. ADF does not guaranty any note, lease, or obligation you might incur.

## **ITEM 11: FRANCHISOR'S OBLIGATIONS**

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

Before you begin operating your business, ADF will:

- (a) Designate a nonexclusive territory in which you can operate. (see Item 12) (License Agreement – Exhibit 1).
- (b) Provide the one-week initial training program. (License Agreement – section 7.01).
- (c) Sell to you an initial equipment package, including compressor, epoxy mixer, air dryer, air distribution header, sander, and pre-filter/dust collector (License Agreement - sections 3.02 and 13.02).
- (d) Loan to you one or more sets of our confidential manuals and other guides which we may develop to describe our system of operation and the application of the ACE DuraFlo process (License Agreement - section 9.07). At present, these manuals consist of a Technical Manual and an Equipment Manual (which we sometimes collectively refer to this Offering Circular as our "operations manuals"). The Tables of Contents of these manuals are attached to this Offering Circular as **Exhibit E**.

During the operation of your business, ADF will:

- (a) Sell to you the supply of epoxy that you need for your use in performing Authorized Services (License Agreement – section 11.01).
- (b) Provide additional field training and other onsite support to you as you may request, subject to the availability of our personnel, for the fees that we describe in Item 6, and at your sole cost and expense (License Agreement – section 7.04).
- (c) Maintain and administer the ACE DuraFlo Advertising Fund (License Agreement – section 5.02).

ADF requires you to contribute 1.5% of your Gross Receipts to our Advertising Fund on a weekly basis. (see Item 6). ADF accounts for these Advertising Contributions separately from our other funds. The purpose of this fund is to promote the ACE DuraFlo name and system through national trade shows, national trade organizations that benefit business development, to underwrite marketing materials and media promotional development for the business of our licensees, and to generally promote our names and marks and the ACE DuraFlo process. ADF may use print, radio or television media on a local, regional or national basis. ADF may also use some of the monies in the Advertising Fund to defray the cost of establishing and maintaining a website, National Accounts Program (if we choose to implement one), and other tools

for generating leads for our licensees. ADF will not use these contributions to pay any of our general operating expenses, except for the reasonable salaries, administrative costs, direct expenses, and overhead ADF incurs in activities related to the administration of the Advertising Fund (up to 15% of the aggregate Advertising Contributions that we collect during any calendar year). ADF does not use the Advertising Fund to pay for expenses that we may incur in selling franchises. ADF is not required to ensure that ADF expends monies from this fund in proportion to contributions made by businesses in any particular geographic area. ADF will periodically prepare an unaudited accounting of these expenditures, and this accounting will be available to you upon written request. If all amounts in the Fund are not spent in any given year, these amounts will be carried over to the next year.

In our most recent fiscal year ending December 31, 2005, the percentage breakdown of our Advertising Fund expenditures was as follows:

Production expenses for creating and development advertising materials for use by our licensees	8.02
Media placement costs	39.84
Administrative expenses	0.21
Other (trade shows to promote Authorized Services and to benefit licensees; payments under our local advertising rebate program (see Item 6); ADF website development and maintenance; expenses for public relations services to develop brand awareness of the Ace Dureflo® name and the Authorized Services)	51.93
	100%

You must also spend a minimum of \$2,500 on grand opening promotional activities that publicize the opening of the Licensed Business and the availability of Authorized Services in the territory. We count towards this minimum obligation the sums that you document that you spend on promotional activities that take place before, and within the first 30 days after, you begin performing the Authorized Services. Within 60 days after you begin performing the Authorized Services, you must submit a report substantiating expenditures on grand opening advertising. You must obtain our prior written consent to the use of any materials that you create and to any promotional activities that you conduct as part of your grand opening advertising program.

During each calendar month of the License Agreement beginning with the first calendar month after Licensee (or one of Licensee's principal owners) completes the initial training program, you must spend at least the greater of (i) \$1,000, or (ii) 2% of the prior calendar month's Gross Receipts on local advertising. For example, if you complete the initial training program on August 10, 2008, then in September, 2008, you must spend the greater of (i) \$1,000 on Local Advertising, or (ii) 2% of the Licensed Business'

August gross receipts. Within 30 days after the end of each calendar quarter, you must submit a quarterly report substantiating expenditures on local advertising during the most recent calendar quarter. We do not credit your payments for Advertising Contributions, telephone directory advertising or grand opening promotion to your obligation for local advertising expenditures.

