

1. THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES

PACIFIC AUCTION EXCHANGE, INC. (PAX) is a California corporation, whose principal business address is 9100 Ming Avenue, Suite 103, Bakersfield, California 93311. PAX'S telephone number is 1-661-AUCTION (282-8466). PAX'S Agent for Service of Process is Mr. James D. Pennington, CEO.

To simplify the language in this offering circular "PAX" refers to Pacific Auction Exchange, Inc. the Franchisor. "You" or "your" refers to the individual who purchases the franchise.

PAX was incorporated under the laws of the State of California in May of 1999 under the name of PACIFIC AUCTION EXCHANGE, INC. PAX was formed to be an aggressive and progressive company dedicated to bringing buyers and sellers together for real and personal property auctions.

In 2000, PAX established its headquarters in Bakersfield, California. PAX has served Kern County, California, and the Bakersfield metropolitan area.

PAX franchises the right to offer and sell auctioneering services pertaining to sale of real and personal property. As a franchisee of PAX you must be committed to our philosophies of offering a quality and service oriented program while maintaining a people-orientated approach to all parties to a transaction. As a franchisee, you will compete with other auction services which offer similar services of PAX. These services may be independent or affiliated with a franchise system.

2. BUSINESS EXPERIENCE

To illustrate our experience in the staffing industry, our principal officers, management and franchise operations officers are listed below as follows:

Consultant:

~~President / Chief Executive Officer / Director~~

James D. Pennington

Mr. Pennington is a third generation auctioneer with 25 years experience in the field. He has called over 2,400 real estate and livestock auctions.

Mr. Pennington has held the position of Owner, President, and Lead Auctioneer of Western Stockman's Market, Inc., one the top 10 livestock auction markets in the United States. Western Stockman's Market generates over \$50 million in gross sales annually with 40 employees. He oversaw the complete day to day operations of the company and conducted weekly cattle auctions and a variety of specialty livestock auctions throughout the year. Also, since 1997, Mr. Pennington has held the position of President and Instructor of the World Champion College of Auctioneering which holds auction courses twice a year in Bakersfield, California. In 1999, Mr. Pennington founded Pacific Auction Exchange, Inc., and has held the title of President. ~~In this position, he~~ oversees the setup and conduction of real estate auctions. *Until 2005*

Mr. Pennington is the 2001 President of the California State Auctioneers Association and was the 1998 Reserve Champion at the World Livestock Auctioneering Contest. He also won the 2000 International Champion contest held in Alberta, Canada. *Mr. Pennington sold his interest in Pacific Auction Exchanges Inc., in August 2005 and has contracted to stay on as a consultant for a period of time.*

President/Chief Executive Officer/Director:
~~Senior Vice-President/Operations Director:~~

Charles E. McAtee II

Mr. McAtee has ¹⁵ years experience in the real estate and auction fields and has held hundreds of real and personal property auctions. He started his real estate career in Paducah, Kentucky in ~~1992~~. In ¹⁹⁹⁰ ~~1994~~, he earned his real estate broker's license. He is a broker in the states of Illinois, Kentucky, Indiana, and Tennessee. In 1995, he purchased a Century 21 franchise (A-Action Real Estate). His duties as a franchise broker included actively overseeing the day-to-day operations of a real estate office, and assuring compliance with real estate regulations and franchisor requirements. Also, he actively sold properties, prospected for new listings, and handled the training of agents.

