

AUG 1 0 2006

INFORMATION FOR PROSPECTIVE FRANCHISEES
REQUIRED BY THE FEDERAL TRADE COMMISSION

To protect you, we've required your franchisor to give you this information. We haven't checked it, and don't know if it's correct. It should help you make up your mind. Study it carefully. While it includes some information about your contract, don't rely on it alone to understand your contract. Read your entire contract carefully. Buying a franchise is a complicated investment. Take your time to decide. If possible, show your contract and this information to an advisor, like a lawyer or an accountant.

If you find anything you think may be wrong or anything important that's been left out, you should let us know about it. It may be against the law.

There may also be laws on franchising in your state. Ask your state agencies about them.

FEDERAL TRADE COMMISSION
Washington, D.C. 20580

Name of Franchisor: Fitniks Franchising, Inc.

Date of Disclosure Document: August 1, 2006. The effective date of this circular in certain states is as noted on the State-Specific Addendum to this Franchise Offering Circular.



FRANCHISE OFFERING CIRCULAR

Fitniks Franchising, Inc.
A California corporation
3000 Flying C Court
Cameron Park, California 95682
(530) 676-6097

Fitniks Kids' Club franchisees operate fitness centers designed for participants from 6 to 12 years of age.

The initial franchise fee for a single *Fitniks Kids' Club* is \$39,000.00. The franchise fee for multiple *Fitniks Kids' Clubs* purchased at the same time is discounted as described in Item 5 below. The estimated initial investment required to open a *Fitniks Kids' Club* including the initial franchise fee is \$171,000.00 to \$242,250.00.

Risk Factors:

1. THE FRANCHISE AGREEMENT REQUIRES YOU TO ARBITRATE AND/OR LITIGATE WITH US ONLY IN SAN FRANCISCO, CALIFORNIA. REQUIRING YOU TO ARBITRATE IN SAN FRANCISCO MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST MORE TO ARBITRATE IN CALIFORNIA THAN IN YOUR HOME STATE.

2. THE FRANCHISE AGREEMENT STATES THAT, EXCEPT FOR CERTAIN PROVISIONS, CALIFORNIA LAW GOVERNS THIS AGREEMENT. THIS LAW MAY NOT PROVIDE THE SAME PROTECTIONS AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.

3. THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

Information comparing franchisors is available. Call the state administrators listed on Exhibit 1 or your public library for sources of information.

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

Effective Date: August 1, 2006. The effective date of this circular in certain states is as noted on the State-Specific Addendum to this Franchise Offering Circular.

Fitniks Kids' Club™

FRANCHISE OFFERING CIRCULAR

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 - A. Franchise Agreement
 - B. Disclosure and Confidentiality Agreement
 - C. General Release
 - D. Acknowledgment at Closing

1. THE FRANCHISOR, ITS PREDECESSORS, AND AFFILIATES

In this Franchise Offering Circular the words "we", "us", "our", and similar terms refer to Fitniks Franchising, Inc., the franchisor of *Fitniks Kids' Clubs*. The words "you" and "your" refer to the purchaser of the *Fitniks Kids' Club* franchise.

Our principal business address is 3000 Flying C Court, Cameron Park, California 95682.

We are a corporation that was incorporated in California on May 9, 2006. Our registered agent for service of process is listed the state-specific exhibit to this Franchise Offering Circular.

We are licensed to franchise *Fitniks Kids' Clubs* by Fitniks International, Inc., a California corporation, which is referred to in this Franchise Offering Circular as "our licensor". Our licensor currently operates one *Fitniks Kids' Club* located in Santa Rosa, California. Our licensor is currently our only affiliate.

As of the date of this circular, we do not own or operate a *Fitniks Kids' Club*. As of the date of this circular, granting franchises for *Fitniks Kids' Clubs* is our only business activity.

Fitniks Kids' Clubs are distinctive fitness facilities designed to appeal to participants from 6 to 12 year of age. *Fitniks Kids' Clubs* feature circuit training equipment enhanced with technology in order to make the training more enjoyable for and to assist participants in accomplishing their training goals. *Fitniks Kids' Clubs* will occupy approximately 1,500 to 1,800 square feet of space and will provide nutrition and health counseling in addition to fitness and sports preparation programs.

The physical fitness and health club market is well developed but is growing with new concepts and approaches. In addition to traditional facilities such as health clubs, gymnasiums, and weight loss facilities and programs, specialized facilities continue to emerge such as those that cater only to women or children, those that provide express workouts, and others with a similarly narrow focus. There are very few facilities that are specifically for children in the age bracket we intend to attract although that number is growing because of the increasing public awareness that a great many children are overweight, unfit, or are suffering from diseases as a result of their eating habits, weight, and lack of conditioning. This, coupled with a lack of safe play areas, the reduction or elimination of physical education classes in schools, and the growth of sedentary toys and activities, has created a need for facilities dedicated to addressing the conditioning of children.

Fitniks Kids' Clubs are normally situated in shopping centers, street storefronts, or in other commercial locations.

The circular represents our first offer of *Fitniks Kids' Club* franchises. We have not offered franchises in any other line of business.

There are laws concerning health and fitness clubs in many states. You should ascertain whether there any of those laws in your state.

2. BUSINESS EXPERIENCE

The principal executives who have responsibility concerning our franchises are:

Donna R. Moore – Director, President, and Chief Executive Officer

Ms. Moore began development of the *Fitniks* concept in early 2004 after more than 35 years in retail marketing and brand development. She assumed her positions with us upon our formation. She was a principal with the business-consulting firm of JMEA Consulting in Dallas, Texas, from July, 2001, until June, 2004. From January, 2000, until June, 2001, she was the Chief Executive Officer of Hit or Miss, Inc., a chain of women's apparel stores, headquartered in Stoughton, Massachusetts. Ms. Moore was a Director of Loewen Group International, now Alderwoods, operators of funeral parlors and cemeteries, located in Toronto, Ontario, Canada from January, 1999, until January, 2002. Since November, 2004, she has been a member of the Board of Directors of Disney Store, a subsidiary of Children's Place Retail Stores, Inc. located in Seacaucus, New Jersey. Since October, 1996, she also has been a member of the Board of Directors on Ablest, Inc., a temporary staffing firm, located in Clearwater, Florida.

Howard W. Cann – Chief Financial Officer, Treasurer, and Secretary

Mr. Cann assumed his positions with us upon our formation. Mr. Cann is also an independent business consultant, a business he began in September, 2005. From July, 2003, until September, 2005, Mr. Cann was the Chief Financial Officer of SOMA Networks, a broadband wireless systems company located in San Francisco, California. From 1999 until he joined SOMA Networks, Mr. Cann was President and Chief Executive Officer of Planergy International, Inc., an energy integration and management company located in Richmond, California.

In addition to our officers, we have a franchise broker, Michael G. Cann. Mr. Cann, the son of Howard Cann, has been a partner with Carson Capital Advisors located in Mill Valley, California, since April, 2006. From May, 2005 until he formed Carson Capital Advisors, Mr. Cann was Vice President in the San Francisco, California office of Cascadia Capital, an investment banking firm. From September, 2000, until May, 2005, he was Vice President in the San Francisco office of Banc of America Securities also an investment banking firm.

3. LITIGATION

Neither we nor the people identified in Item 2 of this circular are or have been engaged in any litigation, including any that is required to be discussed in this offering circular.