In conducting local advertising in your territory, you may use advertising materials that we prepare from the proceeds of the Advertising Fund, which we will make available to you upon request. Alternatively, you may create your own materials. If you do create your own materials, you must obtain our approval before using those materials.

As we disclose in Item 6, we currently have a local advertising rebate program in place whereby we will rebate to you from the Advertising Fund up to 50% of your Advertising Contributions for qualified local advertising that you place in your local market. We may discontinue the rebate program at the end of any 6 month period upon 30 days written notice.

We do not require you to buy or use any type of electronic cash register or POS system for your business. We do require you to use a computer in your business, but do not prescribe any specific hardware that you must purchase. Our only requirement with regard to your computer system is that it have high speed Internet access. We may require you to use a specific accounting system that we designate or approve. If we designate this system, your initial cost to purchase or lease the computer software will not exceed \$2,500 per licensed business location). (License Agreement - section 14.05).

We may change the method by which you pay us Royalty Fees, Advertising Contributions and other payments upon 14 days written notice, including directing that you use a payment system that we designate involving using pre-authorized transfers from your bank account and electronic fund transfers to our bank account. When you sign the License Agreement, you will sign an agreement in the form of **Exhibit L** agreeing to pay us all fees and other charges for goods or services by our electronic fund transfer system upon our request. You bear the cost of adopting any new payment systems that we require.

You must maintain a business office in your territory where you conduct and receive business and maintain all records of your business activities. Your business office must be open before you perform your first job. You must obtain ADF's prior written approval of the street address of the proposed business office. We do not assist you in selecting a site for your business office. ADF assumes that in most cases our licensees will operate their ACE DuraFlo business from the office of an existing business and, therefore, will obtain our consent to that location before we sign the License Agreement. ADF does not assist you in hiring your employees. (License Agreement - section 6.01).

The typical length of time between the signing of the License Agreement and the opening of your business is generally between 90 and 120 days, assuming you order your equipment in the first 30 days after you sign the License Agreement. This time period can be affected by the time it takes to select a site and negotiate a lease if you

operate from a facility separate from an existing business, and by construction delays, or delays in the delivery of equipment, or in your initial promotion efforts.

ADF offers a one-week initial training program (further described below in this Item 11). (License Agreement - section 7.01). The initial training program will be conducted in an office setting in Placentia, California, in part with a mock plumbing system in our training center in Placentia, California. We repeat the initial training program periodically as needed throughout the year.

You or one of your principal owners (if you are a business entity), and those employees of yours who will perform Authorized Services on your behalf, must complete the initial training program as soon after you sign the License Agreement as we can schedule you for training, before you may perform, or commit to perform, Authorized Services. Additionally, each employee whom you want us to recognize as a full-time manager must complete the initial training program.

Each additional restoration technician whom you hire to perform Authorized Services and who does not complete the session of the initial training program with you or your principal owner before you begin performing Authorized Services, must complete another session of the initial training program that we offer, by mutual arrangement, within 60 days of their hiring date. You must keep us informed of the identification of each person whom you hire to perform Authorized Services on your behalf.

During the term of the License Agreement, you may send up to 6 persons to our initial training program without paying any training fee. For each additional person whom you enroll in our initial training program during the term of your License Agreement, you must pay a training fee of up to \$500/person. (see Item 6). We may modify the duration, location, content and method for delivering the initial training program at any time without notice. You are responsible for all travel, living and salary expenses for your personnel in connection with attending training. (See License Agreement - section VII).

The following chart presents an overview of our initial training program curriculum:

<b>Subject (Note 1)</b>	<b>Identity of Principal Instructors (Note 2)</b>	<b>Hours in Classroom</b>	<b>Hours in Plumbing Center (Note 3) and/or on the Job</b>
Marketing and Advertising	Justin Diemert	8	0
Theory of Pipe Restoration	Larry Gillanders	3	0
Technical Review of Process	Larry Gillanders	4	0
Overview of Equipment	John Laborde	0	4
Pipe Drying and Cleaning	John Laborde	0	7
Epoxy Application	John Laborde	0	7
Troubleshooting	John Laborde	0	2

- (1) ADF will use our various manuals and other handouts as the instructional materials for these training programs.