In January 1998, upon graduating from the World Champion College of Auctioneering, Mr. McAtee sold his Century 21 franchise and founded Mac & Mac Real Estate and Auction, Inc., in Kentucky and Tennessee. He held the title of President/CEO of Mac & Mac Real Estate and Auction, Inc., until 2000. He obtained an auctioneer's license in the states of Illinois, Kentucky, Indiana, and Tennessee. ~~In 1999, he personally conducted 103 real estate auctions in those states in addition to numerous specialty auctions. He is a member of the Association of Auctioneers in the states of California, Illinois, Indiana, Kentucky, and Tennessee.~~

In 2000, Mr. McAtee joined Pacific Auction Exchange. Since then, he has been responsible for directing day-to-day operations, hiring and developing the sales staff, and setting up and conducting auctions. Also, Mr. McAtee is in charge of franchise development for PAX. ~~In 2005 Mr. McAtee became the sole owner of Pacific Auction Exchange, Inc.~~

3. LITIGATION

In 2000, PAX filed an action against a prevailing bidder in an auction of real property. Following the auction, the prevailing bidder stopped payment on his check tendered as a non-refundable deposit. PAX filed suit to recover the non-refundable deposit. By way of settlement, PAX has recovered the deposit. See *Pacific Auction Exchange, Inc., v. Jon Sanchez*, Kern County Superior Court Case No. 239796 AEW. In 2004, PAX filed an action against a corporate franchisee and its personal guarantor for failure to full pay the franchisee's initial fee and the franchisee filed a cross-complaint for unfair trade practices. See *Pacific Auction Exchange v. Innovating the Millennium, Inc., et al*, Kern County Superior Court Case No. S-1500-CV252576-RJA. By way of settlement, each side dismissed its claims.

4. BANKRUPTCY

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

5. INITIAL FRANCHISE FEE

Franchisees pay an initial fee of \$175,000.00. The initial fee is payable in one lump sum when the franchisee signs the franchise agreement. PAX will refund the entire amount if we do not approve your application within 45 days. PAX will refund 50% of the Initial Franchise Fee if you do not satisfactorily complete your initial training program. PAX may elect to allow you finance up to \$165,000.00 of your initial fee at a rate of 10% per annum amortized over 12 months. See Item 10.

Except as provided in the Franchise Agreement, the Franchise Fee is not refundable and is considered fully earned when paid. The initial Franchise Fee will be used by PAX, at its sole discretion, for site ~~when Franchisee signs this Agreement, Franchisee will pay Franchisor in cash or other form of payment acceptable to Franchisor an initial fee of Twenty Five Thousand Dollars (\$25,000.00) and Forty-Five percent (45%) of the gross Buyer's Premium in the first ten Real Estate sales. Should Franchisee's Designated PAX-UFOC Rev. 4/05 Manager fail to satisfactorily complete the initial training course before the Commencement Date, Franchisor may cancel this Agreement and, provided the Franchisee signs a general release of all claims, shall refund fifty percent (50%) of Franchisee's initial fee. Otherwise, the initial fee is nonrefundable.~~

selection expenses, training and travel expense connected with the opening of the franchise and other general and administrative costs at PAX.

Under certain circumstances, PAX and a franchisee will enter into a Territory Development Agreement which will set forth a written schedule for future growth in larger markets or territories, and the terms and conditions on which such future development will take place. Franchisees opening a Branch Office must pay a fee of for each Branch Office opened to cover PAX'S costs of training, expenses and administrative fees related to each Branch Office. The fee is considered fully earned when paid to PAX and is not refundable under any circumstances.

6. **OTHER FEES**

Continuing Service Fee:

Amount	6% of franchisee's net commission derived from the auction sale of real or personal property.
Due Date	Payable within 5 business days of franchisee's receipt of commission.
Remarks	Net commission for each auction consists of the gross commission less expenses directly and solely attributable to each auction.

Development fee:

Amount	\$10,000.00 for each Branch Office opened during the term of the Franchise Agreement.
Due Date	Payable when you sign the lease for the premises or open an escrow for purchase of the premises.
Remarks	You must pay PAX a Development Fee of \$10,000.00. Fees are payable for each approved location, other than the first approved location, developed by you within the Exclusive Territory. This fee is not refundable under any circumstances.

