



## FRANCHISE OFFERING CIRCULAR

Aero-Colours, Inc.  
A Minnesota corporation  
10824 Nesbitt Avenue South  
Minneapolis, Minnesota 55437  
(952) 277-0310  
www.aerocolours.com

The franchisee will operate a mobile or fixed site, paint touch-up service in an exclusive territory.

The initial, non-refundable franchisee fee will vary depending upon the size and location of the territory, and perhaps other factors. Franchisee should expect to pay at least \$10,000.00 and no more than \$125,000.00 for the initial Franchise Fee. The estimated initial investment required ranges from \$47,400.00 to \$173,400.00. This sum does not include rent for the optional business location.

### Risk Factors:

THE FRANCHISE AGREEMENT REQUIRES THAT ALL DISAGREEMENTS BE SETTLED BY ARBITRATION OR LITIGATION IN MINNESOTA. OUT OF STATE ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST YOU MORE TO ARBITRATE WITH US IN MINNESOTA THAN IN YOUR HOME STATE. THE FRANCHISE AGREEMENT STATES THAT MINNESOTA LAW GOVERNS THE AGREEMENT AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAWS. YOU MAY WANT TO COMPARE THESE LAWS. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

Information comparing franchisors is available. Call the state administrators listed in Exhibit A to this offering circular or your public library for sources of information.

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

Effective Date:

10824 Nesbitt Avenue South • Bloomington, MN 55437  
P.O. Box 385846 • Bloomington, MN 55438  
(952) 942-0490 • Toll Free: (800) 696-AERO • Fax: (952) 942-0628.

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

**TO PROTECT YOU, WE'VE REQUIRED YOUR FRANCHISOR TO GIVE YOU THIS INFORMATION. WE HAVEN'T CHECKED IT, AND DON'T KNOW IF IT'S CORRECT. IT SHOULD HELP YOU MAKE UP YOUR MIND. STUDY IT CAREFULLY. WHILE IT INCLUDES SOME INFORMATION ABOUT YOUR CONTRACT, DON'T RELY ON IT ALONE TO UNDERSTAND YOUR CONTRACT. READ ALL OF YOUR CONTRACT CAREFULLY. BUYING A FRANCHISE IS A COMPLICATED INVESTMENT. TAKE YOUR TIME TO DECIDE. IF POSSIBLE, SHOW YOUR CONTRACT AND THIS INFORMATION TO AN ADVISOR, LIKE A LAWYER OR AN ACCOUNTANT.**

**IF YOU FIND ANYTHING YOU THINK MAY BE WRONG OR ANYTHING IMPORTANT THAT'S BEEN LEFT OUT, YOU SHOULD LET US KNOW ABOUT IT. IT MAY BE AGAINST THE LAW.**

**THERE MAY ALSO BE LAWS ON FRANCHISING IN YOUR STATE. ASK YOUR STATE AGENCIES ABOUT THEM.**

**FEDERAL TRADE COMMISSION  
WASHINGTON, D.C.**

## TABLE OF CONTENTS

<b>ITEM</b>	<b>PAGE</b>
1. THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES	1
2. BUSINESS EXPERIENCE	3
3. LITIGATION	4
4. BANKRUPTCY	5
5. INITIAL FRANCHISE FEE	5
6. OTHER FEES	6
7. INITIAL INVESTMENT	8
8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES	10
9. FRANCHISEE'S OBLIGATIONS	11
10. FINANCING	13
11. FRANCHISOR'S OBLIGATIONS	15
12. TERRITORY	18
13. TRADEMARKS	18
14. PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION	19
15. OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISED BUSINESS	19
16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL	19
17. RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION	20
18. PUBLIC FIGURES	23
19. EARNINGS CLAIMS	24
20. LIST OF OUTLETS	24
21. FINANCIAL STATEMENTS	36
22. CONTRACTS	37
23. RECEIPT	38
<b>EXHIBITS</b>	
A. CONTACTS FOR MORE INFORMATION REGARDING FRANCHISES	
B. AC's AGENT FOR SERVICE OF PROCESS	
C. LOAN AGREEMENT	
D. AC TRAINING PROGRAM	
E. CALIFORNIA APPENDIX	
F. NOTICE OF NEGOTIATED SALE OF FRANCHISE	

## ITEM 1

### **THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES**

In this offering circular, "AC" means Aero-Colours, Inc., the franchisor. "You" means the person or entity who buys the franchise. "Predecessor" in Item 1 means Flying Colours as described below from whom AC acquired a major portion of its assets and the right to the proprietary painting touch-up process that AC is offering you use of. AC is a Minnesota corporation that was incorporated on October 25, 1985. AC's sole predecessor was a sole proprietorship known as Flying Colours, which existed from 1984 at 2617 Coty Court, Ceres, CA 95307 until AC purchased it in its entirety in October of 1985. AC does business only as Aero-Colours, Inc. Our principal place of business is 10824 Nesbitt Avenue South, Minneapolis, Minnesota 55437.

On February 9, 1995, all of the outstanding capital stock of AC was purchased by A Perfect Finish, Inc. ("APF"). APF was incorporated in Minnesota in May, 1994 and has been a franchisee of AC since June, 1994. Immediately following APF's purchase of AC, APF was merged into AC with AC the surviving corporation of the merger.

AC's agent for service of process is disclosed in Exhibit "B" to this offering circular.

AC owns and operates a mobile, painting touch-up process and service that is performed primarily on cars at automobile dealerships or at the customer's home or place of business. The process can also be performed from a fixed site should you decide to establish one pursuant to the terms of the Franchise Agreement. You can also perform the AC process on boats or other vehicles if you desire.

AC franchises the right to use and perform its painting touch-up process in exclusive territories that contain at the time that the franchise is acquired at least forty (40) new-car dealerships.

Between October of 1985 and AC's becoming a franchisor in 1993, AC existed as a licensor. AC licensed the use of the AC trademark and service mark and sold the rights to use and perform its process in exclusive territories to licensees under terms similar to its present Franchise Agreement. The licensees paid an initial license fee and a royalty based upon the gross revenues generated by the licensee's business to AC. Under the terms of the Franchise Agreement, you are authorized to conduct business under the trade name and trade mark of AC in an exclusive territory in exchange for the payment of an initial Franchise Fee and royalties based upon the monthly gross revenue generated by the business.

The terms of the license and Franchise Agreement differ in various ways. The Franchise Agreement more specifically spells out the duties of AC with regard to the relationship. The licenses are generally for a term of one (1) year, renewable annually. The Franchise Agreement is for a term of ten (10) years and is renewable upon certain conditions. Unlike the license, the Franchise Agreement specifically sets out your obligations and the fees to be paid to AC. The Franchise Agreement also places greater restrictions on the transferability of the franchise. Further, the Franchise Agreement may be terminated if you fail to comply with certain requirements.

Existing licensees may convert their licenses to franchises via this offering circular. Conversion of an existing license to the franchise offered by this offering circular will be negotiated on an individual basis with the existing licensees. Licensees converting to franchises via this offering circular will execute the Franchise Agreement in Item 22 together with an addendum for converting licensees and will not be required to pay an initial Franchise Fee. Also, licensees converting to franchises will already possess all of the equipment, supplies and training necessary to operate the franchise and will not incur any expense for same. The converting licensees will already be operating the AC touch-up process and will not incur any additional start-up costs or expenses. The addendum for converting licensees incorporates the above discussed changes into the Franchise Agreement.

The outlets listed in Item 20 are new franchisees and existing licensees. Neither AC nor its predecessor has ever offered licenses, franchises, or business opportunities in any other lines of business.

AC's painting process is regulated by the Environmental Protection Agency to the extent that it involves the handling, storage and disposal or recycling of hazardous and dangerous chemicals. Other state or local regulations may apply to the AC process in the territory you select.

AC's direct competition includes other franchisors offering similar services, local paint repair companies and detailers.

## ITEM 2

### **BUSINESS EXPERIENCE**

#### **KATHLEEN T. SPELLMIRE - DIRECTOR, PRESIDENT OF COMPANY OPERATIONS AND CHIEF EXECUTIVE OFFICER**

Ms. Spellmire is the Co-Chief Executive Officer of AC and President of Company Operations and a member of the Board of Directors. She has been with AC in this capacity since February, 1995. Prior to joining AC in February, 1995, Ms. Spellmire held various management positions with major corporations in the United States. From April, 1994 through February, 1995 she was employed by Lifetouch Publishing as Controller of their Publishing Division. From October, 1992 through April, 1994, Ms. Spellmire was Chief Financial Officer of the Solutronix Corporation where she was responsible for all financial matters, sales, and operations. From September, 1990 through October, 1992, Ms. Spellmire was Corporate Controller of Northgate Computer Systems. Prior to September, 1990, Ms. Spellmire held various financial management positions with companies in the computer industry.

#### **JAMES F. SPELLMIRE - DIRECTOR, PRESIDENT OF FRANCHISE OPERATIONS AND CHIEF EXECUTIVE OFFICER**

Mr. Spellmire is the Co-Chief Executive Officer of AC and President of Franchise Operations and a member of the Board of Directors. He has been with AC in this capacity since February, 1995. Prior to joining AC in February, 1995, Mr. Spellmire held various management positions with major corporations in the United States. From October, 1993 through October, 1994, Mr. Spellmire was Chief Financial Officer of Maintech Resources, Inc. From November, 1990 through October, 1993, Mr. Spellmire was Director of Finance and Administration at Northwest Airlines. Prior to November 1990, Mr. Spellmire held various financial management positions with companies in the computer industry.