- (2) The instructors are subject to change. Mr. Diemert is the Franchise Service Manager and assists franchisees with local advertising and marketing matters. Mr. Gillanders is the CEO/Founder of ADF and has spent a significant portion of his time developing and refining the ACE DuraFlo system. Mr. Laborde is our Technical Support Manager and provides troubleshooting and in-field support to our franchisees.
- (3) ADF has built a plumbing center in our Placentia, California facility to create a mock plumbing system.

Within the first 60 days after you, or your principal owner, complete the initial training program, subject to the availability of our personnel, we will send one of our technicians to your territory to provide field training to you and your personnel on site at the location of your first two residential jobs for an aggregate period not to exceed 10 days. If you complete field training within the first 60 days after you, or your principal owner, complete the initial training program, we do not charge any training fees. However, you must reimburse us for our actual direct costs to send a technician to your territory (transportation, lodging, meals, and incidental expenses). (License Agreement - section 7.05). If you cannot complete field training within the first 60 days after you, or your principal owner, complete the initial training program, you must pay us a training fee of up to \$500/day to send our technician to your territory to provide field training for up to 10 days, plus reimburse us for our actual direct costs for travel. The length of field training is by mutual arrangement. See Item 6.

You may request additional field training during the term of your License Agreement, subject to availability and by mutual arrangement, for a fee equal to our then-current daily rate set forth in the confidential manuals and reimbursement of our actual direct costs to send a technician to your territory (transportation, lodging, meals, and incidental expenses). (License Agreement - section 7.05). Our current fee for additional field training at this time is up to \$500/person/day. The length of field training is by mutual arrangement. See Item 6.

ADF may also conduct an annual meeting or require you or designated personnel to complete additional training. (See License Agreement - sections 7.03, 7.04). We will not require that more than 2 persons complete mandatory additional training exceeding 2 days in any 12 month period. Nor will we require that more than 1 person attend an annual meeting in any 12 month period exceeding 3 days in duration. See Item 6 for disclosures regarding applicable fees that we may charge if we conduct mandatory additional training or an annual meeting. You are responsible for all travel, living and salary expenses for your personnel in connection with attending any additional mandatory training or annual meeting, which will be at locations in the United States.

## **ITEM 12: TERRITORY**

The License Agreement gives you the non-exclusive right to operate a pipe restoration business and perform Authorized Services in a territory that we designate at the time

you sign the License Agreement. You may not perform Authorized Services outside of the territory.

We may grant licenses or franchises to other persons, including our affiliates, to operate an ACE DuraFlo business, or otherwise use the ACE DuraFlo process and epoxy, in your territory, or in adjoining trade areas. We may also establish licenses, franchises or affiliate businesses or other channels of distribution selling or leasing similar products or services under a different trademark in your territory.

If you wish to perform Authorized Services for a job outside of your Territory, you must first obtain our prior written consent before you may enter into any commitment. We have discretion in deciding whether or not to grant consent and may impose any reasonable conditions upon our approval. We review requests on a job-by-job basis and the fact that we approve one request does not obligate us to approve any other requests. Among other considerations, we will not approve your request if the project is in a territory in which another licensee, franchisees or affiliate business is operating.

ADF does not condition the continuation of your rights in any territory on you achieving any particular level of sales. If you want to move your business office to another location in the territory, you must first obtain our prior written consent, which we will not withhold if new location is not in near proximity to another of our licensees.

You do not have any automatic right to acquire additional licenses for adjacent or other territories. However, if you are in compliance with this Agreement, you may submit a written request to expand your territory to include a specifically-described geographic area contiguous to the territory for an additional license fee of \$5,000 for each population increment of up to 250,000 of population. For example, if the population in the contiguous geographic area is 650,000, the additional license fee would be \$15,000, and if the population in the contiguous geographic area is 750,100, the additional license fee would be \$20,000. We have discretion to approve your request and designate the new boundaries of the territory, which may vary from the boundaries that you propose. If ADF approves your request and you accept the boundaries that ADF approves for annexation, you and we will amend the License Agreement to identify the new boundaries of the territory. The additional license fee shall be due and payable in full when you execute the written amendment to the License Agreement and is non-refundable.