Advertising fee:

Amount	
Local	- 2% of monthly Revenue minimum for local advertising.
Fund	- 0.75% of monthly Revenue for advertising fund contributions.
Due Date	In accordance with terms of local vendors and suppliers of local advertising if applicable. Otherwise, fund contributions are payable monthly to PAX.
Remarks	PAX may establish, upon written notice, an Advertising Fund to promote your Franchised Business. Advertising Fund Contributions are not refundable under any circumstances. All local advertising campaigns must be in compliance with PAX'S Operation Manual. Advertising Fund contributions will be administered by PAX and an accounting of all contributions and expenses will be provided to you 120 days after the end of each calendar year.

Renewal fee:

Amount	35% of the initial fee or \$35,000.00, whichever is greater.
Due Date	Payment is due when the Renewal Agreement is signed.
Remarks	You may renew the Franchise for unlimited additional 5 year terms if you remain in Good Standing under the Franchise Agreement. Renewal fees are not refundable under any circumstances. PAX will credit against your renewal fee the sum of your Continuing Service Fees for the 12 month period preceding renewal.

Transfer fee:

Amount	35% of the initial fee.
Due Date	Prior to PAX consenting the proposed transfer.
Remarks	Payable when you sell your franchise. No charge if franchise transfers to a corporation which you control, or under other conditions in paragraph 11.5 of the franchise agreement.

Audit fee:

Amount	Cost of audit plus Finance Charge on underpayment balance at the rate in paragraph 3.12 of the Franchise Agreement.
Due Date	30 days after billing.
Remarks	Payable only if audit shows an understatement of at least 3% of any month as defined in paragraph 8.4 of the Franchise Agreement.

Finance & Related Charges:

Amount	The amount of interest is defined in Paragraph 3.12 of the Franchise Agreement. (The Finance Charge is equal to 12% or the maximum allowed by law, whichever is greater, and is applied to amounts you owe PAX.)
Due Date	Payable monthly.
Remarks	Interest charges for the financing of your initial fee will accrue at a rate of 10% rather than the 12% rate for finance charges as specified in Paragraph 3.12 of the Franchise Agreement. See Item 10.

7. INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

	AMOUNT	METHOD OF PAYMENT	WHEN DUE	TO WHOM PAYMENT IS TO BE MADE
INITIAL FRANCHISE FEE	\$175,000.00 (Note 1) \$25,000.00	Lump sum (Note 2)	At time of signing the Franchise Agreement	Pacific Auction Exchange, Inc.
TRAVEL AND LIVING EXPENSES WHILE TRAINING	\$1,700.00	To be determined by franchisee	At time the obligation is incurred	Automobile or flight provider, hotel, restaurants
REAL ESTATE AND IMPROVEMENTS	\$800.00 not including rental expense (Note 3)	(Note 3)	(Note 3)	(Note 3)
SIGNS	\$500.00	To be determined by franchisee	At time the obligation is incurred	Sign vendor
MISCELLANEOUS OPENING COSTS	\$1,000.00 (Note 4)	To be determined by franchisee	At time the obligation is incurred	Various vendors
ADVERTISING FEE	\$5,000.00	To be determined by franchisee	At time the obligation is incurred	Various vendors
TOTAL	\$184,000.00 (Note 5) \$34,000.00			

→ also include 45% of the gross Buyer's Premium in the first ten Real Estate Sales
~~franchise~~

Notes:

- The amount of the initial fee shall be determined by PAX in light of the size and population of your territory. See Item 5 and paragraph 8.1 of the Franchise Agreement for conditions under which this fee is partly refundable.
- In lieu of a lump sum payment, PAX may elect to allow you to finance up to ~~\$165,000.00~~ ^{\$12,500.00} of your initial fee at an interest rate of 10% amortized over ~~12~~ ³ months.
- If you do not own adequate office space, you must lease or rent the necessary space for your Branch office. Suitable locations are typically situated in commercial areas next to residential communities. The size of the Branch office will depend on market size, however, an average size space could be between 1200 to 2500 square feet. Rent for your Branch office could range around \$12,500 to \$27,500 per year depending on factors such as the location of your market, and the size, condition and location of the leased premises. PAX management must be notified of prospective locations and may inspect and approve your location before the lease is signed. PAX may conduct the first such inspection at its expense. The costs associated with subsequent site inspections will be borne by you and must be paid upon your receipt of a PAX invoice for those costs.