4. BANKRUPTCY

Donna Moore, our President and Chief Executive Officer, was Chief Executive Officer of Hit or Miss, Inc. a chain of women's apparel stores headquartered in Stoughton, Massachusetts, from January, 2000, until June, 2001. Hit or Miss, Inc. filed a petition for reorganization under

Chapter 11 of the Bankruptcy Act on November 17, 2000. The action was filed in the U.S. Bankruptcy Court, District of New Jersey, and is Bankruptcy Petition # 00-41272-NLW. We are not aware of the current status of this action.

Other than the above, neither we nor the people identified in Item 2 of this offering circular have been involved as a debtor in proceedings under the U. S. Bankruptcy Code, including any that is required to be discussed in this offering circular.

5. INITIAL FRANCHISE FEE

The initial fee you must pay us depends on the number of *Fitniks Kids' Clubs* that your Franchise Agreement grants you the right to open. If the Franchise Agreement covers only a single *Fitniks Kids' Club*, your franchise fee is \$39,000.00, payable in full upon the signing of the Franchise Agreement. If your Franchise Agreement grants you the right to open more than one *Fitniks Kids' Club*, the initial fee is equal to \$39,000.00 for your first *Fitniks Kids' Club* and \$31,200.00 for each additional *Fitniks Kids' Club* covered by the Agreement, payable as follows: you must pay \$19,500.00 times the total number of *Fitniks Kids' Clubs* covered by the Agreement when you sign the Franchise Agreement with the balance for each club due when the lease for the facility is signed.

Once you are an existing *Fitniks Kids' Club* franchisee and desire to purchase a franchise for a subsequent club, the initial franchise fee for each club will be equal to 90% of the single-club franchise fee being charged at the time you sign your Franchise Agreement covering your additional club or clubs.

Various factors can affect your ability to obtain a refund of your franchise fee:

If your Franchise Agreement covers a single *Fitniks Kids' Club*, upon signing the Agreement and paying your franchise fee you are given the right to locate *Fitniks Kids' Club* in a geographic area described in the Franchise Agreement. You will have the exclusive right for 30 days to find a location that meets our approval in that area. During the 30-day period, we will not grant another person the right to seek a location for a *Fitniks Kids' Club* in that area nor will we take a *Fitniks Kids' Club* location in that area ourselves. If you do not find an acceptable location in your designated area within 30 days from the date of your Franchise Agreement, you will have another 90 days within which to find a location in that area on a nonexclusive basis. During the 90-day nonexclusive period, we can allow other *Fitniks Kids' Club* franchisees to, and can ourselves, seek and take locations for *Fitniks Kids' Clubs* in that area. The taking of sites in your designated area by us or by others may reduce or eliminate the acceptable locations available to you in the area. If you do not find an acceptable location in your designated area within 120 days of the date of this Agreement, we can terminate the Franchise Agreement and refund all but \$5,000.00 of your initial franchise fee which we can retain in consideration for our efforts in connection of granting you this franchise and holding your designated area for you. We can also allow you to continue to look for a site but can terminate your Franchise Agreement during that time on giving you 10 days notice before you have found a site that we approve. We can retain \$5,000.00 of your initial franchise fee at the time we terminate your agreement.

If we find an acceptable location in your area during the 30-day period within which you have the exclusive right to find a location, we will offer the site to you. You then have 5 days to accept or reject the location. If you do not accept the location, we can offer the location to another *Fitniks Kids' Club* franchisee or can keep the location for a company-owned facility even if the location is offered to you during your 30-day exclusive period. If you reject 2 locations we offer to you, we can terminate your Franchise Agreement and retain \$5,000.00 of your franchise fee as consideration for our efforts on your behalf.

Once we have approved your proposed location, you must sign a lease for the site within 30 days of receiving our approval. If you do not open your club within 90 days of signing a lease for the site, we can terminate your Franchise Agreement unless in our reasonable judgment you are delayed in opening by causes beyond your reasonable control other than for your financial inability to complete the project on time.

Once you have signed a lease, all amounts you have paid to us become nonrefundable.

If this Agreement grants you the right to open more than one *Fitniks Kids' Club*, your club-opening schedule and your development area are set forth in your Franchise Agreement. You must open each club by the date specified or you will lose your right to open any clubs not then open or under active construction. If you default under your club-opening schedule, we can retain all fees you have paid us as consideration for holding your development area from the market and granting you development rights. The terms of the Franchise Agreement that grants you development right will govern all of the clubs you open under those development rights. Since we charge a reduced franchise fee for your second and subsequent clubs, we can reduce or eliminate the initial services we provide in connection with the opening of those clubs.

As described in Item 8 below, we have a "Business in a Box" program under which we coordinate the ordering and shipping of most of the items used in your *Fitniks Kids' Club*. You must order these items from us or from the suppliers we specify. We can require the suppliers to mark up the cost of the items you order up to 20% and pay that amount to us for our efforts in performing our Business in a Box services.

6. OTHER FEES

The following chart lists the other fees you must pay us in connection with your *Fitniks Kids' Club* franchise.

Name of Fee (See Note 1)	Amount	Due Date	Remarks
Monthly Fee	5% of your monthly membership revenues	By the 5th day of the month	"Membership revenues" is defined in Section 9.07 of the Franchise Agreement and means, with certain exceptions, the proceeds resulting from all of your sales and services.

Name of Fee (See Note 1)	Amount	Due Date	Remarks
Advertising Fund Fee (See Note 2)	An amount we specify up to 4% of your monthly membership revenues	At the time the monthly fee is paid	This amount is not currently payable. It is payable only if we establish a cooperative fund for local, regional, or national advertising.
Regional Advertising Fund Fee	Not to exceed 4% of your membership revenues	As we require	Payable only if and when we establish a regional advertising program for the region in which your <i>Fitniks Kids' Club</i> is located. Amounts paid to this fund will be applied against your local advertising requirements. See Item 11 below concerning these requirements.
Additional Training Fee (See Note 3)	\$500.00 per day	As we require	For training in addition to the training we provide as part of our initial services.
Extra Visit Fee (See Note 3)	\$500.00 per day plus our out of pocket expenses	As we require	This fee is only payable if you notify us that your <i>Fitniks Kids' Club</i> is ready for opening and it is not, preventing our representative from completing his or her duties upon opening or having to return for training.
Special Visit Fee	Reimbursement of out of pocket expenses and/or per diem for the salary and expenses of our representatives	As agreed upon between us	Only payable if you request a special visit by our representatives over and above those we normally provide.

Name of Fee (See Note 1)	Amount	Due Date	Remarks
Renewal Fee	Reimbursement of any costs we incur in connection with the renewal of your franchise including an allowance for the time of our employees and an administrative and overhead charge equal to 15% of the reimbursable costs.	Upon signing your renewal Franchise Agreement	If you relocate your <i>Fitniks Kids' Club</i> at the time you renew, you will not have to reimburse us for our costs in connection with the renewal since our relocation fee, discussed below, covers those costs.
Relocation Fee	40% of the franchise fee we are charging at the time of the relocation of your <i>Fitniks Kids' Club</i>	Upon signing the Franchise Agreement governing the operation of your relocated <i>Fitniks Kids' Club</i>	If the relocation takes place at the time you renew your franchise, you only pay the relocation fee and not the renewal fee.
Transfer Fee	50% of the franchise fee we are charging at the time you transfer your <i>Fitniks Kids' Club</i> ; if the transfer is to an existing <i>Fitniks</i> franchisee, the fee is 20% of the then-current franchise fee	Upon approval of the transfer	Payable upon the cumulative transfer of 50% or more of the interests in the franchise. If more than 2 <i>Fitniks Kids' Clubs</i> are being transferred to the same transferee as part of the same transaction, the transfer fees will not exceed the amount of 2 transfer fees plus our out-of-pocket costs for visiting more than 2 facilities as part of our opening assistance to your transferee.
Meeting Fee	As we determine	As we determine	We have the right to charge reasonable fees for attendance at our national or regional meetings and training seminars.