#### **IRVIN ENGBRETSON - DIRECTOR**

Mr. Engbretson is a member of the Board of Directors of AC. He has been with AC in this capacity since February, 1995. Mr. Engbretson was the Chief Financial Officer of Cray Research, Inc. (Eagan, Minnesota) from 1972 until 1977, and the Senior Director of Finance for all company engineering and manufacturing from 1977 until he retired from Cray Research, Inc. in April, 1993.

#### **JOHN F. CARLSON - DIRECTOR**

Mr. Carlson is a member of the Board of Directors of AC. He has been with AC in this capacity since July, 1996. Mr. Carlson held various positions of increased responsibility with Cray Research, Inc. (Eagan, Minnesota). From 1993 to 1995 Mr. Carlson was Chairman and Chief Executive Officer of Cray Research, Inc. He held financial management positions including the office of Chief Financial Officer until 1991 when he was appointed the President and Chief Operating Officer of the company. Mr. Carlson began his career with KPMG Peat Marwick LLP (Minneapolis, Minnesota) in 1964 and left in 1976 to work for Cray Research, Inc. Mr. Carlson has several professional and community affiliations.

### **ITEM 3**

#### **LITIGATION**

H.J. Lavaty & Associates, Inc. v. Aero-Colours, Inc. (No. 94CH 0290) Circuit Court of the 18th Judicial Circuit, Du Page County, Wheaton, Illinois. At the direction of the Illinois Attorney General, AC provided our current licensee, H.J. Lavaty & Associates, with a Notice of Violation of the Illinois Franchise Disclosure Act in January 1994. On April 8, 1994, Lavaty filed an action seeking to rescind its current license and recover attorneys' fees and costs incurred in connection with the action based upon AC's failure to comply with the Illinois Franchise Disclosure Act. Lavaty has alleged that its license with AC is subject to the Illinois Franchise Disclosure Act and that AC entered into the license without first registering under the Act and without delivering the required disclosure statement to Lavaty. AC filed a response to the complaint. Upon receiving the response from AC regarding the complaint, Lavaty filed suit in District Court to rescind its license agreement with AC and presented settlement terms to AC. AC did not accept these settlement terms and filed with the court a motion to dismiss the complaint. The court dismissed the suit. In February 1998, AC and Lavaty executed a settlement agreement whereby AC paid to Lavaty \$2,000 and paid Lavaty's attorney fees in the amount of \$11,000.

Carfrance SARL v. Aero-Colours, Inc. (Commercial Court of Paris, 1, Quai de Corse, 75004 Paris). On December 29, 1998, Carfrance SARL executed a master franchise agreement with Aero-Colours, Inc. providing Carfrance with the exclusive franchise rights to the country of France. On April 7, 2000, Carfrance SARL served a summons upon Aero-Colours, Inc. to appear before the Commercial Court of Paris on June 21, 2000. Carfrance SARL's legal claim is that Aero-Colours, Inc. failed to comply with a section of the French code which requires a franchisor to provide disclosure documents and a draft agreement at least 20 days before the agreement is signed or a franchise fee paid. Carfrance SARL is seeking to have the master franchise agreement voided and to be paid \$753,000. Aero-Colours, Inc. will counter-claim for amounts due under the master franchise agreement and is vigorously defending the Carfrance SARL claim. In July 2000 Carfrance SARL filed for protection under French bankruptcy laws and the bankruptcy trustee is continuing to support the original suit. According to French law, the plaintiff presented their documentation in January 2001. AC responded with their documentation in February, 2001. In August of 2002, the parties agreed to release each other from all liabilities related to the lawsuit. As of December 31, 2003, the action has been removed from the docket of the Commercial Court of Paris and the parties have agreed to settlement terms, however, a settlement agreement has not been executed.

Other than these two (2) actions, no litigation is required to be disclosed in this offering circular.

None of AC nor any person or franchise broker in Item 2 of this offering circular is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et. seq., suspending or expelling such persons from membership in such association or exchange

### **ITEM 4**

#### **BANKRUPTCY**

Neither AC, its Predecessor, nor any person previously identified in this offering circular has been involved as a debtor in proceedings under the U.S. Bankruptcy Code required to be disclosed in this Item.

### **ITEM 5**

#### **INITIAL FRANCHISE FEE**

You must pay a non-refundable Franchise Fee for your exclusive territory when the Franchise Agreement is signed. The minimum fee is \$10,000.00. The maximum fee is \$125,000.00. The typical exclusive territory includes at least 50 new-car dealerships. While you can typically expect to pay between \$400 and \$700 for each new-car dealership in your territory, the amount of the non-refundable Franchise Fee is based upon a number of factors including the number of new car dealerships in your territory, the geographical size of your

territory, and the competitive nature of your territory. For the year ended December 31, 2004, the minimum Franchise Fee paid to AC was \$17,500.00 and the maximum Franchise Fee paid to AC was \$33,000.00. These Franchise Fee prices were based upon the number of car dealerships in the territories purchased, the geographical size of these territories and the competitive nature of the market in each territory. Prior to opening your business you will also pay to AC approximately \$12,000.00 for painting equipment installed in your van, the cost of freight to deliver the painting equipment to you and \$700.00 for a 3 months' reserve of Remover and other supplies. The only items which you must purchase from AC are the Remover and the painting equipment. All other equipment and supplies may be purchased or leased from third party vendors.

Payment for the painting equipment and 3 months' reserve of Remover and other supplies must be made in full upon delivery. See Item 10 of this offering circular regarding available installment payment terms for the non-refundable Franchise Fee. AC requires a minimum down payment of Ninety Percent (90%). Under certain conditions AC will finance a portion of the non-refundable Franchise Fee over a term of 2 years at the "Prime Rate" plus five percentage points APR with monthly installments commencing 1 month after signing of the Franchise Agreement. Prime Rate shall mean the "prime rate" as stated in the "Money Rates" section of The Wall Street Journal (Midwest Edition). Interest accrues for the non-refundable Franchise Fee financed from the date you execute the Franchise Agreement.

Current licensees converting to franchises via this offering circular will not be required to pay a Franchise Fee and will already possess all of the equipment, supplies and training necessary to operate the franchise and will not incur any expense for same.

The terms of Item 5 of this Offering Circular have been negotiated with other Franchisees. A copy of all Negotiated Sales Notices in Northern California in the last twelve months is attached as Exhibit F.



**ITEM 6**  
**OTHER FEES**

<b><u>Name of fee</u></b>	<b><u>Amount</u></b>	<b><u>Due Date</u></b>	<b><u>Remarks</u></b>
(1) Royalty	(2) 7% of Gross Revenue	By 15th of month after month in which revenue was earned	See footnotes (1), (2), and (3).
Replacement Manager Training	Cost to AC plus 40%	Within 30 days after receipt of invoice for services provided	There is no fee for initial training. This expense applies only if you designate a replacement manager. The cost of training a replacement manager is estimated at between \$1,000.00 and \$2,500.00. You must also pay travel and lodging expenses. See footnote (1).
Continuing Education Training	Cost to AC plus 40%	Within 30 days after receipt of invoice for Services provided	This fee may be charged by AC at its discretion. See footnote (1) and (5)
Additional Consulting	Hourly/daily fee plus costs to AC	Within 30 days after receipt of invoice for services provided	This cost does not refer to initial training, but for extra consultation after that. Currently, AC charges \$85.00 hourly or \$680.00 daily for consulting fees. See footnote (1).

- 
- (1) All fees are non-refundable, imposed by and payable to AC.
  - (2) The Royalty Fee is seven percent (7%) of the gross revenue earned each month in your exclusive territory. Gross revenue includes all revenue from your franchise including those amounts which may be uncollectable by you. Gross revenue does not include sales tax or use tax. AC requires you to purchase or lease a computer and software so that you can provide to AC standardized financial records. Any late payments can be assessed with an interest penalty of eighteen percent APR (18% annual percentage rate) or a higher amount if allowed by law.
  - (3) The above fees will apply to current licensees converting to franchises via this offering circular.
  - (4) At the time of each monthly payment of the Royalty Fee, you are required to complete and submit to AC a Statement of Operations and an Operational Royalty Report in the form of Attachments E and F to the Franchise Agreement. AC has the right to audit your books and records. If any such audit discloses an underpayment of royalties, such amount shall be immediately due and payable by you. If the amount of the underpayment exceeds three percent (3%) of the royalty due for any period, you are required to reimburse AC for the costs of the audit, including without limitation, legal and accounting fees, costs of transportation and other related expenses.
  - (5) The cost to you for continuing education training provided to you is equal to the cost to AC plus a 40% markup on this cost. The costs to provide continuing education training includes travel and lodging expenses for AC personnel. This cost would then be increased by 40% to cover the administrative costs associated with this training.