4. Includes security deposits, utility cost, incorporation fees, etc. This estimates your initial start up cost. These expenses include payroll cost and other overhead expenses incurred during the start up and normal operation of your Franchised Business. These figures are estimates and PAX cannot guarantee that you will not have additional expenses starting your business. Your cost will depend on factors such as: the extent to which you adhere to PAX'S recommended methods and procedures; your management skills, experience and business acumen; local economic conditions; local market for our services; competition; and sales volume reached during the initial period.
5. PAX has relied on its experience to compile these estimates. The costs you experience may differ depending on the location and proposed size of your franchised business. You should review these figures carefully with your business advisors, accountants and attorneys before making any decisions to purchase the franchise.

**THERE ARE NO OTHER DIRECT OR INDIRECT PAYMENTS TO PAX
IN CONNECTION WITH THE PURCHASE OF THE FRANCHISE.**

8. RESTRICTIONS ON SOURCES OR PRODUCTS AND SERVICES

PAX has no required specifications, designated suppliers, or approved suppliers for goods, services, or real estate relating to your franchise business. PAX will not derive revenue from your purchases or leases.

9. FRANCHISEE'S OBLIGATIONS

THE FOLLOWING TABLE LISTS YOUR PRINCIPAL OBLIGATIONS UNDER THE FRANCHISE AND OTHER AGREEMENTS. IT WILL ASSIST YOU IN LOCATING MORE DETAILED INFORMATION ABOUT YOUR OBLIGATIONS IN THE AGREEMENTS AND ELSEWHERE IN THIS OFFERING CIRCULAR.

Obligation	Section in Franchise Agreement	Item in Offering Circular
a. Site selection and acquisition/lease	Section 7.2	Items 6 & 7
b. Pre-opening purchase and lease	Sections 7.2, 7.3 7.4 & 8.1	Item 7
c. Site development and other pre-opening requirements	Section 4.2, 5.2 5.3, 6.1, 7.2, 8.1 8.2, 9.1, 9.2, & 9.3	Items 6, 7 & 11
d. Initial and ongoing training	Sections 5.2, 6.1.3,& 8.5	Item 11

e.	Opening	Sections 5.1, 5.3, 7.2, 7.3, & 7.5.1	Item 11
f.	Fees	Sections 5.2, 5.3 7.2, 7.5, 8.1, 8.2, 8.3, 8.4, 8.5, 8.6, 8.7, & 11.4	Items 5 & 6
g.	Compliance with standards and policies/operating manual	Sections 5.1, 5.2 5.3, 5.4, 6.1, 6.2, 7.1, 7.2, 7.3, 7.4, 7.6, 9.1, & 9.2	Item 11
h.	Trademarks and proprietary information	Sections 2.1, 3.24, 4.1, 7.1, 10.1, 10.3, & 12.4.4	Items 13 & 14
i.	Restrictions on products/services offered	Section 7.4.3	Item 16
j.	Warranty and customer service requirements	Sections 7.2 & 7.4.1	Items 11 & 19
k.	Territorial development	Sections 4.2 & 8.2	Items 6, 7 & 11
l.	Ongoing product/ service purchases	Sections 7.4	Item 8
m.	Maintenance, appearance and remodeling requirements	Sections 4.2, 7.2, & 7.4	Item 11
n.	Insurance	Section 9.2	Items 6 & 11
o.	Advertising	Sections 7.1.4, & 7.5	Item 6
p.	Indemnification	Section 10.5	

q.	Hiring franchise office management employees	Sections 6.1 & 6.2	Items 11 & 15
r.	Records and reports	Sections 9.1.1 & 9.1.2	Item 6
s.	Inspections and audits	Sections 7.4.4, & 8.4	Items 6 & 11
u.	Renewal	Section 4.3	Item 17
t.	Transfer	Sections 8.7, & 11	Item 17
v.	Post-termination	Section 12	Item 17
w.	Non-competition	Section 10.6	Item 17
x.	Licenses	Section 10.7	Items 16 & 17
y.	Dispute resolution covenants obligations	Sections 13.2, 13.7, 13.9, 13.10 & 13.2	Item 17

10. SUMMARY OF FINANCING OFFERED

PAX does not offer direct or indirect financing for anything other than your initial fee. The offering of such financing is completely at the discretion of PAX on the following terms:

Initial franchise fee:

Amount financed: Up to ~~\$165,000.00~~ ^{\$12,500.00} of your initial fee.