NOTES: 1. These fees are not refundable and are payable to us. We also mark-up the cost of various items we sell to you or require you to order in connection with opening and continuing operation of your *Fitniks Kids' Club*. See Item 8 below for more details.

2. The Advertising Fund is further discussed in Item 11 of this offering circular. We can charge the Advertising Fund for the time, expenses, and overhead of our employees who work on advertising, promotion, and public relations activities. Rather than trying to determine the exact amount of these expenses, we can charge the Advertising Fund for these services in an amount equal to 10% of the amount collected by the fund.

3. This fee is adjustable by any increase in the Consumer Price Index between the date of your Franchise Agreement and the event that gives rise to the fee.

7. INITIAL INVESTMENT

The following chart shows the estimated initial investment for a single *Kids' Kids' Club* occupying approximately from 1,500 to 1,800 square feet of space.

Item	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Initial Franchise Fee (See Note 1)	\$39,000 for a single-club franchise with a discount for the purchase of multiple clubs	Lump sum	On signing the Franchise Agreement	Us
Premises Lease	See Note 2	Lump sum	Monthly	Landlord
Leasehold Improvements (See Note 3)	\$20,000 to \$40,000	Normally progress payments	As arranged with contractors	Contractors
"Business in a Box" (See Note 4)	\$80,000 to \$100,000	Lump sum	Upon placing order	Us
Exterior Signs	\$3,000 to \$4,000	As arranged with sign company	As arranged with sign company	Sign companies
Initial inventory	\$2,500 to \$4,250 (See Note 5)	Lump sum to us and as arranged with other suppliers	Upon placing order with us and as arranged with other suppliers	Suppliers and us

Item	Amount	Method of Payment	When Due	To Whom Payment is to be Made
Security deposits, utility deposits, business licenses, and other prepaid expenses	\$3,000 to \$5,000 (See Note 6)	As arranged with provider	As needed	Landlord, utility companies, government agencies, etc.
Grand Opening promotion	\$7,500 to \$10,000	As arranged with providers	As needed	Newspapers, radio, direct mail, etc.
Other preopening expenditures	\$1,000 to \$3,000	As arranged with providers	As needed	Attorney and accountant, insurance agent, etc.
Travel and living expenses while attending training course	\$0 to \$2,000 (See Note 7)	Lump sum	As needed	Hotel, rental car, restaurants, etc.
Additional funds required before opening and during first 3 months of operation. (See Note 8)	\$15,000 to \$35,000	As needed	As needed	Working capital, ongoing expenses, etc. (See Note 9)
Total Investment: (See Note 10)	\$171,000.00 to \$242,250.00 .			

NOTES: 1. All but \$5,000 of the initial franchise fee is refundable under the circumstances described in Item 5 above. Other fees and charges may be payable to us under certain circumstances. See Items 6 and 8 below for more details.

2. A *Fitniks Kids' Club* will occupy approximately 1,500 to 1,800 square feet of space. Rents range from approximately \$1.50 to \$5.50 per square foot per month. In addition to base rent, you may also have to pay additional charges to your landlord such as shopping center insurance, taxes, assessments, common area maintenance, heating, ventilating and air conditioning, and other charges. We have made no allowance in this chart for rent that you may have to pay before your *Fitniks Kids' Club* is open for business. The need for rent payments before opening will depend on the terms of your lease and how fast your *Fitniks Kids' Club* is ready for opening.

3. This allowance includes the architect's or designer's fees required to adapt the plans and specifications we give you to your particular space. Leasehold improvements will include building permits, demising walls, flooring, painting lighting, and so forth.

4. You will purchase most of your equipment, décor, furniture, fixtures, and computer system through our "Business in a Box" program as described in Item 8 below. By means of this program we coordinate your purchases to attempt to have your goods delivered as soon as possible after the leasehold improvements to your space are completed so that you can be open at the earliest possible time. We assist you in placing your orders with our approved suppliers. We can have your suppliers mark-up by not more than 20% the cost of the items you order under this program and remit that amount to us for our services. You acquire certain of your equipment locally, such as a refrigerated case for the soft drinks you sell.
5. The amount of inventory needed by your *Fitniks Kids' Club* will vary depending on the type of club you are opening and the volume of business that is expected. Inventory will include *Fitniks* logo items, including clothing, and any other resale items you carry.
6. Lease security deposits normally equal 1 or 2 months rent.
7. You will have no additional costs for travel and living expenses if you live near the club where we do your training or if we do all of your training at your club location.
8. This is an estimate of the additional cash you will need over and above the net income of your *Fitniks Kids' Club* for its first 3 months of operation. We based these amounts on our experience the opening of the *Fitniks Kids' Club* operated by our licensor. While these figures are based on our best estimates, we cannot guarantee that you will not have additional cash needs during this period and beyond. Your need for additional funds will depend on factors such as: your management skill, experience, and business ability, local economic conditions, the local market for our services, the prevailing wage rate, competition, the membership levels you reach during the initial period of your operation, and other such factors.
8. No allowance has been made in this chart for any principal or interest expenses required before the opening of your *Fitniks Kids' Club*. The need for this type of expense will vary with the terms of any financing you get in connection with your *Fitniks Kids' Club*.
9. The refundability of payments is up to the individual vendors and providers with whom you contract.

8. RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

Because we want to create a public image for and enhance consumer acceptance of *Fitniks Kids' Clubs* and to protect our proprietary names and marks, we control the appearance of your *Fitniks Kids' Club* and the goods and services you provide under the *Fitniks* name. For this reason, your club must comply with our appearance and other requirements. You are allowed to use only the equipment, décor, furniture, fixtures, signs, and items we specify for your *Fitniks Kids' Club*. We also must specify or otherwise approve all of the merchandise you carry and all of the services you provide in and from your *Fitniks Kids' Club* and various other aspects of the operation of your facility. If we require you to carry specific items, we usually designate those items by referring to them by model number and their manufacturers or suppliers.

By means of our “Business in a Box” concept, you are required to contract with us or with designated suppliers for most of your equipment, décor, furniture, fixtures, and other items for your *Fitniks Kids’ Club*. This requirement includes your exercise and computer equipment and software. We will do our best to assemble have these items delivered to your club at one time or in close proximity to each other to have the items installed and be open in short order once your leasehold improvements are completed. You usually must pay for these items at the time you place your order. Our designated suppliers will be instructed to mark-up the cost of the items by up to 20% and remit that mark-up to us in order to compensate us for our efforts in coordinating the procuring, assembling, and delivering of the items to your club. We will reduce or eliminate our mark-up if we determine that adding this cost will increase the cost of your “Business in a Box” above the amounts we have estimated for this portion of your development costs in Item 7 above.

You will acquire locally a refrigerated cooler for the soft drinks that you carry and will acquire the drinks and any food items you carry from local suppliers. We must approve all of these items prior to their being ordered.

You will also be required to purchase from us a sufficient number of “membership kits” for your anticipated membership. The kit contains a *Fitniks Kids’ Club* T-shirt and other items. You must provide a kit provided to each new member of your club as part of their initial membership fee. We will derive revenues from selling you these kits. It is anticipated that you will derive a profit of approximately 50% from reselling the kits to your members.