In the future, we may implement a voluntary national accounts program with companies that make or influence decisions with respect to pipe maintenance and restoration nationally or on a regional level. If we implement a national accounts program, we will determine the referral policies, in our discretion, and include them in the operations manuals. As long as you are not in default under the License Agreement and, in our reasonable business judgment, have the appropriate equipment, personnel, resources and training, we will give you an opportunity to accept jobs within your territory requiring the performance of Authorized Services. If your territory includes more than one licensee or if we or any of our affiliates also operate in the same territory as you do, we will make referrals according to the referral policies in the operating manuals and refer jobs to the person who we believe, in our reasonable business judgment, is best suited



to perform the particular project in view of the project's size, technical requirements, and deadlines for completion. We will attempt to allocate referrals in an orderly manner so that you and each other licensee or affiliate of ours equally qualified to perform Authorized Services in the territory will receive a comparable number of referrals. However, we do not guaranty that, if we implement a national accounts program, either the number of jobs that we refer to you, or the aggregate Gross Receipts of those jobs, will be equal to each other licensee or affiliate of ours who is also doing business in the same territory.

### **ITEM 13: TRADEMARKS**

The License Agreement gives you the right to operate an ACE DuraFlo pipe restoration business under the trade names, trademarks, and service marks that we designate. You must follow our rules when you use these marks. You cannot use any of our names or marks as part of a corporate name or with modifying words, designs or symbols, except for those ADF license to you. ADF generally expects you to identify your business using the fictitious business name of "ACE DuraFlo." You may not use any of these names or marks for the sale of any unauthorized products or services or in a manner that ADF has not authorized in writing.

Some of the principal marks that ADF licenses to you are owned by an affiliate of ours, Pipe Restoration Technologies, LLC (PRT). PRT gave us an exclusive license to use these marks throughout the United States and Canada, and to re-license them to franchisees, under a License Agreement effective April 2001. The License Agreement with PRT does not restrict our use of these marks in any manner material to the license that we grant to you. ADF therefore essentially has all the rights of PRT, the owner, to license or franchise others to use these marks in the United States and Canada.

As of the effective date of this Offering Circular, our principal marks, including their owner, and filing/registration status with the United States Patent and Trademark Office, is shown below. All registered marks are registered on the Principal Register of the United States Patent and Trademark Office except as shown:

<b>Mark</b>	<b>Owner</b>	<b>Status of Application</b>	<b>Registration (R) or Application Serial Number (SIR)</b>	<b>Registration or Filing Date</b>
ACE DuraFlo®	PRT	Registered - Principal Register	2,484,383	September 4, 2001
ACE DuraFlo® logo (on cover page)	PRT	Registered - Principal Register	2,574,994	June 4, 2002
The Modern Pipe Renovation System®	PRT	Registered - Principal Register	2,424,886	January 30, 2001
Fix My Pipes!	ADF	Registered - Supplemental Register	2,655,158	November 26, 2002
Better Than a Repipe!®	ADF	Registered - Principal Register	2,628,216	October 1, 2002
The Repiping Alternative®	ADF	Registered - Principal Register	2,631,482	October 8, 2002

Mark	Owner	Status of Application	Registration (R) or Application Serial Number (SIR)	Registration or Filing Date
Your Repiping Alternative	ADF	Pending	SN 78/805282	Feb 2, 2006 filed
In-Place Pipe Restoration	PRT	Pending	SN 78/812343	Feb 9, 2006 filed

ADF has filed all affidavits required to preserve and renew our trademark registrations. We are not aware of any agreements that materially limit our right to use or license the use of these marks in the United States or Canada. ADF is not aware of any infringing uses that could materially affect your use of these marks in the territory. If you learn of an infringement or challenge to your use of these marks, you must immediately notify us. ADF will take the action we think is appropriate. We will indemnify you from any direct costs that you incur to change to new marks if you are have been using our marks correctly and have promptly notified us of the infringing use. Under no circumstance are we responsible for any consequential or punitive damages or lost profits.