Down payment: At least ~~\$10,000.00~~ ^{\$12,500.00} of your initial fee.

Term: Interest only monthly payments on the outstanding principle balance. Forty-five percent of all earned commissions will be remitted, to the franchisor, as principle payment until the principle amount is paid in full. Principle payments are only made when a property is sold.

APR %: 10% per annum.

Monthly payment: To be amortized.

Prepay penalty: None.

Security required: Personal guarantee.

Liability upon default: Loss of franchise – unpaid loan.

Note: If you meet PAX's credit standards, PAX may elect to finance up to ~~\$165,000.00~~ ^{\$12,500.00} of your initial fee at an APR of 10%. PAX may require security in the form of a personal guarantee of a note by you and your spouse or by all of the shareholders of your corporation. The note can be prepaid without penalty at any time during its ~~12~~¹³ month term. If you do not pay on time, PAX can call the loan and demand immediate payment of the full outstanding balance and obtain court costs and attorney's fees if a collection action is necessary. PAX also may terminate your franchise if you do not make your payment on time for 2 consecutive months during the note term.

PAX does not guarantee any of your notes, leases, or other obligations to third parties. PAX does not arrange financing from other sources, and PAX does not receive direct or indirect payments for placing financing.

11. FRANCHISOR'S OBLIGATIONS

Except as listed below, Pacific Auction Exchange is not obligated to provide any services or assistance to you during the start-up or operation of your business.

A. Before you open your business, PAX will do the following:

1. PAX will designate your Exclusive Territory before you sign the Franchise Agreement. (See Franchise Agreement Section 4.2.)
2. Within 30 days of signing the Franchise Agreement, PAX will assist you in selecting your business site within your Exclusive Territory, subject to our approval, by reviewing the findings of your marketing analysis related to competition, employment density, market size and location feasibility. (Your site must be at least 1,200 square feet in area, have parking spaces to accommodate your anticipated volume and be accessible to staff.) PAX will approve or reject your proposed site within 20 days after we receive notice of the location.
3. Although you must purchase or lease your office space from independent third parties, PAX will provide assistance in finding and negotiating the lease or purchase of a location for your office. (See Franchise Agreement Section 7.2.)
4. Within 90 days of signing the Franchise Agreement, PAX will lend you a copy of our Operations Manual, which is provided for your use during the term of your franchise, and will train you and your office staff as follows:
 - (a) Training will be provided on topics such as company philosophies and policies; the establishment, operation and management of a franchise business office; marketing and sales strategies; and service standards and quality control.
 - (b) Your initial training program will consist of 30 to 40 hours of classroom instruction and field training over no more than a 10 business day period. (See Franchise Agreement Section 5.2) For no additional charge, PAX will make its personnel available to you, at the Approved Location, for up to 5 days, in regard to the establishment and grand opening promotion of the Franchised Business. The on-site

consultation will include one-on-one and field training in the areas addressed in the initial training program. Additionally, Continuing Education will be offered on matters related to the operation or promotion of the Franchised Business. (See Franchise Agreement Section 5.2, 5.3, & 6.1.3)

- (c) All training will be provided by competent and experienced instructors. In most cases it will be done by James D. Pennington and/or Charles E. McAtee II.
- (d) Instructional material will consist of handouts and videos pertaining to the above subject matter.
- (e) PAX does not charge for this training service, however you must pay the travel and living expense for you and your employees. All training will be conducted in Bakersfield, California, at a location to be selected by PAX.