We anticipate that approximately 5% of your total purchases and leases of goods and services for establishing your *Fitniks Kids’ Club* will be from us. We estimate that approximately 25% of your purchases and leases of goods and services for the continued operation of your club will be from us. The items you will purchase from us principally will be membership kits for new members and resale items such as *Fitniks* logo items, including clothing. Since we have not yet opened a franchised *Fitniks Kids’ Club*, we have not yet derived any revenue from these required purchases.

You must procure the computer and software maintenance and support contracts that we specify. See Item 11 below for more details on your computer system and software.

We can require you to carry the merchandise we specify. Unless we agree otherwise, you can only provide such items from your *Fitniks Kids’ Club* and only on the conditions we indicate. We anticipate that you will purchase most of your resale items from us. We will derive revenues from these purchases but you will not have to include your purchases from us in your membership revenues for purposes of determining your monthly fee payments to us.

As discussed above, we must review and approve your location before you can lease or otherwise acquire it. We must approve your plans and specifications prior to their use.

You must use the accounting and club management software we require. See Item 11 for more information on these items.

You may be required to purchase reasonable quantities of advertising and promotional material from us. We will charge you for our shipping and handling these items and, as such, will derive revenue from these purchases. To date, we have made no such sales. Our shipping and handling charges normally will not exceed 10% of the cost to you of these items.

We do not have a purchasing cooperative. However, we hope to be able to negotiate beneficial terms for *Fitniks Kids' Clubs* with our principal suppliers.

We evaluate new suppliers based on our supplier criteria at the time. That criteria is made available in writing to franchisees and suppliers who request it. Our supplier criteria, and the specifications and standards for items that we will approve, are developed and changed based on our ongoing experience. We can withdraw our approval of any supplier or item of merchandise when we decide that that is justified. We normally can complete our product review and approval process within 30 days after we receive all required information about the product or supplier being considered, including, if we so require, samples of the items for which approval is being sought. If we incur expenses in connection with evaluating suppliers or merchandise, we can charge the concerned supplier or manufacturer for those costs.

We do not charge suppliers for doing business with *Fitniks Kids' Clubs*. If any supplier gives us an advertising, marketing, or promotional allowance, we put that money into the Advertising Fund, which is discussed in detail in Item 11 below.

No special benefits are given to franchisees that purchase merchandise or other items from any special source.

9. FRANCHISEE'S OBLIGATIONS

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

Obligation	Section in Franchise Agreement	Item in Offering Circular
a. Site selection and acquisition/lease	Sections 3 & 5	Items 5, 6, 7, & 11
b. Pre-Opening purchases/leases	Sections 6 & 8	Items 6 & 8
c. Site development and other pre-opening requirements	Sections 5, 6, 7, & 8	Items 6, 7, & 11
d. Initial and ongoing training	Sections 7 & 8	Item 11
e. Opening	Sections 6, 7, 8, & 10	Item 11
f. Fees	Sections 3-5, 7-9, 11, 15, & 16	Items 5 & 6

Obligation	Section in Franchise Agreement	Item in Offering Circular
g. Compliance with standards and policies/ Operating Manual	Sections 6, 8, 10, 11, 12, 13, & 14	Items 8 & 11
h. Trademarks and proprietary information	Sections 2, 8, & 14	Items 13 & 14
i. Restrictions on products/services offered	Sections 5 & 8	Item 16
j. Warranty and customer service requirements	Section 8	Items 11 & 15
k. Territorial development and sales quotas	Section 5	Items 5 & 6
l. Ongoing product/service purchases	Sections 6, 8, & 10	Item 8
m. Maintenance, appearance and remodeling requirements	Sections 6 & 8	Item 8
n. Insurance	Sections 6 & 12	Items 7 & 9
o. Advertising	Sections 9 & 10	Items 6 & 11
p. Indemnification	Section 13	Items 6, 8, & 13
q. Owner's participation/ management/staffing	Sections 7 & 8	Items 11 & 15
r. Records/reports	Sections 8, 9, & 11	Items 6 & 17
s. Inspections/audits	Sections 8 & 11	Items 6, 8, & 11
t. Transfer	Section 15	Item 17
u. Renewal	Section 4	Item 17
v. Post-termination obligations	Sections 8, 16, & 17	Item 17
w. Non-competition covenants	Sections 15 & 17	Item 17
x. Dispute resolution	Section 18	Items 6 & 17
y. Relocation	Sections 4 & 5	Items 6, 12, & 17

10. FINANCING

We do not offer or provide any type of direct or indirect financing for our franchisees. We do not guaranty your notes, leases, or other obligations.

11. FRANCHISOR'S OBLIGATIONS

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

Pre-Opening Assistance

Before you open your *Fitniks Kids' Club*, we will:

1. Consult with you on the location for your *Fitniks Kids' Club*. (Franchise Agreement Section 5.02)
2. Evaluate your proposed location based on the information you submit and advise you of our approval or disapproval of the site. (Franchise Agreement Section 5.04)
3. Give you typical plans and specifications for your *Fitniks Kids' Club*. (Franchise Agreement Section 6.01)
4. Consult with you on the telephone regarding the design and construction of your facility. (Franchise Agreement Section 6.04)
5. By means of our Business in a Box program, assist you in procuring all of the equipment, décor, furniture, fixtures, signs, and other items we specify for your *Fitniks Kids' Club*. (Franchise Agreement Section 6.03)
6. Train you and your manager in the operation of a *Fitniks Kids' Club*. (Franchise Agreement Section 7.01)
7. Provide a member of our staff to help you with the setup and opening of your *Fitniks Kids' Club*. (Franchise Agreement Section 7.07)
8. Consult with you on your Grand Opening promotion. (Franchise Agreement Section 10.01)

Continuing Assistance

During the operation of your *Fitniks Kids' Club* we provide the following services:

1. You have the use of our operations and other manuals and other materials as they are developed and made available to our club owners. These manuals and materials are confidential and remain our property. We can change the policies, practices, procedures, and other directives in our manuals when we see fit and you have to follow the changes. You must return our manuals and material when we ask for them. (Franchise Agreement Sections 8.01 to 8.03)
2. We will provide assistance and advice to you on the telephone concerning the operation of your *Fitniks Kids' Club*. (Franchise Agreement Section 8.17)
3. We will send a representative to visit your facility periodically to inspect your facility and to assist you with its operation. (Franchise Agreement Section 8.18)

4. If and when it is formed, we will administer the national and regional advertising fund programs. (Franchise Agreement Sections 9.02 through 9.06)

5. You have the use of the service marks, trademarks, commercial symbols, proprietary programs and software, and the other property we license to you. (Franchise Agreement Sections 14.01 and 14.02)

8. We are developing and, once it is on-line, will maintain the *Fitniks* Internet web site, although we can transfer this responsibility to a third-party provider. (Franchise Agreement Section 10.07)

Advertising

As noted above, we can establish a cooperative advertising program, called "the Advertising Fund", to which you can be required to contribute up to 4% of your membership revenues. We will administer this fund to develop advertising, promotional, merchandising, display, and public relations materials and programs for *Fitniks Kids' Clubs* on a local, regional, or national basis. (Franchise Agreement Sections 9.02 through 9.04) If we have any company-owned *Fitniks Kids' Clubs* at any time, they will contribute to this fund on the same basis as do our franchisees. (Franchise Agreement Section 9.04).