There are no currently effective determinations of the United States Patent and Trademark Office, Trademark Trial and Appeal Board, the trademark administrator of this state or any court, or any pending infringement, opposition or cancellation proceedings, or any pending material litigation, involving the marks that we authorize you to use.

ADF reserves the right to adopt new marks at any time, or to change these marks. If ADF adopts new marks, or change the existing marks, you must use the new or modified marks, and discontinue the use of any marks ADF decides to change or discontinue, at your expense.

We may enter into arrangements with one or more national or regional plumbing chains allowing them and their licensees to use of our proprietary process under our ePIPE brand.

#### **ITEM 14: PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION**

The process ADF uses for cleaning and reconditioning pipelines, and the equipment ADF uses in the process, is proprietary. It is owned by PRT. Under our License Agreement with PRT (see Item 13), ADF has an exclusive license to use and sublicense the use of the proprietary process in the United States and Canada. The License Agreement with PRT does not restrict our use of the proprietary process in any manner material to the license that we grant to you. ADF therefore essentially has all the rights of PRT, the owner, to license or franchise others to use the proprietary process in the United States and Canada.

PRT has applied for patents on the proprietary process. A provisional application was originally filed with the United States Patent and Trademark Office on August 28, 2002. PRT updated this filing to a utility patent application on August 27, 2003 giving PRT all

rights to claims made on August 28, 2002. On October 7, 2005, we amended the application by filing a divisional amendment in which we have expanded our claim for patent protection to include more than one invention. Our patent applications are pending at this time. Neither the Patent Office nor any court has made any determination regarding this application.

On March 8, 2006, ADF filed an application to register our website and certain photographs with the United States Copyright Office. Except for this application, as of the effective date of this Offering Circular, ADF has not registered any of our copyrights. However, ADF claims copyright protection for our manuals, and for all advertising and promotional materials, forms, and related materials that ADF produces. These materials are proprietary and confidential and are our property. You may use them only as long as you are a licensee, and only as provided in your License Agreement. There are no currently effective determinations of the Copyright Office of the Library of Congress or any court regarding any of our copyrighted materials.

There are no agreements in effect that significantly limit our right to use or license the copyrighted materials or our proprietary process. ADF is not aware of any infringing uses of these items that could materially affect your use of these materials. ADF is not required by any agreement to protect or defend our copyrights or our proprietary process. If you become aware of any challenge to our copyrights or proprietary process, you must notify us. ADF will decide the appropriate action to take. ADF will control any litigation involving our copyrights or proprietary process. If ADF requires you to modify or discontinue your use of any copyright, or of our proprietary process, you must do so. Our only obligation will be to reimburse you for any actual direct costs you incur to comply with this obligation, but not for any consequential or punitive damages or lost profits.

ADF will be disclosing to you certain information ADF believes to be confidential or proprietary information and trade secrets. This will include information contained in our manuals, and in materials ADF separately provides to you. You may use these materials in the manner ADF approves, in the operation of your business during the term of your License Agreement. However, you may not use these materials in any other way for your own benefit, or communicate or disclose them to, or use them for the benefit of, any other person or entity. These materials include any trade secrets, knowledge or know-how, confidential information, advertising, marketing, designs, plans, processes, or methods of operation. This includes information about our sources of supply, and our recommendations on pricing. You may disclose this information to your employees, but only to the extent necessary to operate the business, and then only while your License Agreement is in effect.

#### **ITEM 15: OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS**

While ADF recommends that you participate personally in the operation of your business, you are under no obligation to do so. However, ADF requires that you designate (i) at least one full-time employee as your full-time manager and dedicate

100% of his or her time directly supervising the day-to-day management of the business, and (ii) at least one other full-time employee as your sales manager and dedicate at least 50% of his or her time selling and marketing the Authorized Services on your behalf. Both the manager and the sales manager whom you designate must have successfully completed our initial training program, ADF does not require your manager or sales manager to have any ownership interest in your business. However, ADF does require you to have all your employees who take our training programs sign a confidentiality agreement. Your manager and sales manager must each also sign a non-compete agreement similar to the non-compete agreement contained in your License Agreement.