<b><u>Name of fee</u></b>	<b><u>Amount</u></b>	<b><u>Due Date</u></b>	<b><u>Remarks</u></b>
Audits	Cost to AC if underpayment exceeds 3%	Upon completion of audit	Audits pertain to underpaid royalty fees See footnote (1) and (4).
Tradenname Changes	Cost to conform your mobile unit and fixed site with any new changes	Upon AC's changing its tradenname or marks	AC presently has no intent to change either its tradenname or marks. AC estimates the cost to conform to any trade name changes at between \$100.00 and \$200.00. See footnote (1).
Supplier Approval	\$100	When you request AC to approve a supplier not previously approved by AC at any time after the first three months of operation.	You incur the supplier approval fee at your discretion. See footnote (1).
Transfer Fee	There in no fee charged to the franchisee to transfer the franchise.	When you request AC to approve a transfer of your franchise business.	Transfer is defined as a change in ownership of the franchise business that is greater than 34% or more of the capital or profits.
Renewal	\$1,000	Upon renewal of your franchise	See footnote (1)

---

**ITEM 7****INITIAL INVESTMENT**

	AMOUNT	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS TO BE MADE
INITIAL FRANCHISE FEE:	See Item 5, \$10,000 (minimum) to \$125,000	See (Note 1) and Items 5, 10	At signing of Contract	AC (Note 1)
TRAVEL AND LIVING EXPENSES WHILE TRAINING	\$3,700	As Incurred	During Training	Airlines, Hotels and Restaurants
CHEVROLET ASTRO OR OTHER SIMILAR VAN	\$10,000 to \$20,000	As Incurred	Prior to Opening	(Note 2)
VAN EQUIPMENT	\$12,000 (Note 3)	Lump Sum	Prior to Opening	AC
RESERVE AND OTHER SUPPLIES- 3 months	\$ 700	As Incurred	Prior to Opening	AC or Vendors (Note 4)
MISCELLANEOUS OPENING COSTS	\$ 500	As Incurred	Prior to Opening	Suppliers, Utilities, Etc. (Note 5)
COMPUTER HARDWARE & SOFTWARE	\$250-\$1,250	As Incurred	Prior to Opening	Vendors (Note 6)
REAL ESTATE & IMPROVEMENTS	(Note 7)	(Note 7)	(Note 7)	(Note 7)
ADVERTISING - 3 months	\$ 250 (Note 8)	As Incurred	As Incurred	Vendors
ADDITIONAL FUNDS - 3 months	\$10,000 (Note 9)	As Incurred	As Incurred	Suppliers, Utilities, Etc.
TOTAL	\$47,400 to \$173,400	[DOES NOT INCLUDE REQUIRED INSURANCE, OR OPTIONAL FRANCHISE SITE COSTS (SEE NOTES 9 AND 10)]		

Notes:

No Real Property Investment is Required.

- (1) AC prefers not to finance the initial Franchise Fee. You may acquire financing from any source available to you. However, under certain conditions discussed in Item 10, AC may provide financing for a portion of the initial Franchise Fee. You are required to make a down payment of at least Ninety Percent (90%). A portion of the initial Franchise Fee may be financed by AC for a term of 2 years at the "Prime Rate" plus five percentage points APR with monthly installments commencing one (1) month after signing of the Franchise Agreement. Prime Rate shall mean the "prime rate" as stated in the "Money Rates" section of The Wall Street Journal (Midwest Edition).
- (2) The van usually selected, but not required, is a Chevrolet Astro van which may be leased or purchased from any source available under any terms that you can reach with the owner of the vehicle. The approximate cost for a van varies, depending on its age and condition.
- (3) The required painting equipment must be purchased from AC. The required painting equipment is described in more detail in Item 8 and Item 22 of this offering circular. This price includes AC's installation of the equipment, and is non-refundable.
- (4) The reserve supplies refers to the "Remover" and other supplies needed to perform the painting service. The suggested reserve and other supplies should be sufficient for the initial three-month phase in of the business. The suggested amount of reserve supplies that you purchase is \$300.00. The "Remover" must be purchased from AC, and is non-refundable. The suggested amount of the other supplies, including the stationery and office supplies that you purchase is \$400.00. You are free to purchase as much or as little of these supplies as you wish. These figures are suggestions only. All supplies other than the "Remover" may be purchased from any source available and under any terms that you can reach with the distributor.
- (5) Includes security deposits, business license fees, if any, and incorporation fees.
- (6) You must prepare and submit financial and other reports to AC by computer. The equipment and software may be leased or purchased from any source available but should be compatible with AC's IBM-based system. AC requires that you purchase the latest software version of Quickbooks Accounting software.
- (7) The Franchise Agreement does not require you to establish a fixed franchise site rather than operate out of your home. If you choose to operate a fixed franchise site, typical locations are light industrial and commercial areas. The typical AC fixed retail site has approximately 1,800 square feet. Rent is estimated to be between \$6,000.00 and \$15,000.00 per year depending on factors such as size, condition and location of the leased premises. You may have other expenses like the cost of leasing office equipment if you choose to operate a fixed franchise site.
- (8) You are not required to pay any advertising fees to AC. It is expected that you will incur some advertising expenses in the initial start up and continuation of your business.
- (9) This estimates your initial start-up expenses and the capital required to operate your franchise for 3 months. This figure does not include the price of the one million dollar insurance policy that you must acquire from an insurer prior to your opening. This figure does not include any rental, overhead or other expenses that you may incur should you elect to establish a fixed franchise site rather than operate out of your home. Figures are estimates and AC cannot guarantee that you will not have additional expenses starting the business. Your costs will depend on factors such as: how much you follow AC's methods and procedures; your management skill, experience and business acumen; local economic conditions; the local market for our product and service; the prevailing wage rate; competition; and the sales level reached during the initial period.
- (10) AC relied on its nineteen years of experience in the painting and touch up business to compile these estimates. You should review these figures carefully with a business advisor before making any decision to purchase the franchise.
- (11) Current licensees converting to franchises via this offering circular will not be required to pay an initial Franchise Fee and will already possess the necessary equipment supplies and training to operate the franchise and will not incur any expense for same. The only expense incurred by current

licensees converting to a franchise via this offering circular will be attorney and professional fees incurred in reviewing the Franchise Agreement and addendum estimated at approximately \$500.00.

## **ITEM 8**

### **RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES**

You are required by written agreement to purchase AC's proprietary product known as "Remover" which is the chemical used in the painting process (See section 7.4.5 of the Franchise Agreement). AC is currently selling the "Remover" at thirty one dollars (\$31) per gallon. AC can adjust the price of the "Remover" each year based on the Consumer Price Index to reflect its cost to produce the same. Your purchases from AC for the "Remover" will be approximately 1% of your initial investment and approximately 1% of your operating expenses. In the year ended December 31, 2004, the revenue AC receives from sales of the initial van operating supplies (as described below) and Remover to franchisees was approximately \$96,100 or 5.7% of AC total revenues of \$1,687,887.

AC will generally have in inventory all of the supplies necessary for you to run your franchise. You may acquire all of your post-opening supplies, with the exception of the "Remover," from any source that AC approves of. See sections 5.6 and 7.4.3 of the Franchise Agreement. The purchase of all other necessary supplies will represent seven to ten percent of your overall purchases. You may request that AC approve the other suppliers. Based on the information and samples you supply to us, we will test the items supplied and review the proposed suppliers' financial records, business reputation, delivery performance, credit rating and other information. AC's supplier approval criteria is available for franchisees to review. Our review typically is completed in thirty days. There is no charge for AC approving your initial suppliers. A fee of \$100.00 will be charged for AC to approve any additional suppliers after your first three months of operation. No suppliers will make payments to or rebates to AC for supplies purchased by you from the supplier.

You must purchase the required painting equipment to be installed in your van from AC including air tanks and compressors, hoses and fittings, air brush and hose assembly, detail spray gun, siphon caps and color cups, color chip books, formula books, alternate color selector, color wheel and tinting guides, microfiche reader, mixing color system, polishing rags and towels and standard forms as described in more detail in Part II to attachment "D" of the Franchise Agreement included in Item 22 of this offering circular. The \$12,000 price of the equipment includes AC's installation of the equipment, and is nonrefundable. The cost of the equipment represents approximately 20% of your total purchases in connection with establishment of your business.

You are required by written agreement to purchase comprehensive public liability insurance, including product liability insurance covering your business, personnel, and activities on an occurrence basis with a combined single limit for bodily injury, death or property damage for not less than \$1,000,000.00; casualty insurance in a minimum amount equal to the replacement value of your interest in the business, and if you choose to establish a fixed site, business interruption insurance in an amount sufficient to cover rent for the leased premises, salary and wages of key personnel, and other fixed expenses. Such insurance may be purchased through the Aero-Colours, Inc. Franchise Insurance Program or from any insurance company of recognized responsibility. All insurance must designate AC and AC's officers and directors as additional named insureds. After you have obtained insurance coverage, you must deliver a certificate of the issuing insurance company to AC and AC will review the insurance company and coverage. Our review typically is completed within ten (10) days. AC will review the insurance company and the form, substance and coverage of the insurance purchased based upon the standards in the industry of other similar businesses. The cost of the insurance purchased in accordance with the specifications of the Franchise Agreement represents approximately 3% of your total purchases in connection with the establishment of your business.

AC requires you to purchase or lease a computer and or software.

## ITEM 9

### FRANCHISEE'S OBLIGATIONS

THIS TABLE LISTS YOUR PRINCIPAL OBLIGATIONS UNDER THE FRANCHISE AGREEMENT AND OTHER AGREEMENTS, INCLUDING REQUIREMENTS THAT YOU PURCHASE OR LEASE IN ACCORDANCE WITH SPECIFICATIONS OR FROM APPROVED SUPPLIERS. IT WILL HELP YOU FIND MORE DETAILED INFORMATION ABOUT YOUR OBLIGATIONS IN THE FRANCHISE OR OTHER AGREEMENTS AND IN OTHER ITEMS OF THIS OFFERING CIRCULAR.