We are not obligated to spend any of the Advertising Fund money in any particular region even if the money comes from that area. (Franchise Agreement Section 9.04) We are not required to spend all the money received by the Advertising Fund within any particular time. (Franchise Agreement Section 9.04) Funds not spent in the year received are carried over from year to year until they are used. We do not use any of the money from the Advertising Fund to solicit the sale of franchises.

We intend that all *Fitniks Kids' Club* franchisees will contribute to the Advertising Fund on the same basis and least at the same rates as you do.

We will send an annual report to you showing the receipts and expenses of the Advertising Fund. These reports do not have to be audited. (Franchise Agreement Section 9.03)

We can charge the Advertising Fund for the time, overhead, and expenses of our employees to the extent they do work related to the fund's activities. In the alternative, we can charge the fund in an amount equal to 10% of the money collected by the fund for these costs. (Franchise Agreement Section 9.04)

We can publish or broadcast the material developed by the Advertising Fund in any media we select including newspapers, magazines, radio, television, direct mail, the Internet, and so forth. The coverage of the concerned media can be local, regional, or national in scope. (Franchise Agreement Section 9.04)

As of the date of this circular, all of our advertising has been developed by our employees and by outside advertising agencies and consultants. We anticipate that this will continue to be the case in the future.

In addition to the Advertising Fund, we have the right to establish local and regional advertising programs. If we establish such any of these programs in the region in which your *Fitniks Kids' Club* is located, you must pay the amount we specify to that fund. Any such payments will be credited to and will not exceed your local advertising requirements as described below. (Franchise Agreement Section 9.06) As is the case regarding the Advertising Fund, our company-owned facilities in each region will pay a similar amount to the local and regional fund. (Franchise Agreement Section 9.06)

We have the right to establish national and regional advertising councils to advise us on our advertising, promotion, and public relations activities. We have sole discretion over how and when the funds collected will be spent. We have the right to prescribe the rules for such councils should they be formed. (Franchise Agreement Section 9.05)

Since continuous local advertising and promotion is important to the success of your *Fitniks Kids' Club*, you must spend at least 4% of your membership revenues on local advertising and promotion of your club. At the end of each 12-month period, any amounts not expended are payable to the Advertising Fund or, if the Advertising Fund has not yet been formed, to us for use in advertising and promoting the *Fitniks Kids' Club* system.

If we require, you must participate in Yellow Pages advertising coordinated with any other *Fitniks Kids' Clubs* in your market area and must pay your pro rata portion of the costs. (Franchise Agreement Section 10.06).

See also Items 6, 8, and 9 above.

Electronic Cash Recording/Inventory Control System

You have to use the computer systems and business operations software that we specify. (Franchise Agreement Section 8.22) We currently require you to purchase a desktop computer with a minimum 1,000 MHZ processor, 258 MB RAM, a hard disk with at least 120 G of storage, USB-2 capacity, a CD/DVD ROM, and an SVGA display of your choice. The computer should operate using Microsoft Windows XP Professional software and should have Microsoft Office 2003, or later, installed for word processing and spreadsheet applications. Microsoft Windows XP Professional and Microsoft Office are products of Microsoft Corporation, One Microsoft Way, Redmond, Washington 98052-6399, telephone: (800) 642-7676. This software is available from most computer software dealers.

You will also need one or more cash drawers, bar code scanners, and receipt printers, as well as a digital camera to use for placing your members' photographs on their membership cards. If you will have more than one workstation, you will need a router, cabling, ports, and the like, to link your computers.

Your club management software will be DataTrak, manufactured by ABC Financial, P. O. Box 6800, Sherwood, Arkansas 72124, telephone: (800) 622-6290. This software maintains your member database and accounts receivable in addition to performing other club functions such as checking in members, point of sale transactions, inventory control, and other functions, as well as providing reports on membership usage, sales, and other information. You are required to obtain a maintenance contract from ABC Financial for this program so that it will be updated automatically in addition to providing you with ongoing support in the use of the program. As of the date of this circular, ABC Financial charges \$135.00 per month for its technical support contract. Its ongoing charges are based on the amounts and type of payments handled through its service presently 4% of the amount billed for an electronic funds transfer from a bank account and 6.5% of the amount billed to a credit card.

You must use Quickbooks as your accounting software. Quickbooks is a product of Intuit, Inc., 2535 Garcia Avenue, Mountain View, California 94043, telephone: (650) 944-6000. Quickbooks is available from most computer software retailers.

In addition to the hardware and software we require, you must obtain high-speed Internet access through any major provider and an Internet browser such as Internet Explorer 6.0, or later, which is normally supplied with Windows XP Professional.

Since we have no *Fitniks Kids' Clubs* of our own, we have not used any of the above items directly. However, our licensor has used the hardware and software described above since November, 2005, in its operation of the Santa Rosa, California, *Fitniks Kids' Club*.

Once your computers, peripherals, and Internet connection have been installed and approved by us, you cannot alter, add to, or remove the hardware or software that are part of the system without our prior consent. You may be required to use other computer hardware and software during the term of your Franchise Agreement. You will be allowed a reasonable time to amortize the cost of the hardware and software you are using prior to being required to change these items.

Our representatives have full access your computer system, the data in it, and the reports it creates to the extent they relate to your *Fitniks Kids' Club*. (Franchise Agreement Section 8.18) There are no contractual limitations on our right to access the information in your system. In addition, ABC Financial and any other supplier that provides a similar service or can provide the required information will be required to submit various reports to us on your operations so that we can assist you in your operation and to confirm the information you otherwise provide to us.

Operations Manuals

We will provide you with our operations and other manuals. Before you purchase a *Fitniks Kids' Club* franchise you will be allowed to review our manuals at our offices after you sign the Nondisclosure and Confidentiality Agreement appearing as Exhibit B to this circular.

Selection of Your Club Location

Section 5 above describes the various time periods within which you are allowed to seek a location for your *Fitniks Kids' Club*. We are available to consult with you on the telephone concerning the characteristics a location must have to get our approval. (Franchise Agreement Section 5.02) When you have found a location you find appropriate for your *Fitniks Kids' Club*, you must provide us with the details of the site to assist us in deciding whether to approve the site. (Franchise Agreement Section 5.04) Most *Fitniks Kids' Clubs* will be located in highly visible, high traffic areas. We have developed a site selection model that we share with you that contains various demographic information to assist in your site search and to help us evaluate proposed locations. When we evaluate a site we look at the types of businesses and residential units in the area, the area's demographics and traffic patterns, other fitness facilities in the area, the location's visibility, accessibility, size, layout, parking, and similar factors. It is your responsibility to find a site for your *Fitniks Kids' Club*. You cannot lease, or otherwise acquire the site until we approve the location. (Franchise Agreement Sections 3.02 and 5.04)

We will not unreasonably withhold or delay our approval of any location you have found although the Franchise Agreement does not contain any specific time limit within which we must consider and approve or disapprove any such location. (Franchise Agreement Section 5.04)

If your Franchise Agreement gives you the right to open a single *Fitniks Kids' Club*, once we approve the location, you must obtain a fully-signed lease or other document giving you the right to occupy the premises within 30 days after we approve the site. (Franchise Agreement Section 3.02) You must provide us with a copy of the proposed lease for our review and approval before you sign the lease. (Franchise Agreement Section 5.05) You must provide us with a copy of your fully-executed lease within 5 days of its execution. (Franchise Agreement Section 5.05). You must open for business within 90 days after you sign your lease unless in our reasonable judgment you are prevented from doing so by causes beyond your control other than your financial inability to complete the project. (Franchise Agreement Section 3.02)

See Section 5 above concerning the refundability of your initial fee in the event your Franchise Agreement is terminated because you did not comply with the time requirements described above.