**ITEM 16: RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL**

Your ACE DuraFlo business must offer the Authorized Services for residential and limited commercial applications using the ACE DuraFlo proprietary process and epoxy. You do not have the right to use our proprietary process or epoxy to restore fire sprinkler systems. We may add additional authorized services related to pipe restoration and may require, or offer you the opportunity, to offer these additional services depending on how related they are to the Authorized Services that we describe in this Offering Circular.

You may not market your business outside the territory ADF designates, and you may not perform any Authorized Services outside your territory without our consent (see Item 12).

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

This table lists certain important provisions of the License Agreement. You should read these provisions in the agreement attached to this Offering Circular.

	<b>Provision</b>	<b>Section in License Agreement</b>	<b>Summary</b>
a.	Term of the franchise	2.01	10 years
b.	Renewal or extension of the term	2.04	If you have complied with all the terms and conditions of your License Agreement, you may renew for an additional term of 5 years.
c.	Requirements for you to renew or extend	2.04	You must tell us at least 9 months in advance, sign a new License Agreement, pay a \$1,000 renewal fee, and make necessary capital expenditures to upgrade and modernize your equipment.
d.	Termination by you	21.01	You may terminate only if ADF defaults and we do not cure our default within a minimum of 30 days after receiving notice from you.
e.	Termination by us without cause	None	

	<b>Provision</b>	<b>Section in License Agreement</b>	<b>Summary</b>
f.	Termination by us with cause	21.02	ADF may terminate only if you default.
g.	"Cause" defined - curable defaults	21.03	Most defaults allow you a 30-day cure period after notice.
h.	"Cause" defined - defaults which cannot be cured	21.02	After applying for the franchise, abandonment of the business; conviction of a felony or other crimes that affect the operation of the business; defaults that materially affect our goodwill; 3 or more notices of default within any 24 month period (regardless of whether you cure each default); unauthorized assignment; misrepresentation in applying for the franchise; submission of two or more materially false sales reports within 12 months; use of any substitute material for our proprietary epoxy; and failure to follow our protocols for maintaining and controlling epoxy samples.
i.	Your obligations on termination or non-renewal	21.05, 21.06, 21.09	Obligations include complete de-identification and payments of amounts owed (also see R below).
j.	Assignment of contract by us	18.01	No restriction on our right to assign.
k.	"Transfer" by you - definition	18.02-18.04	Includes transfer of contract, sale, transfer or lease of business, or transfer of one-half or more of voting control.
l.	Our approval of transfer by you	18.02	ADF has the right to approve all transfers, but will not unreasonably withhold approval.
m.	Conditions for our approval of transfer	18.03, 18.04	New licensee must qualify and sign a new License Agreement. Transfer fee required in lieu of new Initial License Fee.
n.	Our right of first refusal to acquire your business	Article XIX	ADF can match any offer for your business.
o.	Our option to purchase your business	21.09	ADF can buy your equipment after termination or expiration
p.	Your death or disability	18.04(h)	Your heirs can assume the License Agreement but they must meet the conditions for assignment.

	<b>Provision</b>	<b>Section in License Agreement</b>	<b>Summary</b>
q.	Non-competition covenants during the term of the franchise	17.01, 17.02	Except for less than 5% ownership in a public company, you may not participate in a competing business, or solicit or divert business from us or from any other of our licensees. This restriction also applies to each of your owners, key management, and each person whom you designate as a Manager of the Licensed Business.
r.	Non-competition covenants after the franchise is terminated or expires	17.03	The above restrictions continue for 2 years with respect to Licensee and the same individuals as above, but only in your operating territory and in areas within 20 miles of any other of our licensees.
s.	Modification of the agreement	24.03	No modifications without consent by all parties, but manuals are subject to change.
t.	Integration/merger clause	24.03	Only the terms of the License Agreement are binding (subject to state law). Any other promises may not be enforceable.
u.	Dispute resolution by arbitration or mediation	22.03 - 22.06	Except for certain claims, all disputes must first be submitted to mediation at a mutual site, and then arbitrated in Orange County, California.
v.	Choice of forum	22.07	Litigation must generally be in an appropriate court in California.
w.	Choice of law	24.01	Nevada law generally applies.