B. During the day to day operation of the franchised business, PAX will:

- 1. Offer support and consulting information on all day to day operational issues that face your Franchised Business. (See Franchise Agreement Sections 5.2 and 5.3)
- 2. Continue to loan you a copy of our Operations Manual which contains mandatory and suggested specifications, standards and procedures. This manual is confidential and remains our property. PAX will periodically revise and update this manual to reflect changes in business procedures and technology, but the revisions will not alter your status and rights under the Franchise Agreement. The current table of contents as of February 2001 are as follows: (See Franchise Agreement Section 5.4., & 7.4.2.)

Table of Contents for Operations Manual

- | | |
|-----|-------------------------------|
| 1. | Introduction |
| 2. | History of PAX |
| 3. | Management |
| 4. | Auction Procedures |
| 5. | Exclusive Territory |
| 6. | Trade Name and Trademarks |
| 7. | Contracts and Forms |
| 8. | Employees |
| 9. | Advertising and Phone Listing |
| 10. | Confidentiality |
- 3. PAX will hold optional and mandatory continuing education programs concerning personnel, training, quality and service standards. There is no fee for mandatory programs, although PAX may charge for optional programs. You must cover your travel and living expenses. Programs will be held at our corporate office in Bakersfield, California.
 - 4. You must develop advertising materials for your own use and at your own expense on a local level. As set forth in section 7.5 of the Franchise Agreement, PAX may develop and implement an Advertising Program. PAX will provide you will assistance in developing the design for advertising materials.

5. PAX anticipates that franchisees will open their franchised business within 2 to 6 months after they sign a franchise agreement. The factors that may affect this time frame are the ability to obtain a lease, financing, permits and licenses, etc.

12. TERRITORY

You will receive an Exclusive Territory to be determined and agreed upon by you and PAX. PAX will not operate from a location or allow any other franchisee to operate from a location in your Exclusive Territory. However, you are free to conduct business outside of your Exclusive Territory and PAX and other franchisees are free to conduct business within your Exclusive Territory.

13. MARKS

PAX grants you the right to operate a franchised business under the name Pacific Auction Exchange and to use the marks associated with PAX. You also receive the right to use PAX's other current or future trademarks to operate your franchised business. The term "mark" as used herein includes the Pacific Auction Exchange name, and associated service marks, and is defined in paragraphs 3.1 - of the Franchise Agreement.

PAX has registered the below trademark with the California Secretary of State:

PACIFIC AUCTION EXCHANGE: Register # C55683

You must follow our rules and policies when you use PAX's 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 PAX licenses to you. You may not use PAX's registered name in connection with the sale of an unauthorized product or service or in a manner not authorized in writing by PAX.

There are presently no agreements limiting PAX's right to use or license the use of PAX's marks.

You must notify PAX immediately if you learn about an infringement of or challenge to your use of our marks. PAX will then take whatever action it deems appropriate to protect its rights and those of its franchisees. While PAX is not required to defend you against your use of our marks should such use be challenged, PAX will indemnify you against any damages you might incur as a consequence of using PAX marks, provided you have complied with PAX requirements related to approval of your business locations. In addition PAX will reimburse you for reasonable costs you incur in connection with defending PAX's trademark. To receive reimbursement you must have notified PAX immediately when you learned about the infringement or challenge.

You must modify or discontinue the use of a mark if PAX modifies or discontinues it. If this happens, PAX will reimburse you for your tangible costs of compliance (for example, changing signs). You must not directly or indirectly contest our rights to our marks, trade secrets or business techniques that are part of our business.

PAX is unaware of any current uses of any of its marks which potentially constitute an infringement and that could adversely affect your use of PAX's trademark.

14. PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

The rights conferred by this franchise do not include the right to use an item covered by a patent or copyright, other than the right to use the proprietary information in PAX's Operations Manual. The Operations Manual is described in Item 11. Although PAX has not applied for a copyright registration of the Operations Manual, it claims a copyright and the information is proprietary. Item 11 describes limitations on the use of this manual by you and your employees. You must also promptly tell us when you learn about unauthorized use of this

proprietary information. PAX is not obligated to take any action but will respond to this information as we think appropriate. PAX will indemnify you against any liability for copyright infringement that you may incur to any third party arising out of your use of the Operations Manual.

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

PAX does not require that you personally supervise the Franchised Business. You may hire a manager, or managers to operate your franchise business. Such managers must, however successfully complete PAX’s training program before beginning work as your manager. The on-premises manager cannot have an interest or business relationship with any of PAX’s business competitors. Your managers need not own any portion of the franchised business. Your managers must sign PAX’s confidentiality agreement, and non-competition agreement.

16. RESTRICTIONS ON WHAT THE FRANCHISE MAY SELL

You may only advertise and sell services approved by PAX. (See Item 9).

You must offer all services designated as required services for all franchisees. These services include the conducting of auctions for the sale of real and personal property. (See Item 8). The state in which you operate may require that you hold a license for the sale of real property.

PAX may change the list of authorized services that you must offer. There are no limits on PAX’s right to do so except that the investment required of a franchise (for equipment, supplies and initial inventory) will not exceed \$5,000.00 per year.

17. RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

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

	Provisions	Section in Franchise Agreement	Summary
a.	Term of the franchise	Section 4.3.1	Term is (5 years)
b.	Renewal or extension of the franchise term	Section 4.3.2	If you are in good standing you may add an additional term equal to the initial term of your lease. <i>California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination or non-renewal of a franchise. If the</i>

franchise agreement contains a provision that is inconsistent with the law, the law will control.

c.	Requirements for you to renew or extend franchise	Sections 4.3.2 and Article 8	Sign new agreement, pay renewal fees.
d.	Termination by you	Section 12.3	Proper notice and compliance with section 12.4, Rights and Obligations after Termination.
e.	Termination by PAX without cause	None	PAX cannot terminate your franchise without "cause" as defined in the Franchise Agreement.
f.	Termination by PAX for cause	Section 12.2	PAX can only terminate your franchise if you default in performance of your obligations under the Franchise Agreement. <i>California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination or non-renewal of a franchise. If the franchise agreement contains a provision that is inconsistent with the law, the law will control.</i>
g.	"Cause" defined. Defaults which can be cured	Section 12.2.1	You have 30 days to cure the following defaults: (a) non-payment of fees; (b) non-submission of reports; (c) any other default not listed in 12.2
h.	Defaults which cannot be cured		(a) conviction of a felony (b) repeated defaults, (c) abandonment, (d) trademark misuse, (e) unapproved transfers. (f) license violation <i>The franchise agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal</i>

bankruptcy law (11 U.S.C.A. Sec. 101 et seq.)

i.	Your obligations on termination or expiry of franchise without renewal	Sections 12.3 & 12.4	Obligations include complete deidentification and payment of amounts due to PAX. (See also r, below)
j.	Assignment of contract by PAX	Sections 12.3 & 12.4	PAX may assign its rights and duties under the Franchise Agreement.
k.	"Transfer" by you definition	Section 11.1	Includes approval notice, transfer of contract or assets or ownership change
l.	PAX'S approval of transfer by Franchisee	Section 11.2	PAX'S approval is required for all transfers, which will not be unreasonably withheld
m.	Conditions for PAX approval of transfer	Section 11.4	The new franchisee must be qualified, and approved by PAX the transfer fee must be paid, the purchase agreement must be approved, training must be arranged, release signed by you and a current Franchise Agreement must be signed by the new franchisee.
n.	PAX'S right of first refusal to acquire your business	Section 11.3	PAX may match any offer you receive from a third party for your franchised business.
o.	PAX option to buy your business	None.	
p.	Your death or disability	Section 11.6	Franchise must be assigned by your heirs or estate to an approved buyer within 6 months
q.	Non-competition covenants after the franchise is terminated or expires	Section 10.6	No more than 10% interest in any competing business within 75 miles of any part of your exclusive territory. <i>The</i>