Time Needed to Open a Fitniks Kids' Club

It typically takes between 3 to 6 months between the time you sign your Franchise Agreement and the opening of your *Fitniks Kids' Club*. Factors that can affect the time within which a *Fitniks Kids' Club* can be built and opened include the time needed to secure a location, lease, and financing for the project, the time needed to obtain plans and building permits, requirements of local laws and other governmental requirements, the availability of labor and materials, the time required to complete your leasehold improvements the installation of your equipment, fixtures, and decor, the hiring and training of your employees, and for similar reasons.

Training

Our training program is conducted as needed. Part of the training is Internet-based. For our initial franchisees, the training course is held at a *Fitniks Kids' Club* we designate or, in our discretion, at your *Fitniks Kids' Club*, prior the opening of your club. In addition to the Internet-based training, the course lasts approximately 5-7 days. Our training program is discussed in Section 7 of the Franchise Agreement.

Before the opening of your *Fitniks Kids' Club*, you and your manager must satisfactorily complete our training course. (Franchise Agreement Section 7.03) If you already own a *Fitniks Kids' Club* and have completed our training course, we will train one additional person in connection with each of your subsequent facilities. (Franchise Agreement Section 7.01)

If a partnership, limited liability company, corporation, or other entity owns your *Fitniks Kids' Club*, an owner of the entity must attend and complete the training course to our satisfaction unless we otherwise agree. (Franchise Agreement Section 7.01) Only a person who has successfully completed our training course can supervise the operation of your *Fitniks Kids' Club*. (Franchise Agreement Section 7.01) If your manager does not satisfactorily complete our training course, you cannot employ that person in your facility. (Franchise Agreement Section 7.03)

You do not pay us an additional fee to attend our training course. However, you have to pay any salary, travel, and living expenses of your manager and any others we allow to attend our training course. (Franchise Agreement Section 7.04) If any of your employees do not satisfactorily complete our training course, you can send a replacement to the course. In that case, we can require you to pay us an additional training fee for training the replacement employee. You also must pay us an additional training fee if you are required to send, or request to send, additional employees to take some or our training course at a later time. Our additional training fee is \$500.00 per day per trainee. That fee is subject to adjustment by any increase in the Consumer Price Index between the date of your Franchise Agreement and the date of the training. (Franchise Agreement Section 7.05) You may also have to pay our special visit fee if we have to send someone to your *Fitniks Kids' Club* to conduct that training. (Franchise Agreement Section 8.19)

If we sponsor conventions, courses, seminars, programs, or other meetings for our franchisees or for their employees you and the appropriate employees must attend those meetings, up to a maximum of 2 such meetings in any 12-month period. In addition, if we sponsor any regional training seminars or other meetings in the region in which your *Fitniks Kids' Club* is located, you are required to attend these meetings and to send to these meetings those of your employees we designate. (Franchise Agreement Section 7.09) We can charge a reasonable fee for any of these conventions, courses, seminars, or meetings. You must pay your own expenses, and those of your employees, for travel, lodging, salaries, and the other costs incurred in attending these events. (Franchise Agreement Section 7.09)

Listed below is a chart showing our current training schedule, its principal instructors, the instructional material you will use, and the location of the training:

Subject	Location	Instructional Material	Hours of Classroom Training	Hours of On-Site Training	Instructors
Sales and client service	A designated <i>Fitniks Kids' Club</i>	Our manuals	0	1 day	Donna Moore
Circuit training	A designated <i>Fitniks Kids' Club</i>	Our manuals & role-playing scripts	0	3 days	Alexandra Sickenger
Record keeping	A designated <i>Fitniks Kids' Club</i>	On-line computer and software manuals and our other manual	0	1 day	Howard Cann
Equipment and facility maintenance	A designated <i>Fitniks Kids' Club</i>	Equipment manuals	0	½ day	Alexandra Sickenger
Totals:			0	5 ½ days	

Donna Moore and Howard Cann are our corporate officers. Their backgrounds are described in Item 2 above. Alexandra Sickenger is a 2003 graduate of California State University at San Francisco with a degree in kinesiology. She is certified as personal trainer by the American College of Sports Medicine. The instructors may vary from training session to training session.

12. TERRITORY

Your Protected Territory

The *Fitniks Kids' Club* franchise is granted only for the specific location we approve. As a condition of approving your location, we must mutually agree on any protected territory that will be granted in connection with your club. Except under the circumstances discussed below, a protected territory is the area in which we agree not to open another company-owned or franchised business substantially similar to your *Fitniks Kids' Club*. Other than in an area where you maintain exclusive development rights, we have the right to open and franchise *Fitniks Kids' Clubs* at any other location even if those facilities compete with you or otherwise adversely affect your business.

By granting you a protected territory we are not precluded from owning or being the franchisor of competing units owned, operated, and/or franchised by any person or entity with whom or which we merge, by whom or which we are acquired, or which we acquire or otherwise become affiliated after the date of your Franchise Agreement. However, no such affiliate will own, operate, or franchise facilities in your protected territory using the *Fitniks Kids' Club* names or marks.

After the first 2 years of the term of the Franchise Agreement in the case of a single-unit *Fitniks Kids' Club*, or after the completion of your development schedule if you are granted the right to open more than one *Fitniks Kids' Club*, if in our reasonable judgment the nature of the market within your protected territory or development area changes so that we feel that your protected territory or development area can sustain one or more additional *Fitniks Kids' Clubs* without materially diminishing the business of your club or clubs, we will notify you of our determination and will allow you a right of first refusal to open and operate the additional *Fitniks Kids' Clubs* that we propose to open in your territory or area. You will have 20 days after our notification to advise us whether you want to open the proposed *Fitniks Kids' Clubs*. If you do not elect to open the new clubs, we will be free to open the clubs as company-owned facilities or we can franchise the right to open the new facilities to others. If you elect to exercise your right of first refusal, you must sign our then-current Franchise Agreement and comply with its requirements concerning opening and operating the new clubs.

Even though we grant you a protected territory, we can solicit national or regional accounts from businesses and other entities even if their facilities are located within your protected territory or development area. If we establish a national or regional accounts program, you must honor the discount we establish for those accounts. A "national or regional account" is an arrangement we may make with businesses or other entities in which we agree to discount the membership fees, whatever named, for *Fitniks Kids' Clubs* for those affiliated with the designed business or entity.

We, our affiliates, and others that we authorize can market goods bearing the *Fitniks* name and marks, names or marks similar or related to them, or other names and marks to independent retail outlets, at wholesale, by means of catalogs, mail order, by electronic means, including over the Internet, or by other alternative sources of distribution even if these sales are made to outlets or to people located in your protected territory. You will not be entitled to any compensation or other benefit as a result of these sales. Unless we agree otherwise, you are allowed only to make sales of *Fitniks* merchandise to individuals who make their purchases of approved items at your facility. The Franchise Agreement does not prevent us or our affiliates from providing goods or services under different names or marks in your protected territory, although we will not own or operate a business substantially similar to your *Fitniks Kids' Club* in your protected territory or development area except as discussed above.

You do not have the right to open another *Fitniks Kids' Club* without our prior written consent. If we do consent to your opening an additional *Fitniks Kids' Club*, you must sign the Franchise Agreement we are using at that time for new *Fitniks Kids' Club* franchises and pay the franchise fee called for by that agreement.