These states have statutes which may supersede the License Agreement in your relationship with us, including the areas of termination and renewal of your franchise. ARKANSAS (Ark. Code of 1987 Anno. §§4-72-201 to 4-72-210); CALIFORNIA (Cal. Bus. & Prof. Code Sections 20000-20043); CONNECTICUT (Conn. Gen. Stat. Sections 42-133e to 42-133h); DELAWARE (Dela. Code Sections 2551 - 2556); HAWAII (Haw. Rev. Stat. Section 482E-6); ILLINOIS (815 ILCS 705/19, 705/20); INDIANA (Ind. Code Section 23-2-2.7, Sections 1 to 7); IOWA (Iowa Code Sections 523H.1 - 523H.17, 537A.10); LOUISIANA (La. Rev. Stats., tit. 12, ch. 13, Section 1042 and tit. 23, ch. 9, Section 921); MICHIGAN (MCL Section 445.1527; MSA Section 19.854(27)); MINNESOTA (Minn. Stat. 1996 Section 80C.14); MISSISSIPPI (Miss. Code Sections 75-24-51 to 75-24-63); MISSOURI (Mo. Rev. Stat. Sections 407.400 to 407.420); NEBRASKA (Neb. Rev. Stat. Sections 87-401 to 87-410); NEW JERSEY (N.J. Rev. Stat. Sections 56:10-1 to 56:10-29); SOUTH DAKOTA (S.D. Codified Laws Section 37-5A-51); VIRGINIA (Va. Code Sections 13.1-557 to 574, 13.1-564); WASHINGTON (Wash. Rev. Code Sections 19.100.180 and 19:100.190); and WISCONSIN (Wis. Stat. Sections 135.01 to 137.07). These statutes and other state court decisions may

supersede the License Agreement in your relationship with us, including the areas of termination and renewal of your franchise.

**ITEM 18: PUBLIC FIGURES**

ADF does not use any public figure to promote our franchise.

**ITEM 19: EARNINGS CLAIMS**

ADF does not furnish or authorize our salespersons to furnish any oral or written information concerning the actual or potential sales, costs, income, or profits of an ACE DuraFlo business. Actual results will vary from one licensee to another and ADF cannot estimate the results of any particular franchise.

If you receive any oral or written information concerning the actual, average or potential sales, income, or profits of an existing or future ACE DuraFlo licensed business from any of our representatives, or from a person claiming to act on our behalf, you should immediately report that incident to us, as that information is not authorized by us. ADF will not be responsible for any of these representations, as these representations are not authorized. You should not rely on any oral or written estimate or projection of sales, income, or profits, or statement of actual, average, estimated or potential sales, income or profits of an existing or future ACE DuraFlo licensed business because reliance on that information would not be reasonable in light of the fact that ADF has not authorized that information to be provided to you or to any other prospective licensee.

**ITEM 20: LIST OF FRANCHISE OUTLETS**

**FRANCHISE STATUS SUMMARY  
2003/2004/2005 (Notes 1 and 2)**

State	Transfers	Canceled or Terminated	Not Renewed	Reacquired by Franchisor	Left the System	Total From Left Columns	Franchises Operating at Year End
Alaska	0/0/0	0/0/0	0/0/0	0/0/0	0/2/0	0/2/0	2/0/0
Arizona	0/0/0	0/0/0	0/0/0	0/0/0	0/1/0	0/1/0	2/1/3
California	0/0/0	0/0/0	0/0/0	0/0/0	0/0/1	0/0/1	3/4/3
Colorado	0/0/0	0/0/0	0/0/0	0/0/0	0/1/0	0/1/0	1/0/1
Florida	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/2/2
Idaho	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
Indiana	0/0/0	0/0/0	0/0/0	0/0/0	0/1/0	0/1/0	1/0/0
Nevada	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/1
Tennessee	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/1
Texas	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	3/3/4
Utah	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	1/1/1
Virginia	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	0/0/1
<b>TOTALS</b>	<b>0/0/0</b>	<b>0/0/0</b>	<b>0/0/0</b>	<b>0/0/0</b>	<b>0/5/1</b>	<b>0/5/1</b>	<b>14/12/18</b>

- 1) All numbers are as of December 31 for each year.
- 2) The number in the "total" column may exceed the number of licenses because several events may have affected the same license in the same fiscal year or during the three disclosed fiscal years.