	company		<i>franchise agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California law.</i>
r.	Non-competition covenants after the franchise is terminated or expires	Section 10.6	No competing business for 2 years within 75 miles of any part of your exclusive territory. <i>The franchise agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California law.</i>
s.	Modification of the agreement	Section 13.4	No modifications generally by Operating Manual subject to change
t.	Integration/merger clause	Section 13.8	Only the terms contained in the Franchise Agreement and Offering Circular are binding. Any other promises may not be enforceable
u.	Dispute resolution by arbitration or mediation	Section 13.9	Except for certain claims all disputes arising out of the Franchise Agreement must be arbitrated or mediated in Kern County, California. <i>The franchise agreement requires binding arbitration. The arbitration will occur in Kern County, California, with the costs being borne by the losing party. This provision may not be enforceable under California law.</i>
v.	Choice of forum	Sections 13.2.2 & 13.9	Disputes are to be resolved in Kern County, California
w.	Choice of law	Section 13.2	California law applies to the performance, and interpretation of the Franchise Agreement and Offering Circular, and to the resolution

of any disputes arising out of the Franchise Agreement. *The franchise agreement requires application of the laws of California. This provision may not be enforceable under California law.*

18. PUBLIC FIGURES

PAX does not use any public figure to promote its franchise.

19. NO EARNINGS CLAIMS

PAX does not provide any oral or written information concerning the actual or potential sales, costs, income or profits of a PAX business, nor are any employees, agents or salespersons working for or on behalf of PAX authorized to make any representations, forecasts or promises concerning such actual or potential sales, costs, income or profits of a PAX business.

The actual results vary from unit to unit and PAX cannot estimate the results of any particular franchised business. Nothing in this Offering Circular, the Franchise Agreement, attachments or exhibits thereto, the Operations Manual or any related materials or presentations should be construed as a promise, prediction or guarantee of the viability or profitability of your proposed franchised business.

20. LIST OF OUTLETS

**FRANCHISED AND COMPANY OWNED STORE STATUS SUMMARY
FOR YEARS 2002/2003/2004/2005**

STATE	OFFICES CLOSED DURING YEAR	STORES OPENED DURING YEAR	TOTAL STORES OPERATING AT YR. END
California	0/0/3 0/3/0	8/4/2 4/2/4	12/19/22 16/12/49
Colorado	0/0/0 0/0/0	0/0/2 0/2/1	2/2/4 2/2/2
Totals	0/0/3 0/3/0	8/4/4 4/5/1	14/23/27 18/14/24
Nevada	0/0/1	0/0/1	0/1/0
New Mexico	0/0/0	0/1/0	0/1/1

PROJECTED OPENINGS

STATE	AGREEMENTS SIGNED BUT STORE NOT OPEN (1)	FRANCHISED NEW STORES IN THE NEXT FISCAL YEAR	OWNED OPENINGS IN NEXT FISCAL YEAR
California	2	0 26	0
Colorado	0	2 3	0
Nevada	0	2 3	0
N. Mexico	0	2 0	0
Totals	2	4 26	0

Note (1) As of April 19, 2005 ~~17, 2006~~

TERMINATED FRANCHISES

Innovating the Millennium, Inc.
9241 Harrogate Way
Elk Grove, CA 95758
(916) 478-2354

21. FINANCIAL STATEMENTS:

Copies of the following PAX Financial Statements are attached hereto for your review:

- A. ~~Statement of Assets, Liabilities and Equity (December 31, 2004).~~
- B. ~~Statement of Revenues and Expenses (December 31, 2004).~~
- A. Balance Sheets (December 31, 2005 and 2004)
- B. Statement of operations and Retained Earnings (Deficit) (December 31, 2005 and 2004)
- C. Statement of Cash Flows (December 31, 2005 and 2004)

22. CONTRACTS:

The following Contracts are attached hereto for your review:

- A. Franchise Agreement