<u>Obligation</u>	<u>Section in Agreement</u>	<u>Item in Offering Circular</u>	<u>Remarks</u>
a. Site selection and acquisition and leases	Section 5.1 and 7.2	Item 7	No site required
b. Pre-opening purchases/ leases	Section 6.1 and 6.5	Items 7 and 8	
c. Site development and other pre-opening requirements	Section 6.5 and 7.4	Items 6, 7 and 11	
d. Initial and on-going training	Section 5.2	Items 6, 7 and 11	
e. Opening	Section 7.4	Items 8 and 11	
f. Fees	Section 6	Items 5, 6 and 10	
g. Compliance with standards and policies/Operating Manual	Section 5.4 and 7.4	Items 11 and 12	No Manual provided
h. Trademarks and proprietary information	Section 3 7.1 and 7.4.5	Items 13 and 14	See also post-termination obligations in Item 17
i. Restrictions on products/ services offered	Section 7.4.3	Item 16	
j. Warranty and customer service requirements	Section 5.5 and 7.4	Item 11	
k. Territorial development and sales quotas	Section 4.2 and 7.3	Item 12	

<u>Obligation</u>	<u>Section in Agreement</u>	<u>Item in Offering Circular</u>	<u>Remarks</u>
l. Ongoing product/service purchases	Section 7.4.3 and 7.4.5	Items 7 and 8	
m. Maintenance appearance and remodeling requirements	Section 4.3, 5.1, 7.2, and 9.4	Item 7	Applies only if you select a site other than your home
n. Insurance	Section 7.7	Item 8	
o. Advertising	Section 7.1.3	Items 7 and 11	
p. Indemnification	Section 8.5		
q. Owner's participation/management staffing	Section 7.5	Items 11 and 15	
r. Records/reports	Section 7.6	Items 6, 7 and 11	
s. Inspections/audits	Section 6.4, 6.5, and	Items 6 and 11 7.4.4	
t. Transfer	Section 6.10 and 9	Item 17	
u. Renewal	Section 4.3	Item 17	
v. Post-termination obligations		Section 10.3	Item 17
w. Non-competition covenants	Section 8.4 and 8.6	Item 17	Separate agreement must be signed
x. Dispute resolution	Section 11	Item 17	

**ITEM 10**

**FINANCING**

**SUMMARY OF FINANCING OFFERED**

Item Financed (Source)	Amount Financed	Down Payment	Term (Yrs)	APR %	Monthly Payment	Prepay Penalty	Security Required	Liability Upon Default	Loss of Legal Right on Default
Initial Fee (Note 1)(AC)	Will vary Based Upon Amount of Initial Fee	90% of Initial Fee Amount	2	The Prime Rate* plus five percent tage points	Will Vary Based Upon Amt. Fin'cd.	None	Personal Guarantee/Ter ritory Rights	Unpaid Loan - Atty's Fees, Costs	Waiver of right to Trial by Jury
Equipment Purchase	None								
Opening Invent.	None								
Other Financing	None								

\* Prime Rate shall mean the "prime rate" as stated in the "Money Rates" section of The Wall Street Journal (Midwest Edition).



## **ITEM 10 (Continued)**

### **FINANCING**

- (1) AC prefers not to finance. If you meet AC's credit standards, AC will consider financing a portion of the initial Franchise Fee over a two-year period at the "Prime Rate" plus five percentage points APR with monthly installments commencing one (1) month after signing of the Franchise Agreement, using the standard form note in Exhibit C to this offering circular. Prime Rate shall mean the "prime rate" as stated in the "Money Rates" section of The Wall Street Journal (Midwest Edition). You may acquire financing from any source available to you. A down payment of 90% of the initial Franchise Fee is due upon signing of the Franchise Agreement. The amount financed must be paid in full within twenty-four (24) monthly installments. Interest accrues for the initial Franchise Fee financed from the date that you execute the Franchise Agreement. The only security AC requires is a personal guarantee of the note and the Franchise Agreement by you or by a third party. If you do not pay on time, AC can call the loan and demand immediate payment of the full outstanding balance, requiring you to pay a fixed sum as liquidated damages (Loan Agreement pages 1, 2). AC has the right to require additional collateral and accelerate the maturity of all installments if your financial condition becomes impaired (Loan Agreement page 2). If you default on the loan AC may sell any collateral without demand or notice to you (Loan Agreement page 2). AC can also obtain its costs, court costs and attorneys fees if a collection action is necessary. By executing the standard form note, you waive your right to trial by jury in any action or proceeding regarding the note (Loan Agreement page 3). AC does not require any other waiver of defenses or legal rights in any instrument of indebtedness.

AC's standards for advancing credit to franchisees are based upon the financial status and credit worthiness of the franchisee. If you request financing, AC will review and investigate the financial information and credit references provided by you to determine if you have the ability to repay the loans to AC in a timely manner. The determination of whether you meet AC's credit standards is usually completed within 10 days from submission of the requested information.

Except as discussed above, AC does not provide any other financing. AC does not guarantee any notes, leases or obligations.

AC has no past or present practice of nor intent to sell or assign any financing agreement executed with you. AC has no arrangement with any person for the placement of financing, and receives no fees from any financial institutions for your placement of financing. There is no prepayment penalty for any financing provided by AC. Third parties financing these fees may or may not assess a prepayment penalty.

AC will comply with all appropriate laws governing any direct financing offered by AC to you including, if applicable, the California Finance Lenders Law.

**ITEM 11**

**FRANCHISOR'S OBLIGATIONS**

EXCEPT AS LISTED BELOW, AC NEED NOT PROVIDE ANY ASSISTANCE TO YOU.

Before you open your franchise, AC will:

- 1) Designate your exclusive territory and approve the site of your franchise. If you decide to establish a site for your franchise other than out of your home, AC will provide a prototype of sample plans and specifications for at least one existing franchised business to guide you in constructing improvements, furnishing and equipping your franchise (Franchise Agreement Section 5.1). These plans and specifications will include the required square footage for van storage, equipment storage and supply inventories. No other factors are considered by Franchisor. Franchisee will, at its own expense, tailor the plans and specifications provided by Franchisor for individual use by the Franchisee and shall submit the customized plans and specifications to Franchisor for written approval, which approval shall not be unreasonably withheld. If the customized plans and specifications of the Franchisee are consistent with the plans and specifications provided by Franchisor, then Franchisor will approve the plans within fifteen (15) days upon written receipt of the plans and specifications. Franchisor will not approve plans and specifications which are inconsistent with those provided by Franchisor to Franchisee. If the Franchisee and Franchisor can not agree on the plans and specifications, then the matter will be arbitrated by an individual mutually agreeable to both Franchisee and Franchisor.
- 2) Conduct an initial training program in the operation of a franchised business under AC's system for as many as two (2) members of your management within thirty (30) days prior to opening as follows:

<b>Subject</b>	<b>Time Begun</b>	<b>Instructional Material</b>	<b>Hours of Classroom Training</b>	<b>Hours of On the Job Training</b>
Introduction to AC and Touch Up Process	Days 1, 6	AC Training Materials	1	1
Explanation of Equipment and Supplies	Days 1, 6	" "	3	3
Preparation of Mobil Service Unit	Days 1, 6	" "	1	1
Service Writing	Days 1, 6	" "	1	1
Paint Mixing	Days 1-2, 6-7	" "	3	3
Touch Up Process	Days 2-3, 7-8	" "	14	14
Bumpers and Trim Painting	Days 3-4, 8	" "	5	2
Handling Special Repair	Days 4, 8	" "	4	2
Invoice Preparation	Days 5, 8	" "	1	1
Territory Development	Days 5, 8-10	" "	6	11
Safety	Days 5, 10	" "	1	1
			<b>Total 40</b>	<b>Total 40</b>

Your attendance or that of your management and successful passing of the program is mandatory. The program will take place within the thirty (30) days prior to your opening at AC's Minneapolis, Minnesota training facility, and will not exceed eighty (80) hours of training. The content of the training program will include all of the issues discussed in AC's Training Program pamphlet, attached as Exhibit D to this offering circular. The instructors are AC service technicians who have been tested on and advised of current developments in AC's process and who have regularly performed the AC process in the course of their employment with AC for at least one (1) year. You will be financially responsible for all traveling and living expenses incurred by you or your manager(s) while attending the initial training program. Licensees converting to franchises via this offering circular will have already undergone the initial training and will not be required to repeat the process. Additional, optional consultation is available at no additional charge to you as outlined below (Franchise Agreement Section 5.2.1). AC currently provides no other training that is required of the Franchisee.

- 3) Although not obligated to do so by the franchise or other agreements, assist you in locating and acquiring a van and install the painting equipment you purchased in your van (See Item 7), and deliver to you copies of all forms used by AC to hire, train employees, to solicit business, to service your customers, to operate your franchise.
- 4) Consider any supplier of goods and services that you would like to use if the supplier meets AC's standards and specifications (Franchise Agreement Section 5.5).

During the operation of your franchise, AC will:

- 1) Within the first thirty (30) days of your executing the Franchise Agreement, and at no additional charge, make its personnel available to you for up to eighty (80) hours of consultation by telephone, email, telecopier, or in person if AC deems it necessary (Franchise Agreement Section 5.3).
- 2) Use its best efforts to ensure that you have a readily available supply of AC's proprietary chemical product known as "Remover." (Franchise Agreement Section 5.6).

Although not obligated to do so by the franchise or other agreement, AC has in the past and intends in the future to perform the following services for franchisees (including licensees converting to franchises):

- 1) Supply you at no additional charge with an updated Paint Formula Book for each of your vans approximately once a year.
- 2) Provide a toll-free telephone number available from anywhere within the continental United States for you or your employee to call for technical assistance or to order supplies.
- 3) Maintain an inventory of all equipment and supplies used in the AC process, and make such items available to you at prices that may be below retail prices of other suppliers.
- 4) Provide you with bulletins, updates, and other technical information concerning the AC process or related paint information that may help you in the operation of your franchise.
- 5) Provide you with accounting, bookkeeping, and billing training and assistance relating to your franchise.

AC will assist you in selecting and must approve of the area and location of your franchise. The location will contain at least twenty (20) new-car dealerships at the time that the Franchise Agreement is executed. AC will not authorize any other franchisee or itself to operate within your location. AC will not unreasonably withhold its consent to allow you to relocate your franchise within your territory (Franchise Agreement Section 4.2).

After you sign the Franchise Agreement, you can generally have your franchise open for business within thirty (30) days if you operate the franchise from your home. A factor that affects this time is your decision to locate your franchise within your home as opposed to a business site which would involve your obtaining a lease, and possibly financing and permits for building out the site. If you choose a business site outside of

your home it may take thirty (30) to sixty (60) days to open for business after you sign the Franchise Agreement. Other factors that may affect the time are the ability to obtain financing or the necessary permits, shortages, and delayed installation of equipment and signs. In instances where current licensees are converting to franchises, you will be able to immediately begin operations of the business.

AC does not currently have an advertising program. You may develop advertising materials for your own use, at your own cost. AC must approve the advertising materials in advance and in writing. AC may on occasion provide for placement of advertising on behalf of the entire AC system, including franchisees. However, most placement is done on a local basis, typically by local advertising agencies hired by individual franchisees. AC will approve or disapprove of advertising materials submitted to it within thirty (30) days. AC will base its approval on the conformity of the advertising to the AC system, accuracy and appropriateness. (Franchise Agreement Section 7.1.3).

The Franchise Agreement requires you to purchase or lease a computer and communications equipment and software in order to allow you to create the required standardized financial reports and to transmit the reports to AC (Franchise Agreement Section 7.6.2). You are required to submit on or before the 15th day of each month to AC financial reports on the income and expenses of the business for the prior month in the format specified by AC (Franchise Agreement Section 7.6.2, attachments E, F). You must file all of your reports electronically. You are not required to purchase any specific hardware component, but your computer should be an IBM or an IBM compatible unit with at least 256 MB memory, 200 RAM and a high-speed internet connection. We recommend that you utilize either Microsoft Excel or Lotus 1-2-3 spreadsheets and Word Perfect 5.1 or Word for Windows word processing programs. AC requires that you purchase the latest software version of Quickbooks Accounting software. You have no contractual obligation to upgrade or update the software component and hardware programs during the term of the franchise. AC will not have independent access to information and data that may be electronically collected.

The operational and financial information contained in the Statement of Operations (Franchise Agreement Section 7.6.2, attachment E) which you are required to submit to AC on a monthly basis allows AC to compare your operations to other AC franchises and company-owned stores. Utilizing this information, AC will be able to formulate and make recommendations to you to assist in improving your business.

AC has the right during normal working hours to audit the books and records, including tax returns of your business (Franchise Agreement Section 6.4).

AC currently does not have an operations manual which it provides to franchisees. Attached to this offering circular as Exhibit D is a copy of AC's training program.

In instances where current licensees are converting to franchises, you will already have a designated territory and possess all of the necessary equipment, supplies and training. Licensees converting to franchises will undergo no additional training other than the continuing visits and training provided to all operating franchisees by AC. AC will continue to provide converting licensees the same services as it provides to its other franchisees.

## **ITEM 12**

### **TERRITORY**

You will receive an exclusive territory with at least twenty (20) new-car dealerships at the time that the Franchise Agreement is executed, as discussed above. You must receive AC's permission before relocating the site of your franchise to another location within your exclusive territory. AC will not unreasonably withhold consent for you to relocate. AC has not and will not operate a company-owned franchise, a competing business under another name, or sell the right to open a competing business under another name that provides the AC process within your area, provided that you are in compliance with the Franchise Agreement. AC has not and will not grant another AC franchise within your area, provided that you are in compliance with the Franchise Agreement. AC has the right to establish another channel of distribution for selling the AC Remover utilizing the AC trademark. However, we currently do not, and do not intend to, sell the Remover through channels of distribution other than through franchisees and existing licensees.

You are precluded from conducting the AC process outside of your territory, irrespective of whether that outside territory is possessed by another franchisee. All revenue derived from any service that you provide outside of your exclusive territory shall belong to AC. You are advised that a competing franchise or company-owned franchise may exist in a territory that is adjoining and contiguous with yours. AC and all franchisees will be permitted to use AC's trade name and trademark. AC does not guarantee that your territory will continue to contain at least twenty (20) new-car dealerships.

Continuation of your territory's exclusivity is dependent upon your complying with the Development Schedule discussed in section 7.3 of the Franchise Agreement, and attached as Attachment B thereto. At the time the Franchise Agreement is executed, we will agree with you on a Development Schedule for your territory based upon the size of the territory, the number of new-car dealerships, the size of those dealerships, and the presence of businesses which compete with the AC system within the territory. The Development Schedule will include a schedule for identifying, targeting and contacting the new and used car dealers and the possible commercial and fleet accounts in your territory. The Development Schedule will call for mailings to potential customers and the personal solicitation of key personnel at the targeted dealers and accounts. A typical Development Schedule will require you to contact at least one new account per week until all targeted dealers and accounts have been personally contacted at least once. The Development Schedule will vary from territory to territory. Your Development Schedule will include a mutually agreed upon schedule for you to contact the identified dealers and accounts to solicit their business. Your failure to comply with the Development Schedule could result in your territory being reduced in size, and/or its boundaries being re-identified. In such event you shall not be entitled to a refund of the initial Franchise Fee, or a reduction in the percentage of royalties payable. You do not receive the right to acquire additional franchises within your area.

## **ITEM 13**

### **TRADEMARKS**

AC grants you the right to operate a franchised business under the name Aero-Colours. You may also use our other current or future trademarks to operate your franchise. By trademark, AC means trade names, trademarks, service marks and logos used to operate your franchise. AC registered its service mark for automobile service on February 17, 1987, and on January 26, 1993, for airplanes, appliances, bicycles, furniture, motorcycles, utensils and painting of various surfaces of metal, plastic, wood and other non-porous materials in the Principal Register of the United States Patent and Trademark Office, Registration Numbers 1429534 and 1748877 respectively. In addition, AC registered its service mark in the state of California, Registration number 25728. AC has filed all required affidavits.

You must follow our rules when you use these marks. You can not use a name or mark as part of a corporate name or with modifying words, designs or symbols except for those which AC licenses to you. You may not use AC's registered name in connection with the sale of an unauthorized product or service or in a manner not authorized in writing by AC.

Presently, there are no effective material determinations of the patent and trademark office, trademark trial and appeal board, the trademark administrator of this state or any court; any pending infringement, opposition or cancellation proceeding; or any pending material litigation involving AC's trademarks.

No agreements limit AC's right to use or license the use of AC's trademark.

You must notify AC immediately when you learn about an infringement of or challenge to your use of AC's trademark. AC will take the action that AC thinks is appropriate. AC is not required by the Franchise Agreement or otherwise to protect any of your rights or to defend you against a claim against your use of our commercial symbol or for unfair competition.

AC does not know any infringing uses that could materially affect your use of AC's trademark.

#### **ITEM 14**

### **PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION**

You do not receive the right to use any item covered by a patent or copyright, but you can use AC's proprietary painting process and information provided to you by AC during the initial training and later. Although the written information provided to you by AC is not copyrighted, the information is proprietary and considered a trade secret under the law. Also, the formula for the "Remover" is considered a trade secret under the law. You must promptly tell us when you learn about unauthorized use of this proprietary information. AC is not obligated to take any action but will respond to this information as we think appropriate. The Franchise Agreement requires you to maintain the confidentiality of the proprietary information provided to you by us. You and your employees must sign agreements agreeing to keep the proprietary information confidential (Franchise Agreement Section 8.4, and Attachment G).

#### **ITEM 15**

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

AC does not require that you personally supervise the franchised business. The business must be directly supervised "on-premises" by a designated manager or other employee who has successfully completed AC's initial training program whenever the franchise is open for business. The designated manager need not have an ownership interest in a corporate or partnership franchisee. The designated manager and all employees must not have any ownership, employment or other interest in a competitor while working at an AC franchise and, must sign a written agreement to maintain trade secrets described in Item 13 and to conform with the covenants not to compete described in Item 17.

#### **ITEM 16**

### **RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL**

AC requires you to offer and sell only and all of those goods and services that AC has approved (See Item 9; Franchise Agreement Section 7.4.3). AC further limits your ability to sell those goods and services only to customers in your exclusive territory (See Item 12; Franchise Agreement Section 4.2). AC has the right to modify its existing process or to add additional authorized services that the franchisee is required to offer. There are no limits on AC's right to do so.

## ITEM 17

### **RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION**

THIS TABLE LISTS CERTAIN IMPORTANT PROVISIONS OF THE FRANCHISE AND RELATED AGREEMENTS. YOU SHOULD READ THESE PROVISIONS IN THE AGREEMENTS ATTACHED TO THIS OFFERING CIRCULAR.