**STATUS OF COMPANY-OWNED BUSINESSES  
FOR YEARS 2003/2004/2005 (NOTE 1)**

State	ACE DuraFlo Businesses Closed During Year	ACE DuraFlo Businesses Starting During Year	Total Businesses Operating at Year-End
California (Note 2)	0/0/0	0/0/0	2/2/3
Maryland	0/0/0	1/0/0	2/2/2
Nevada - (Note 3)	0/0/0	1/0/0	1/1/1
Washington	0/0/0	0/0/0	1/1/1
<b>TOTALS</b>	<b>0/0/0</b>	<b>2/0/0</b>	<b>6/6/7</b>

- 1) This list includes businesses operated by our affiliates or individuals disclosed item 2. All numbers are as of December 31.
- 2) The increase in California franchises from 2 at fiscal year end 2004 to 3 at fiscal year end 2005 is the result of ACE EnviroTech, Inc. resuming operations under its existing license agreement. See Exhibit C for the address of its Placentia, California location.
- 3) This business had not yet opened as of December 31.

**PROJECTED OPENINGS FROM JANUARY 1 - DECEMBER 31, 2006 (NOTE 1)**

State	License Agreements Signed But Business Not Operational	Projected Licensed Businesses in Current Fiscal Year	Projected Company Owned Openings in Current Fiscal Year
California	0	3	0
Florida	0	3	0
Illinois	0	2	0
Michigan	0	2	0
New Jersey	0	1	0
New Mexico	0	1	0
New York	0	1	0
Texas	0	3	0
Washington	0	1	0
<b>TOTAL</b>	<b>0</b>	<b>17</b>	<b>0</b>

- (1) The chart shows the states in which ADF expects to concentrate its efforts for this year. ADF cannot, however, predict with any certainty the states in which ADF will find prospective licensees. In total, ADF expects to grant between 5 and 25 licenses in



this fiscal year. ADF does not anticipate focusing on company-owned operations in our next fiscal year.

Attached as **Exhibit C** is a list of the names of all licensees, the number of licenses each licensee owns and their addresses and telephone numbers as of December 31, 2005.

Attached as **Exhibit D** is a list of the names and last known home addresses and telephone numbers of each licensee who during our most recent fiscal year: (1) had a license terminated by us; (2) had a license not renewed by us; (3) otherwise voluntary or involuntarily ceased to do business under the License Agreement; or (4) has not communicated with us within 10 weeks of the date we prepared and filed this Offering Circular.

## **ITEM 21: FINANCIAL STATEMENTS**

Attached to this Offering Circular as **Exhibit B** are copies of our audited financial statements for the years ended December 31, 2005, December 31, 2004 and December 31, 2003.

## **ITEM 22: CONTRACTS**

Attached to this Offering Circular are the following contracts:

- |                  |  |
|------------------|--|
| <b>Exhibit A</b> | ACE DuraFlo License Agreement  |
| <b>Exhibit G</b> | Personal Guaranty. ADF requires the shareholders of a corporate or limited liability company licensee to sign this Guaranty. However, ADF will waive the requirement that you sign this Guaranty if the licensee is a business that has been in existence for at least 2 years, you show us financial statements confirming the business has had a tangible net worth of at least \$200,000 for each of the last 2 years, and you sign a Personal Covenant Agreement, confirming you will personally abide by the confidentiality and non-compete provisions of our License Agreement. |
| <b>Exhibit H</b> | Personal Covenant Agreement.   |
| <b>Exhibit I</b> | Representations, Warranties and Acknowledgments you must sign as a condition to becoming an ACE DuraFlo licensee.  |

## **ITEM 23: RECEIPT**

The very last page of this circular (**Exhibit M**) is a duplicate Receipt that should be signed, detached and returned to ADF acknowledging your receipt of this circular. The next to the last page is the original Receipt to be kept by you. If the Receipt pages or any other pages or exhibits are missing from your copy, please contact ADF at the address and phone number on the cover page of this circular.