You can relocate your *Fitniks Kids' Club* only with our prior written consent and the payment of the relocation fee described in Item 6 above. As a condition of our giving you our consent to relocate, you must sign a general release of all claims against us so that we do not have any unresolved disputes between us when you seek our consent to relocate.

13. TRADEMARKS

Based on our intent to use the mark, on May 3, 2005, we applied for the registration of the service mark "Fitniks" on the Principal Register of the United States Patent and Trademark Office. The application bears serial number 78621961. Until the mark is actually registered, by not having a Principal Register federal registration for "Fitniks", we do not have certain presumptive legal rights granted by such a registration.

We are licensed by Fitniks International, Inc. to use and sublicense to others the names and marks. Our license agreement grants us the exclusive right to use the licensed names and marks to franchise *Fitniks Kids' Clubs*. Our licensor retains the right to enforce the terms of our Franchise Agreement to the extent that those terms affect the licensed names and marks. Either party can terminate the license agreement on 30 days notice. However, if our licensor terminates the license agreement, the agreement provides that your right to use the licensed names and marks will not be affected as long as you are in good standing under your Franchise Agreement. Other than for our license agreement, there are no agreements currently in effect that significantly limit our rights to use or license the use of the foregoing mark in any manner material to the *Fitniks Kids' Club* franchise.

You should to make a reasonable effort to check the area in which you propose to open your *Fitniks Kids' Club* to find out whether there are any confusingly similar names or marks being used in that region.

To the best of our knowledge there are no presently effective determinations of the Patent and Trademark Office, the Trademark Trial and Appeal Board, the trademark administrator of any state, or any court, relevant to your use of the licensed mark in any state. There are no pending interference, opposition, or cancellation proceedings, nor any litigation, involving the marks.

We are aware of no infringing uses that could materially affect your use of the licensed mark in any state.

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

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

If for any reason we decide to change our principal names or marks, you agree to use our new names or marks and to discontinue using the old names or marks we specify. If we require you to stop using any of the names, marks, or symbols we license to you, we will reimburse you for the reasonable out of pocket costs you incur in replacing items which bear the affected names, marks, or symbols as long as you comply with our directives concerning their use and disposition. If we require you to use any additional names, marks, or symbols in connection with your *Fitniks Kids' Club*, you must pay the costs of using these additional items.

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

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

14. PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

Our manuals and other material contain information that we consider to be a trade secret. We claim trade secret and copyright protection for these manuals and materials although we have not filed any copyright applications concerning them. You have to follow our directions in protecting our manuals and other trade secret material from unauthorized disclosure. You must use our proprietary material only as we direct.

We can require your employees to sign confidentiality agreements in which they promise to keep all of our proprietary information confidential and to follow our directions regarding its use.

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

The Franchise Agreement does not require you to participate in the actual on-site operation of your *Fitniks Kids' Club*. However, it is recommended that you do so to have better control over the business. In any event, the Franchise Agreement requires you to use your best efforts to produce the maximum volume of sales from your *Fitniks Kids' Club* in a manner consistent with the terms of the Franchise Agreement and to devote an amount of time to your *Fitniks Kids' Club* business adequate for that purpose. It is also your responsibility to train all of your *Fitniks Kids' Club* personnel.

Your on-premises manager need not have any ownership interest in any entity that owns your *Fitniks Kids' Club* but he or she must have completed the manager's portion of our training course to our reasonable satisfaction or they cannot serve as your manager. Your manager must sign a confidentiality agreement in which he or she agrees not to disclose any of our trade secrets.

We do not dictate the qualifications of the employees that you hire to work in your facility. Since your employees will be dealing with children, you must conduct such background checks on your employees and prospective employees as we require or as is required by law.

If a partnership, limited liability company, corporation, or other entity will own your *Fitniks Kids' Club*, unless we agree otherwise an owner of the concerned entity must successfully complete our training course and be the managing agent of the business. The managing agent cannot be a person who was the principal operator of a *Fitniks Kids' Club* that had its Franchise Agreement terminated because of a default nor can he or she to be a person to whom we have a reasonable basis to object.

16. RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

As discussed in Item 8 above, you can provide, sell, and display only the services and merchandise we have approved. You must provide all of the goods and services we specify. We can change the types of goods and services we can require you to provide in your *Fitniks Kids' Club*. If we so require, you must carry the minimum quantity of any merchandise that we specify.

There are no restrictions on the customers to whom you can sell authorized goods and provide authorized services. However, you can only provide your services and sell goods at your facility location. You cannot sell any items at wholesale, by means of catalogs, mail order, electronically, or through any other alternate means of distribution.

See also Item 9 above for other provisions of the Franchise Agreement that may apply.

17. RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION

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

Provision	Section in Franchise Agreement	Summary
a. Term of the Franchise	Section 4.01	5 years beginning on the commencement date of your lease, or, if you own the location, on the date your <i>Fitniks Kids' Club</i> opens for business.
b. Renewal or extension of the term	Section 4.02	You can renew your franchise for unlimited periods of 5 years each.
c. Requirements for you to renew or extend	Section 4.02 - 4.06	You must be in good standing under the Franchise Agreement and have not received 3 or more notices of defaults that concern material violations of the Franchise Agreement during the term then ending. You must give written notice at least 6 months before your term ends; you must not be in default under your Franchise Agreement; you must sign our then-current form of Franchise Agreement; you may have to update

Provision	Section in Franchise Agreement	Summary
		your club; you must sign a general release of all claims against us; you must reimburse us for any costs we incur in connection with your renewal.
d. Termination by you	Section 16.06	If we breach the Franchise Agreement and fail to cure within 20 days after notice plus such additional time as reasonably may be needed, you may pursue all rights allowed by applicable law.
e. Termination by us without cause	None	
f. Termination by us with cause	Sections 16.01-16.05	We can terminate your Franchise Agreement only for cause.
g. "Cause" defined-defaults which can be cured	Sections 16.01, 16.03, 16.04, and 16.05	<p>You have limited time periods to cure various types of defaults: You have 5 days to reopen your facility if you close it when it is required to be open; you have 10 days after notice to cure any failure to pay fees or other sums when due; or if a final judgment against you remains unsatisfied unless bonded against. Except for defaults that allow us to terminate your Franchise Agreement immediately and for those listed above, you will be given 20 days after notice to cure any other defaults under your Franchise Agreement. If in our opinion 20 days are insufficient to cure the default, we will give you additional time to correct the default. If without fault you lose the right to occupy your business location, you can relocate your <i>Fitniks Kids' Club</i> as long as you can reopen within 90 days.</p> <p>If you do not complete the correction of any default within the required time period, we can terminate your Franchise Agreement without further notice.</p>

Provision	Section in Franchise Agreement	Summary
h. "Cause" defined-defaults which cannot be cured	Sections 16.01 & 16.02	Defaults that cause immediate termination include: failure to complete our training course successfully; bankruptcy; mutual agreement to terminate; making a material misrepresentation in the acquisition of the franchise; engaging in conduct that reflects in a materially negative manner on your facility or the <i>Fitniks Kids' Club</i> system; if an owner of the franchise pleads guilty to or is convicted of a felony of any type or other criminal conduct relevant to the franchise; failure to comply with material federal, state or local laws; committing 3 or more defaults in any 12 month period; seizure of your business; failure to satisfy a judgment; understatement of revenues by 5% or more for any period; intentional underreporting of revenues; operation of your facility in a way that results in danger to public health or safety; an attempt to make an unapproved transfer; failure to transfer the interest of a deceased or legally incompetent person within the time allowed; termination of another franchise or other agreement between us because of your default; or if you lose your lease because of your default.
i. Your obligations on termination/ nonrenewal	Sections 16.07-16.12	When your Franchise Agreement ends you must: pay all amounts due to us and our affiliates; stop using the licensed names, marks, symbols and other proprietary property; modify your facility so that it does not look like a <i>Fitniks Kids' Club</i> ; return all manuals and other materials; cancel fictitious business name; notify all suppliers and concerned others that you are no longer a <i>Fitniks Kids' Club</i> franchisee; assign us your telephone number and listing and any Internet names and addresses; not identify yourself as having been associated with us; assign your lease to us if we request; and sell us some or all of your club's assets as we direct. If you breach your agreement we have all other remedies available to us at law and in equity.
j. Assignment of contract by us	Section 15.22	We can transfer the Franchise Agreement without your prior approval. Any transfer we make will not materially interfere with your rights under the Franchise Agreement.
k. Transfer by you-definition	Section 15.01	Any full or partial transfer of the franchise, the property used in your club, or any ownership interest in any entity owning the franchise or the concerned property.
l. Our approval of transfer by you	Section 15.02	We must approve any transfer before it can be completed.