Provision	Section in Franchise Agreement	Summary
a. Term of the Franchise	Section 4.3.1	Ten years
b. Renewal or extension of the term	Section 4.3.2	Automatic renewal with \$1,000 charge
c. Requirements for franchisee to renew or extend	Section 4.3.2	Give notice, sign agreement, renew lease, remodel, sign release
d. Termination by you	Section 10.1	By mutual written agreement
e. Termination by AC without cause	Section 10.1	By mutual written agreement
f. Termination by AC with cause	Section 10.2	AC can terminate only if franchisee defaults
g. "Cause" defined-defaults which can be cured	Section 10.2	You have 30 days to cure
h. "Cause" defined-defaults which can not be cured	Section 10.2	Trademark misuse, fraud, failure to correct breach, health/safety threat, bankruptcy, conviction of felony, violation of law, repeated defaults even if cured
i. Your obligations on termination/non-renewal	Section 10.3	Obligations include complete deidentification and payment of amounts due
j. Assignment of contract by AC	Section 9.7	New owner assumes AC's obligations
k. Transfer by you-definition	Section 9	Includes all obligations

		under the contract
l. AC's approval of transfer by franchisee	Section 9.3	AC must approve all transfers
m. Conditions for AC approval of transfer	Section 9.4	New franchisee qualifies, has training, signs contract; old franchisee pays debts, cures defaults, signs release (see also r below)
n. AC's right of first refusal to acquire your business	Section 9.3	AC can match any offer for the franchise
o. AC's option to purchase your business	Section 10.3	Option arises on termination
p. Your death or disability	Section 9.6	Franchise must upon your death be assigned by estate to approved buyer in 3 months
q. Non-competition covenant during the term of the franchise	Section 8.4, 8.6	No involvement in competing business during contract term
r. Non-competition covenant after the franchise is terminated or expires	Section 8.6	No competing business for 2 years
s. Modification of the agreement	Section 11.4	Must be in writing and signed by all parties
t. Integration/merger clause	Section 11.6	Only the terms of the franchise agreement are binding (subject to state law). Other promises may not be enforceable
u. Dispute resolution by arbitration	Section 11.7	Except for certain claims, all disputes must be arbitrated in Minneapolis, MN



v. Choice of Forum

Section 11.10

Litigation will be in a court of competent jurisdiction in Minneapolis, Minnesota

w. Choice of law

Section 11.2

Minnesota law applies

These states have statutes which may supersede the Franchise Agreement in your relationship with AC including the areas of termination and renewal of your franchise: ARKANSAS [Stat. Section 4-72-204], CALIFORNIA [Bus. & Prof. Code Section 20000-20043], CONNECTICUT [Gen. Stat. Section 42-133e et seq.], DELAWARE [Code, tit.], HAWAII [Rev. Stat. Section 482E-6], ILLINOIS [Com. Stat. Chapter 815 Sections 705/19 and 705/20], INDIANA [Stat. Section 23-2-2.7], IOWA [Code Sections 523H.1-523H.17], MICHIGAN [M.S.A. 19.854(27)], MINNESOTA [Stat. Section 80C.14], MISSISSIPPI [Code Section 75-24-53], MISSOURI [Stat. Section 407.40], NEBRASKA [Rev. Stat. Section 87-401], NEW JERSEY [Stat. Section. 56:10-1-56:10-12], 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. Sections 135.03 and 135.04]. These and other states may have court decisions which may supersede the Franchise Agreement in your relationship with AC, including the areas of termination and renewal of your franchise.

1. Applicable law in the States of Indiana, Maryland, and North Dakota may not permit AC to require an Indiana, Maryland or North Dakota franchisee to execute a general release of all claims as a condition to reacquiring the Franchise. An Illinois franchisee's rights upon nonrenewal may be affected by Illinois law; the Franchise Disclosure Act of 1987, Chapter 815, Section 705.20. If Minnesota law relating to the renewal of franchises is applicable, then except under certain circumstances specified by law, you must be given at least 180 days prior written notice of nonrenewal of the Franchise.
2. The Franchise Agreement provides for termination upon bankruptcy; however, this provision may not be enforceable under federal bankruptcy law (11 U.S.C Section 101 et seq.).
3. Except in certain circumstances specified by law, franchisees in Minnesota must be provided with 90 days prior written notice of termination with 60 days after written notice within which to cure the grounds for termination.
4. The conditions under which an Illinois franchise can be terminated may be affected by Illinois law; the Franchise Disclosure Act of 1897, Chapter 815, Section 705/19.
5. In the State of California, the California Franchise Relations Act (Business and Professions Code Sections 20000 through 20043) may apply. This Act grants certain rights to franchisees, including: (1) limitations on AC's ability to terminate a franchise except for good cause; (2) restrictions on AC's ability to deny renewal of a franchise; (3) circumstances under which AC may be required to purchase certain inventory of franchises when a franchise is terminated or not renewed violation of the statute; and (4) provisions relating to arbitration. To the extent the provisions of the Franchise Agreement are inconsistent with the terms of the California Franchise Relations act, the terms of the Act may control in the State of California.
6. A Wisconsin franchisee's rights upon termination, cancellation, nonrenewal or substantial change in competitive circumstances may be governed by the Wisconsin Fair Dealership Law, Wis. Stat. Chapter 135, Sections 135.01 through 135.07. The statute provides that AC may not terminate,

cancel, fail to renew or substantially change the competitive circumstances of a franchise without good cause, and that, except in certain limited circumstances, a franchisee must be provided with at least 90 days prior written notice of a substantial change in competitive circumstances. Where the provisions of the Wisconsin Fair Dealership Law are in conflict with the terms of the Franchise Agreement, the provisions of the statute may control in the State of Wisconsin.

7. Washington law [RCW 19.100.180 (2) (i) and (j)] provides certain rights and remedies to a Washington franchisee in connection with termination or nonrenewal of the Franchise. If you are a Washington franchisee, Washington law provides that it is unlawful for AC to: 1) refuse to renew your Franchise without fairly compensating you for the current fair market value of goods purchased from AC and except in some circumstances as provided by Washington law, goodwill; or 2) terminate the Franchise Agreement prior to the expiration of its term except for good cause. AC may terminate your Franchise without giving prior notice or opportunity to cure a default if you: (i) are adjudicated a bankrupt or insolvent; (ii) make an assignment for the benefit of creditors or business; or (iii) are convicted of or plead guilty or no contest to a charge of violating any law relating to the business. If any of the provisions of the Franchise Agreement are inconsistent with the relationship provisions of RCW 19.100.180 or any other requirement of the Washington Franchise Investment Protection Act, the provisions of the Act will prevail over the inconsistent provisions of the Franchise Agreement with regard to any Franchise sold in the State of Washington.

8. Applicable law in the States of Indiana and Maryland may not permit AC to require an Indiana or Maryland franchisee to execute a general release of all claims as a condition to the approval of the sale or assignment of the franchised business.

9. Covenants not to compete upon termination or expiration of your Franchise Agreement are generally unenforceable in California, Michigan, North Dakota and South Dakota, except in limited circumstances provided by law. If your site is located in the State of Indiana, then for one year after expiration or termination of the Franchise Agreement, you are prohibited from operating a competitive business within your Protected Area.

10. If your Franchise is located in the States of Indiana, North Dakota, South Dakota or Washington, any arbitration will be conducted in your home state or at a mutually agreed upon location.

The Franchise Agreement requires binding arbitration. The arbitration will occur at Minneapolis, Minnesota with the costs being borne by the losing party. This provision may not be enforceable under California law.

The Franchise Agreement requires application of the laws of Minnesota. This provision may not be enforceable under California law.

All of the renewal, termination, transfer and dispute resolution provisions of the Franchise Agreement apply to licensees converting to franchises via this offering circular.

## **ITEM 18**

### **PUBLIC FIGURES**

AC has not in the past and does not presently use any public figures to promote its service. You are free to hire at your expense any public figure for promotional efforts or advertising, provided that you acquire written consent, which will not be unreasonably withheld from AC, to do so.

**ITEM 19**

**EARNINGS CLAIMS**

**Representations Regarding Earnings Capability**

AC does not furnish or authorize its sales persons to furnish any oral or written information concerning the actual or potential sales, costs, income or profits of the AC painting touch-up process and service. Actual results vary from unit to unit and AC cannot estimate the results of any particular franchise.

**ITEM 20**

**LIST OF OUTLETS**

(see chart attached)

FRANCHISED STORES STATUS SUMMARY  
FOR YEARS 2004/2003/2002

STATE	TRANSFERS	CANCELED OR TERMINATED	NOT RENEWED	REACQUIRED BY FRANCHISOR	LEFT THE SYSTEM OTHER	TOTAL FROM LEFT COLUMNS	FRANCHISES OPERATING AT YEAR-END
California	0/0/1	2/0/0				2/0/1	15/18/18
Idaho		0/1/0				0/1/0	0/0/1
Nevada		0/1/0				0/1/0	2/0/1
Oregon		1/0/0				1/0/0	0/1/1
Texas	0/0/1	2/0/0				2/0/1	7/8/7
Pennsylvania		1/0/0				1/0/0	2/3/3
Colorado	0/1/0	0/1/1				0/2/1	4/3/3
Arizona						0/0/0	2/2/2
Minnesota						0/0/0	2/2/2
Utah		0/1/0				0/1/0	1/1/2
Kentucky		1/0/0				1/0/0	1/2/2
Missouri						0/0/0	1/1/1
Iowa		1/0/0				1/0/0	2/3/3
Florida	0/1/1	2/0/0				2/1/1	4/6/6
Georgia						0/0/0	1/0/0
Indiana	0/0/1					0/0/1	1/1/1
New Mexico	0/0/1	1/0/0				1/0/1	1/2/1
New York						0/0/0	1/1/1
Alabama	0/1/0					0/1/0	4/4/4
New Jersey						0/0/0	2/1/1
Maryland						0/0/0	2/2/2

Nebraska									0/0/0	1/1/1
Virginia	0/0/1								0/0/1	5/5/5
Wisconsin	0/0/1								0/0/1	2/2/2
Arkansas									0/0/0	1/1/1
Louisiana		1/0/0							1/0/0	1/2/3
South Dakota									0/0/0	1/1/1
South Carolina		1/0/0							1/0/0	2/1/1
Washington	0/1/0		0/1/0						0/2/0	2/2/3
Connecticut									0/0/0	1/1/0
North Carolina									0/0/0	1/1/0
Spain		1/0/0							1/0/0	0/1/1
France									0/0/0	1/1/1
TOTALS	0/4/7	14/5/1	0/0/0	0/0/0	0/0/0	0/0/0	0/0/0	14/9/8		73/80/81

1) Note: All numbers are as of December 31 for each year.

2) The numbers in the "Total" column may exceed the number of stores affected because several events may have affected the same store. For example, the same store may have had multiple owners.

- 3) Listed below are franchisees whose agreements were either transferred, canceled, terminated, not renewed, reacquired or otherwise left the system:
- Perfect Touch-Up, 29231 East Portales Drive, Cathedral City, CA, 92234, Telephone number (909) 697-6620 (Terminated by Aero-Colours, Inc. for non-payment of royalties).
  - Washman, LLC, P.O. Box 4124, Portland, OR 97208, Telephone number (503) 257-8743 (Terminated by Aero-Colours, Inc. - ceased operations).
  - K&S Enterprises, Inc., P.O. Box 20187, Louisville, KY 40250, Telephone number (502) 243-3501 (Terminated by Aero-Colours, Inc. for failure to comply with Development Schedule).
  - Freddie Phillips & Associates of Midland, Inc., 4016 Dunkirk, Midland, TX 79707, Telephone number (915) 967-2991 (Terminated by Aero-Colours, Inc. - ceased operations).
  - Thomas C. Anderson, P.O. Box 515, Polk City, IA 50226, Telephone number (515) 202-6023 (Terminated by Aero-Colours, Inc. - ceased operations).

- Matt G. Maurer and Joanne A. Maurer, P.O. Box 6057, Deltona, FL 32738, Telephone number (407) 739-3984 (Terminated by Aero-Colours, Inc. – ceased operations).
- Zerwas Enterprises, Inc., 2236 Gulf to Bay, #209, Clearwater, FL 33765, Telephone number (651) 771-7237 (Terminated by Aero-Colours, Inc. – ceased operations).
- Rosa Matthews and Bernadette Marsh, 1205 Willow, Albuquerque, NM 88001, Telephone number (505) 524-4659 (Terminated by Aero-Colours, Inc. – ceased operations).
- Jeffrie L. Long, P.O. Box 534, Fouke, AR 71837, Telephone number (870) 653-4807 (Terminated by Aero-Colours, Inc. – for failure to comply with Development Schedule).
- Chad and Jeff Hermann, 3412 Court Avenue, Erie, PA 16506, Telephone number (814) 833-2826 (Terminated by Aero-Colours, Inc. – ceased operations).
- Robert E. Kreiss and Rita J. Kreiss, 169 Holiday Acres Road, Prosperity, SC 29127, Telephone number (803) 309-2126 (Terminated by Aero-Colours, Inc. – ceased operations).
- Cotxe Colours, S.L., C-Jaume Vicens Vives #11, Barcelona, Spain 08005, Telephone number (34) 93 221-1878 (Terminated by Aero-Colours, Inc. – ceased operations).

There are no franchisees that have not been in contact with AC during the last 10 weeks prior to the date of this application.

STATUS OF COMPANY OWNED STORES  
FOR YEARS 2004/2003/2002

STATE	STORES CLOSED DURING YEAR	STORES OPENED DURING YEAR	TOTAL STORES OPERATING AT YEAR-END
California			1/1/1
Florida		0/1/0	0/1/0
TOTALS	0/0/0	0/1/0	1/2/1

PROJECTED OPENINGS  
AS OF DECEMBER 31, 2004

STATE	FRANCHISE AGREEMENT SIGNED BUT STORES NOT OPEN (1)	PROJECTED FRANCHISED NEW STORES IN NEXT FISCAL YEAR	PROJECTED COMPANY- OWNED OPENINGS IN NEXT FISCAL YEAR
Maryland	0	1	0
Delaware	0	1	0
Georgia	0	1	0
New Jersey	0	1	0
New York	0	1	0
Florida	0	2	0
Illinois	0	2	0
California	0	2	0
<b>TOTALS</b>	0	11	0

1) Note: All numbers are as of December 31, 2004



THE FOLLOWING LIST CONTAINS THE NAMES, ADDRESSES AND TELEPHONE NUMBERS OF FRANCHISEES AND LICENSEES AS OF DECEMBER 31, 2004.

<u>NAME</u>	<u>ADDRESS</u>	<u>TELEPHONE</u>
<b>CALIFORNIA</b>		
Randy Beckman Beckman Aero-Colours**	1906 Edgewood Drive Lodi, CA 95242	(209) 368-2080
Tom Breslin Lightning Touch, Inc.	2671 Placer Street Santa Cruz, CA 95062	(831) 464-1103
Steve Vedder Vedco**	443 Orchard View Avenue Martinez, CA 94553	(925) 228-6299
Jay Kimball Jay Kimball Co.**	PMB 285 793 A Foothill Blvd. San Luis Obispo, CA 93405	(805) 462-2230
Barbara and Ralph Ames Northwest Touch-Up, Inc.**	210 Still Creek Road Danville, CA 94506	(925) 314-0420
Mark Bruckman Bruckman Colours (2)	P.O. Box 686 Del Mar, CA 92014	(858) 755-9161
Jose Haro J. H. Enterprises	2602 Bloomdale Street Duarte, CA 91010	(626) 303-4020
Luis Favela and Ray Alba L.R.S. Enterprises	8821 Greenwood Ave. San Gabriel, CA 91775	(626) 287-5544
Brad Raybon Raybon Enterprises	1733 6 <sup>th</sup> Street Port Huemene, CA 93041	(805) 659-7282
Jay Fithian WWJD Enterprises	2290 Eastman Avenue #106 Ventura, CA 93003	(805) 477-1332
Larry Musso William Lawrence Inc.	3310 Marconi Avenue Sacramento, CA 95821	(916) 481-9647
Vicki Su A Plus Colours	P.O. Box 215 Danville, CA 94526-0215	(800) 636-5413
Christopher Laing and Susan Laing Laing's Colours	2715 Arbor Grove Lane Santa Rosa, CA 95407	(707) 526-2376
Manuel De Los Santos J&M Enterprises	5205 Lyra Court Bakersfield, CA 93306	(661) 979-7139
<b>Total California</b>		<b>15</b>

<u>NAME</u>	<u>ADDRESS</u>	<u>TELEPHONE</u>
<b>COLORADO</b>		
Paul Randall Colorado Colours	3297 S. Santa Fe Drive #5 Englewood, CO 80110	(303) 810-8061
Paul Strong Colors by Paul	10132 Josephine Street Thornton, CO 80229	(303) 457-4131
Greg Horning Front Range Recon	1122 Prospect Avenue Colorado Springs, CO 80907	(719) 447-0721
Brad and Lisa Donlon Rocky Mountain Auto Colors	6247 East 123 <sup>rd</sup> Avenue Brighton, CO 80602	(303) 522-1356
	<b>Total Colorado</b>	<b>4</b>
<b>KENTUCKY</b>		
Gene Kelty K & S Enterprises	P.O. Box 20187 Louisville, KY 40250	(502) 243-3501
<b>TEXAS</b>		
Susan Bolin Chips Happen	PMB 405, 3709 19th Street Lubbock, TX 79410	(806) 799-1678
Michael Johnston	3853 Honeysuckle Lane San Angelo, TX 76905	(915) 224-0644
William Marr North Texas Color Match	3912 Weeburn Drive Dallas, TX 75229	(214) 803-3886
Marina Chmeleva Phillips & Almaz Enterprises	1018 Victorian Court Seabrook, TX 77586	(281) 291-7638
Joel Knox	10951 Deer Creek Drive Tyler, TX 75707	(903) 565-4591
Sam Rufenacht	2409 Rain Tree Path Round Rock, TX 78664	(512) 680-8777
Jeff Tipton Quality Touch, Inc.	3840 North Expressway Brownsville, TX 78526	(956) 350-5600
	<b>Total Texas</b>	<b>7</b>
<b>ARIZONA</b>		
Ron and Kristi Goforth Ron and Kristi Goforth Enterprises, Inc.	25683 North 68 <sup>th</sup> Lane Peoria, AZ 85383	(623) 776-8698
George Caria Caria Enterprises	9444 N. Albatross Drive Tucson, AZ 85742	(520) 882-0013
	<b>Total Arizona</b>	<b>2</b>

<b><u>NAME</u></b>	<b><u>ADDRESS</u></b>	<b><u>TELEPHONE</u></b>
<b>UTAH</b>		
Todd S. Swenson Swenson & Sons	95 South 1200 East Lindon, UT 84042	(801) 785-5219
<b>WASHINGTON</b>		
Nate Cavander N.C. Industries	P.O. Box 9652 Yakima, WA 98909	(509) 965-3488
Rick Carter Cascade Touch Up	12828 NE 14 <sup>th</sup> Place Bellevue, WA 98005	(425) 462-9858
	<b>Total Washington</b>	<b>2</b>
<b>IOWA</b>		
Paul Rohlf Aero Colours Specialties	13585 Highway 276 Spirit Lake, IA 51360	(712) 336-9000
Chris Peterson/Les Peterson Tri-State Colours	4200 Village Green Court Sioux City, IA 51106	(712) 274-6609
	<b>Total Iowa</b>	<b>2</b>
<b>NEW JERSEY</b>		
Emil Charles Krepelka II and Emil Charles Krepelka III	321 Park Avenue Collingswood, NJ 08108	(856) 858-9356
Won Rhee	80 Leclerc Avenue River Vale, NJ 07675	(201) 407-8689
	<b>Total Washington</b>	<b>2</b>
<b>INDIANA</b>		
Ron Schoff and Jeanne Schoff Affiliates Midwest	101 Concord Drive Michigan City, IN 46360	(219) 873-9000
<b>MINNESOTA</b>		
James Robertson RCI	PO Box 7468 Rochester, MN 55903	(952) 431-2138
Jason and Erika Zerwas Zerwas Enterprises, Inc.	1866 East Shore Drive Maplewood, MN 55109	(651) 771-7237
	<b>Total Minnesota</b>	<b>2</b>

<u>NAME</u>	<u>ADDRESS</u>	<u>TELEPHONE</u>
<b>MISSOURI</b>		
John Anderson The Taylor Anderson Corp.	2369 Grissom St. Louis, MO 63146	(314) 692-9922
<b>NEW YORK</b>		
Loren Jenks	P.O. Box 105 Greenfield Center, NY 12833	(518) 581-1011
<b>FLORIDA</b>		
LeRoy Huenfeld KAJA of Naples	521 Neapolitan Lane Naples, FL 34103	(239) 262-8953
Craig Mischley Sunshine Colours	9842 103 <sup>rd</sup> Street, #38 Jacksonville, FL 32210	(904) 626-2047
Bill Karver REVRAK Corporation	5150 West Copans Road, Unit 633 Margate, FL 33063	(954) 650-6536
Banee Persaud BESS CRT, Inc.	1240 SW 88 <sup>th</sup> Way Pembroke Pines, FL 33025	(954) 433-5268
	<b>Total Florida</b>	<b>4</b>
<b>NEBRASKA</b>		
Vince Meyer	29217 McKelvy Road Murdock, NE 68407	(402) 867-2309
<b>SOUTH DAKOTA</b>		
Les Peterson Tri-State Colours	3320 South Alpine Avenue Sioux Falls, SD 57110	(605) 371-1755
<b>CONNECTICUT</b>		
Russ Gropman Concours Colours	51 Lota Drive Fairfield, CT 06432	(203) 334-1123
<b>GEORGIA</b>		
Tom Easter TD Enterprises	2 Ardmore Circle Cartersville, GA 30120	(770) 386-6409
<b>NORTH CAROLINA</b>		
Leon Blocksom L.W. Block, Inc.	120 Rustic Way Lane Mooresville, NC 28117	(704) 663-5348

<u>NAME</u>	<u>ADDRESS</u>	<u>TELEPHONE</u>
<b>ALABAMA</b>		
Franklin J. Mosley, Jr.	20410-A Browns Lane Summerdale, AL 36580	(251) 942-7542
Jason Weaver K & C Colours	5184 Caldwell Mill Road Hoover, AL 35244	(205) 985-8867
Chris Armstrong Armstrong & Sons	1218 Hickory Lane Auburn, AL 36830	(334) 444-6007
Joe Norris Norris Companies	3898 Faunsdale Drive Montgomery, AL 36109	(334) 272-8589
<b>Total Alabama</b>		<b>4</b>
<b>NEW MEXICO</b>		
Bill Steckart Dos Guys Enterprises LLC	113 6 <sup>th</sup> Street NW Albuquerque, NM 87102	(505) 975-1133
<b>ARKANSAS</b>		
Jeff Long Long Enterprises	P.O. Box 534 Fouke, AR 71837	(870) 653-4807
<b>WISCONSIN</b>		
Nathan Ihrcke Attention to Detail	928 S. Lafayette Shawano, WI 54166	(715) 524-8721
Lee and Vicki Davids Davids Colours	N9230 Micks Road Bowler, WI 54416	(715) 524-5656
<b>Total Wisconsin</b>		<b>2</b>
<b>MARYLAND</b>		
John Barreto Barreto Colours, Inc.	11005 Huntover Drive Rockville, MD 20852	(301) 231-8088
Charles Wooster Charles Wooster Colours	9950 Stephanie Lane Hagerstown, MD 21740	(301) 733-6951
<b>Total Maryland</b>		<b>2</b>

<u>NAME</u>	<u>ADDRESS</u>	<u>TELEPHONE</u>
<b>VIRGINIA</b>		
Michael Barefoot MTB Enterprises (2)	205 Redoubt Road Yorktown, VA 23692	(757) 872-4647
John Barreto Barreto Colours, Inc.	11005 Huntover Drive Rockville, MD 20852	(301) 231-8088
Kyle Wimmer Wimmer Enterprises, LLC	9 Digges Court Williamsburg, VA 23188	(804) 640-1665
Khalil Sherwani K&S Auto Finish Corp.	7442 Barbados Lane Manassas, VA 20109	(703) 932-9009
	<b>Total Virginia</b>	<b>5</b>
<b>LOUISIANA</b>		
Craig Leaumont and Danny Grillot CDR Enterprises, Inc.	2704 Manley Avenue Metairie, LA 70009	(504) 288-5898
<b>PENNSYLVANIA</b>		
Phillip Siperko Siperko Colours, Inc.	1503 West Mulberry Coal Township, PA 17866	(570) 648-3875
Kevin Denkovich Castle Colours, Inc.	10827 Washington Ct. Greencastle, PA 17225	(717) 593-9198
	<b>Total Pennsylvania</b>	<b>2</b>
<b>NEVADA</b>		
Todd Mauldin	6587 Ruby Mountain Road Reno, NV 89506	(775) 302-6070
Edy Eddins ACN Investments	121 Gainsway West Drive Henderson, NV 89074	(702) 914-9630
	<b>Total Nevada</b>	<b>2</b>
<b>SOUTH CAROLINA</b>		
Bruce Rowland	218 Bloomfield Lane Greer, SC 29650	(864) 292-0013
Mike Masterson Gold Watch, Inc.	763 Beacon Knoll Lane Fort Mill, SC 29708	(803) 370-1973
	<b>Total South Carolina</b>	<b>2</b>
<b>FRANCE</b>		
Patrick Trahay	29 Avenue du DUDOCTEUR Roux Goussainville 95190 France	(33) 1 39 92 81 30

\*\* Denotes licensees

## **ITEM 21**

### **FINANCIAL STATEMENTS**

Attached are copies of the following Financial Statements:

- (1) Unaudited Financial Statements as of December 31, 2004.
- (2) Audited Financial Statements and Report of Independent Certified Public Accountants for years ended December 31, 2003 and 2002.
- (3) Audited Financial Statements and Report of Independent Certified Public Accountants for years ended December 31, 2002 and 2001.

**Aero-Colours, Inc.**  
**Statements of Earnings**  
**As of December 31, 2004 (1)**

		<b>Unaudited 2004</b>
Net Revenues		
Paint repair services	\$	723,562
Franchise royalties		748,826
Franchise fees		215,500
Total Net Revenues		1,687,888
 Cost of Sales		 727,810
 Gross Profit		 960,078
 Operating Expenses		 802,629
 Profit/(Loss) from Operations		 157,449
 Other Income/(Expense)		
Interest expense		(87,676)
Interest income		7,768
Gain on sale of equipment		5,012
Other income/(loss)		0
Total Other Income/(Expense)		(74,896)
 Profit/(Loss) before Income Taxes	\$	 82,553

(1) These Financial Statements Have Been Prepared Without An Audit. Prospective Franchisees or Sellers of Franchises Should Be Advised That No Independent Certified Public Accountant Has Audited These Figures or Expressed an Opinion with Regard to their Content or For



**AERO-COLOURS, INC.**  
**BALANCE SHEETS**  
**Unaudited As of December 31, 2004 (1)**

<b>Assets</b>	<b>Unaudited</b>
Current assets:	
Cash	\$2,200
Accounts receivable	\$170,743
Notes receivable - current portion	\$43,800
Inventories	\$74,400
Prepaid expenses	\$4,197
Total current assets	\$295,340
Notes receivable, log-term portion	\$102,199
Equipment cost	\$368,947
Less accumulated depreciation	\$276,755
	\$92,192
Goodwill, intangible assets-net	\$426,649
Total assets	\$916,380
<b>Liabilities and shareholder's equity</b>	
Current liabilities:	
Accounts payable	\$173,085
Accrued compensation and related expenses	\$9,906
Accrued interest	\$2,079
Other accrued expenses	\$8,411
Deferred income taxes	\$22,000
Current maturities of long-term debt	\$287,570
Total current liabilities	\$503,051
Long-term debt	\$544,739
Shareholder's equity:	
Common stock	\$13,908
Additional paid-in capital	\$840,913
Retained earnings	(\$986,231)
Total shareholder's equity	(\$131,410)
Total liabilities and shareholder's equity	\$916,380

(1) These Financial Statements Have Been Prepared Without An Audit.  
Prospective Franchisees or Sellers of Franchises Should Be Advised  
That No Independent Certified Public Accountant Has Audited These  
Figures or Expressed an Opinion with Regard to their Content or Form.