Provision	Section in Franchise Agreement	Summary
m. Conditions for our approval of transfer	Sections 15.03 - 15.15	The proposed transferee must meet our then-current standards; all information on the transferee and the terms of the transfer must be provided to us for approval; you must submit a transfer application; you and your transferee must sign all documents we require; upon the transfer of 50% or more of the ownership of the franchise, a new Franchise Agreement must be signed; your transferee must complete our training course to our satisfaction; you must pay our transfer fee; you must sign a general release of all claims against us and our affiliates; you must guarantee the obligations of your transferee for the remaining term of the Franchise Agreement; you cannot compete with your former <i>Fitniks Kids' Club</i> ; if an entity owns the franchise, a new managing agent may have to be appointed and complete our training course.
n. Our right of first refusal to acquire your business	Sections 15.23 – 15.27	With some exceptions, we can purchase any interest you propose to transfer on the same terms and conditions.
o. Our option to purchase your business	Sections 16.08 - 16.10	When your Franchise Agreement ends, we can purchase such of your business assets as we choose at their fair market value on payment terms set forth in the Franchise Agreement. We can also have you assign your lease to us when your Franchise Agreement ends.
p. Your death or disability	Sections 15.28 – 15.32	Your interest in the franchise and in any entity that owns the franchise is transferable by will or intestate succession upon your death or by your court-appointed guardian if you are declared to be legally incompetent. Your estate can sell your interest in the franchise to an approved transferee within 6 months after your executor or administrator is appointed. All of our other transfer conditions apply unless the transfer is to a spouse or child in which case special provisions apply.
q. Noncompetition covenants during the term of the Franchise	Section 17.01	You cannot have an interest in, be employed by, or help a similar business during the term of your Franchise Agreement.
r. Noncompetition covenants after the franchise is terminated or expires	Sections 16.08 & 17.02	You cannot have an interest in, be employed by, or help a competing business for 2 years after your Franchise Agreement ends within the larger of your development area or 5 miles of any <i>Fitniks Kids' Club</i> . If we take over your lease and facility at the termination or expiration of the Franchise Agreement, we will not enforce this restriction.

Provision	Section in Franchise Agreement	Summary
s. Modification of the agreement	Sections 8.03, & 19.01 - 19.03	The Franchise Agreement can be modified only by a written agreement signed by both of us. We can modify our manuals and all other aspects of the <i>Fitniks Kids' Club</i> system and you must comply with those changes.
t. Integration/ merger clause	Section 34	Commitments, representations, and agreements not contained in the Franchise Agreement, in a signed attachment to it, or in this offering circular are not enforceable.
u. Dispute resolution by arbitration or mediation	Section 18.01	Except for certain types of claims, all disputes between us must first be mediated and, if not settled, referred to arbitration.
v. Choice of forum	Section 18.04	All dispute resolution must be in San Francisco, California.
w. Choice of Law	Section 26.01	With certain exceptions, California law applies. The laws of the state where your facility is located govern the noncompetition provisions and certain other terms.

NOTE: These states have statutes which may supersede the terms of the Franchise Agreement in your relationship with us, including those regarding the termination and the renewal of your franchise: ARKANSAS [Stat. Section 70-807]; CALIFORNIA [Bus. & Prof. Code Sections 20000-20043]; CONNECTICUT [Gen. Stat. Section 42-133e et seq.]; DELAWARE [Code Title 6, Ch. 25, Sections 2551-2556]; HAWAII [Rev. Stat. Section 482E-1]; ILLINOIS [815 ILCS 705/1-44]; INDIANA [Stat. Section 23-2-2.7]; IOWA [Code Sections 523H.1-523H.17]; MICHIGAN [Stat. Section 19.854 (27)]; MINNESOTA [Stat. Section 80C.14]; MISSISSIPPI [Code Section 75-24-51]; MISSOURI [Stat. Section 407.400]; NEBRASKA [Rev. Stat. Section 87-401]; NEW JERSEY [Stat. Section 56:10-1]; SOUTH DAKOTA [Codified Laws Section 37-5A-51]; VIRGINIA [Code 13.1-557-574-13.1-564]; WASHINGTON [Code Section 19.100.180]; WISCONSIN [Stat. Section 135.03]. These and other states may have court decisions that may supersede the Franchise Agreement with us including the terms concerning the termination and renewal of your franchise. *See the state-specific addendum attached as an exhibit to this circular.*

18. PUBLIC FIGURES

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

19. EARNINGS CLAIMS

Neither we nor anyone acting on our behalf is authorized to provide you with any written or oral information concerning your actual or potential sales, receipts, costs, income, profits, earnings, or similar information. Results vary from club to club. We cannot estimate the results of any particular *Fitniks Kids' Club*. You should conduct an independent investigation of the cost and expenses you will incur in operating your *Fitniks Kids' Club*.

20. LIST OF FRANCHISE OUTLETS

We do not have any company owned or franchised *Fitniks Kids' Clubs* as of the date of this circular.

PROJECTED WITHIN 12 MONTHS OF THE DATE OF THIS CIRCULAR

State	Franchise Agreements Signed But Facility Not Yet Open	Projected Franchised New Facilities to be Opened In the Next Fiscal Year	Projected Company-Owned Units to be Opened During the Next Fiscal Year
California	0	2	1
Totals	0	2	1

21. FINANCIAL STATEMENTS

Attached as Exhibit 2 to this circular are our audited financial statements as of June 30, 2006, the date we were capitalized.

22. CONTRACTS

Exhibit A to this circular is a copy of our *Franchise Agreement*. Exhibit B is the *Disclosure and Confidentiality Agreement* that you must sign before we show you our Operations Manuals. Exhibit C is the form of *General Release* we current use. Exhibit D is an *Acknowledgment At Closing*.

23. RECEIPT

The last page of this offering circular contains a detachable Receipt form that you must date, sign, and return to us immediately upon your receipt of this circular.

California Addendum to *Fitniks Kids' Club* Franchise Offering Circular

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

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

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

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

5. Neither the franchisor nor any of the people identified in Item 2 is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a et seq., suspending or expelling such persons from membership in that association or exchange.

6. OUR WEBSITE, www.fitniks.com, HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF CORPORATIONS. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF CORPORATIONS AT www.corp.ca.gov.

Our agent for service of process in California is Donna R. Moore, 3000 Flying C Circle, Cameron Park, CA 95682.

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

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

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

The effective of this Circular in California is: