
ITEM 1
THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES

The Franchisor

Liberty Fitness Holdings, LLC ("**us**", "**our**", or "**we**") is a Delaware limited liability company that was organized on June 9, 2004. We do not conduct business under any other name. We maintain our principal place of business at 1701 Directors Blvd., Suite 110, Austin, Texas 78744; telephone 512-623-3660. Prior to October 1, 2005 our principal business address was 5900 Pasteur Court, Suite 100, Carlsbad, California 92008. We conduct our business under the name and mark "Liberty Fitness Club."

Effective June 24, 2004, we bought certain assets and liabilities of Liberty Fitness, Inc. ("**LFI**") (the "**Acquisition**"). Included among those assets included in the Acquisition were the System (defined below) for the establishment and operation of "Liberty Fitness" Clubs ("**Club(s)**"), all of the outstanding "Liberty Fitness" franchise agreements, as well as the "Liberty Fitness" intellectual property (such as the trademarks and service marks).

We franchise the right to operate a Club, and offer related services and products. We do not conduct any other business activity and we do not offer franchises for any other lines of business.

Our agents for service of process are disclosed in Exhibit "E" to this offering circular.

Our Predecessor and Affiliates

Our predecessor is LFI, a California corporation. LFI conducted its business under its own corporate name and under the name "Liberty Fitness Club" only. LFI offered franchises for the establishment of Clubs. From 2002 to 2004, LFI sold sixty-six franchises for Clubs. LFI did not offer franchises in any other line of business.

From September 2001 until January 2003, Liberty Fitness AV, Inc., an affiliate of LFI, owned and operated a company-owned Club in Aliso Viejo, California. That company-owned center is now closed. Liberty Fitness AV, Inc. did not offer franchises.

Liberty Fitness LC, Inc. ("**La Costa**"), a California corporation, operated a company-owned Club in La Costa, California from June 2002 until November 2005; the Club closed because there was insufficient space at that location to convert the old-style Club into our current format. LFI owned La Costa's stock. We acquired La Costa's stock when we acquired certain of LFI's assets as part of the Acquisition in June 2004.

Our wholly owned subsidiary, Bountiful Springs, LLC, a Texas limited liability company, sells a line of premium dietary supplements to franchisees in the Liberty Fitness system.

No franchises were ever offered by any of our affiliates. Our affiliates' principal place of business is also at 1701 Directors Blvd., Suite 110, Austin, Texas 78744. Our predecessor's principal place of business was at 701 Palomar Airport Road, Suite 150, Carlsbad, CA 92009.

The Franchise Offered

We offer to enter into franchise agreements ("**Franchise Agreements**") with qualified corporations and persons ("**you**") that wish to establish and operate Clubs. (In this offering circular, "**you**" means the person or legal entity with whom we enter into an agreement. The term "**you**" also refers to the direct and indirect owners of a corporation, partnership, limited liability company, or limited liability partnership that signs a Franchise Agreement as the "franchisee"). We may offer qualified candidates the opportunity to sign a development agreement for the development of multiple Clubs (a "**Multi-Unit Agreement**"). We offer Multi-Unit Agreements for the development of 3 Clubs and 6 Clubs. A Multi-Unit Agreement for the development of 3 Clubs is often informally called a "3-Pack Agreement." A Multi-Unit Agreement for the development of 6 Clubs is often informally called a "6-Pack Agreement."

If you sign a Multi-Unit Agreement to establish 3 Clubs, you will not have to pay a separate development fee, but when you sign the Multi-Unit Agreement, you will also sign all 3 Franchise Agreements, and we will reduce by \$3,500 the initial franchise fee for each of the 3 Clubs (your reduced total initial franchise fee for all 3 Clubs will be \$81,300, payable when you sign the Multi-Unit Agreement).

If you sign a Multi-Unit Agreement to establish 6 Clubs, you will not have to pay a development fee, but when you sign the Multi-Unit Agreement, you will also sign all 6 Franchise Agreements, and we will reduce by \$6,500 the initial franchise fee for each of the 6 Clubs (your reduced total initial franchise fee for all 6 Clubs will be \$144,600, payable when you sign the Multi-Unit Agreement).

In all states except Illinois, we also offer an Area Development Agreement ("**ADA**"), which grants the right to develop multiple Liberty Fitness System clubs and serve as our area representative providing services to franchisees in a specified territory. If you sign an ADA you may not sell or negotiate the sale of franchises on our behalf; we will do this ourselves directly. If you sign an ADA you will assist in recruiting and qualifying prospective franchisees, as well as providing support services, regular meetings and guidance to franchisees in your development territory. This ADA provides exclusive rights to a defined territory for a period of time (usually 10 years, with a right of renewal for an additional term of the same length) while the Developer undertakes to establish an agreed upon number of Liberty Fitness System clubs in the territory, adhering to a development schedule. The Developer pays a lump sum of money at the time the ADA is entered, as detailed in Item 5, and receives compensation a portion of the initial franchise fees and royalties generated by Clubs in the development territory. You will find a copy of the form of ADA at Exhibit C. No ADA offering is made in the state of Illinois.

A Club is operated in a building that bears our trade dress (interior, exterior, or both). The Clubs specialize in offering thirty-minute fitness services using adjustable hydraulic strength training and aerobic cardiovascular equipment and exercise programs, and fitness programs primarily directed to women ("**Services**"). Clubs may also offer and sell associated proprietary and private label products and services, if and when those products are developed and prepared for sale in the System (the "**Products**"). We currently offer a line of premium dietary supplements under the "*Bountiful Springs*" trademark.

Clubs are characterized by our system (the "**System**"). Some of the features of our System are our equipment layouts, signage, distinctive interior and exterior design and accessories, Services, Products, exercise equipment, procedures for operations; quality and uniformity of products and services offered; procedures for management and inventory control; training and

assistance; and advertising and promotional programs. We may periodically change and improve parts of the System.

Under a Franchise Agreement, we will grant you the right (and you will accept the obligation) to operate a Club at an agreed-upon specified location (the **"Approved Location"**). A Club will ordinarily be located in strip shopping centers. If you do not have a site for the Club when you sign the Franchise Agreement, you must also sign a site selection addendum (**"Site Selection Addendum"**)(see Exhibit B to the Franchise Agreement) to establish the conditions that will apply to finding a location, subject to our approval.

You must operate your Club in accordance with our standards and procedures, as set out in our Confidential Marketing Manual, Operations Manual, Real Estate & Construction Manual, Start-Up Manual, and Trainer Manual, which, together, we refer to as the "Manuals." You will find the Tables of Contents of these Manuals at Exhibit K. We will lend you a copy of the Manuals for the duration of the Franchise Agreement. We may provide the Manuals to you in paper form, through an extranet, on one or more CD's, or in another format. In addition, we will grant you the right to use our marks, including the mark "Liberty Fitness Club" and "Liberty Fitness" and any other trade names and marks that we designate in writing for use with the System (the **"Proprietary Marks"**).

Industry-Specific Regulations

You must comply with all local, state, and federal laws that apply to your Club operations, including for example health, sanitation, EEOC, OSHA, discrimination, employment, and sexual harassment laws. The Americans with Disability Act of 1990 requires readily accessible accommodation for disabled persons and therefore may affect your building construction, site elements, entrance ramps, doors, seating, bathrooms, drinking facilities, etc. For example, you must obtain real estate permits (for example, zoning), real estate licenses, and operational licenses. You must comply with all applicable federal, state, and local laws and regulations in connection with the operation of your Club. Many states, cities, and counties have laws that regulate fitness center contracts, operations, and licenses, and may require that you make certain guarantees of your financial commitment to customers (such as posting a bond or a standby letter of credit). You should consult with your attorney concerning those and other local laws and ordinances that may affect your Club's operation.

Competition

You can expect to compete in your market with other national fitness chains and local fitness centers. The market for these services is developed and highly competitive. The primary target market for a Club is women.

ITEM 2 BUSINESS EXPERIENCE

The following is a list of directors, principal officers, and other executives who have management responsibility for the operation of our business concerning the franchises described in this offering circular. The principal occupation and business experience of each during the last five years, including the names and location of prior employers, are indicated below.

President, CEO and Member of the Board of Directors: Linda L. Burzynski

Ms. Burzynski has served as our President, Chief Executive Officer and Director since October 2005, and from July 2005 to October 2005 solely as our Chief Executive Officer and Director. Prior to that, Ms. Burzynski served as President, Chief Executive Officer and Director of CM IT Solutions, Inc. in Austin, Texas from August 2000 to December 2003, and solely as its CEO and Director from January 2004 to June 2005. From July 1995 to August 2000, Ms. Burzynski was the President and Chief Operating Officer of Molly Maid, Inc. ("Molly Maid") in Ann Arbor, Michigan, a residential cleaning franchise company with more than 500 franchises throughout the world.

Chairman of the Board of Directors: Daniel M. Kotynski

Mr. Kotynski served as our Chairman and CEO from January 2005 to July 2005, and solely as Chairman of the Board since July 2005. Mr. Kotynski has also been a member of our board of directors since the Acquisition in June 2004. He currently serves as a Managing Partner of Concentric Equity Partners, L.P. in Hinsdale, Illinois, a position he has held since November 2002. Mr. Kotynski was Vice President of Steelcase Inc. in Grand Rapids, Michigan from May 1995 to October 2002.

Member of the Board of Directors: Mark S. Franklin

Mr. Franklin has served as a member of the Board of Directors since July 2005. He served as our President from January 2005 to October 2005. Mr. Franklin served as our Senior Vice President of Sales and Marketing since the Acquisition in July 2004 through January 2005. Mr. Franklin also serves as the President of Process Peak LLC, a position he has held since June 2003 in Dexter, Michigan. Before that, Mr. Franklin was the Vice President of Sales of Service Brands International, in Ann Arbor, Michigan from April 2002 to June 2003. Mr. Franklin was also SuperCoup's Vice President of Sales from March 2001 to April 2002 in Avon, Massachusetts. From April 1998 to April 1999, Mr. Franklin was Door Training International's Vice President of Sales in San Juan Capistrano, California.

Member of the Board of Directors: Justice Sheila Prell Sonenshine

Justice Sheila Prell Sonenshine has served as a member of our board of directors since October 2005. In 1999, Justice Sonenshine co-founded RSM EquiCo, an investment banking firm located in Costa Mesa, California, and held various positions (including Executive Managing Director and CEO of the Capital Markets division) with that company until her retirement from RSM EquiCo in December 2004. Prior to the creation of RSM EquiCo, Justice Sonenshine served as an Associate Justice of the California Court of Appeal, Fourth Appellate District, Division Three, from 1982 until she resigned from the bench in April 1999, a position to which she was appointed by California Governor Jerry Brown.

Vice President of Operations and Support: Lawrence Lerner

Dr. Lerner has served as our Vice President of Operations and Support since September 2004. Dr. Lerner was our Vice President of Franchise Support from the June 2004 Acquisition until September 2004 in Carlsbad, California. Before that, Dr. Lerner served LFI as its Vice President of Sales from January 2003 until the Acquisition in June 2004, also in Carlsbad, California. Larry Lerner has also owned and operated Empire Business Brokers of San Diego, Inc., located in Poway, California, since October 1999.

Member, Board of Directors: Kenneth D. Hooten

Mr. Hooten has been a member of our board of directors since the Acquisition in June 2004. Mr. Hooten also serves as Managing Partner of Concentric Equity Partners in Hinsdale, Illinois since July 2003. Before that, Mr. Hooten was Senior Vice President of Service Master in Downers Grove, Illinois from July 1995 to June 2004.

Founder and Director of Training: Liberty Harper

Liberty Harper, our Founder, has served us since the Acquisition in June 2004 and she served LFI from its inception in September 2001 until the Acquisition. She has also served as our Director of Training since June 2004 and before that, Ms. Harper served LFI as its President and Corporate Trainer, from its inception in September 2001 through June 2004 in Carlsbad, California. Together with her parents and brother, Ms. Harper opened the first Liberty Fitness Club in Aliso Viejo, California on October 1, 2001 and a second Liberty Fitness Club in La Costa, California on June 10, 2002 (through "La Costa," which is described in Item 1 above). Ms. Harper was co-owner and trainer for Curves-Harper Consulting Group from July 1998 to January 2001 in Encinitas, California.

Franchise Development Coordinator: Josh Burzynski

Mr. Burzynski has served as our Franchise Development Coordinator since July 2005. From February 2002 to July 2005 he served as Manufacturing Supervisor – Product Support of the Air Defense Systems Integrator for Ultra Electronics Advanced Tactical Systems, Inc. in Austin, Texas. From September 2000 to February 2002 Mr. Burzynski was Manufacturing Technician of the Air Defense Systems Integrator for Advanced Programming Concepts, Inc. in Austin, Texas.

Franchise Support Coordinator: Jennifer Anderson

Ms. Anderson has served as our Franchise Support Coordinator since May 2005. From September 2004 to May 2005 she was an Independent Yoga Teacher in Los Angeles, California. From August 2001 to September 2004 she served as Associate Director of Education for Bikram's Yoga College of India, International Headquarters located in Los Angeles, California. From July 2000 to August 2001, Ms. Anderson was Director of Yoga Teacher Training Program for the Southwest Institute of the Healing Arts in Scottsdale, Arizona.

Franchise Operations Coordinator: Matt Schankel

Mr. Schankel has served as our Franchise Operations Coordinator since July 2005. From June 2004 to July 2005 he was our Real Estate and Mapping Coordinator. From January 2004 to June 2004 he served as Human Resource Manager for our predecessor Liberty Fitness, Inc. in Carlsbad, California. From June 2001 to February 2004, Mr. Schankel was Restaurant Manager for the Tidewater restaurant located in Del Mar, California. From April 2000 to June 2001 he was a Customer Service Representative for Union Bank of California located in San Diego, California.

Director of Real Estate: Jim Strasburg

Mr. Strasburg has served as our Director of Real Estate since October 2004 in Carlsbad, California. From July 1997 to October 2003 he served as Strategic Real Estate Development – Manager of Real Estate Development in Corporate owned Areas for Mail Boxes Etc. (UPS) located in San Diego, California.

Area Developers

We have appointed 2 Area Developers as of the date of this offering circular. William Monk is our Area Developer for the State of North Carolina; and Richard Camacho and Santiago Pacheco are the Area Developer for Miami-Dade and Broward Counties in Florida. You will find contact and background information on our Area Developers in Exhibit G.

Referral Agents

TES FRANCHISING, LLC.

TES Franchising, LLC. ("The Entrepreneur's Source" or "E-Source") is a Connecticut Limited Liability Company founded in 1984. Its principal place of business is 900 Main Street South, Building 2, Southbury, CT 06488, and its telephone number is (203) 264-2006.

TES Consultants explore options for their clients within a range of business models and franchise opportunities; not for the purpose of discussing the purchase or sale of any franchise. The TES Consultant is not prepared to discuss the purchase or sale of any particular franchise opportunity; those discussions can only take place with the representative of each franchise company. The TES Consultant receives a placement fee from the franchisor upon a successful placement of a TES Client.

Franchise Brokers

We use the following franchise referral broker services to assist in identifying prospective franchisees.

Independent Broker: Wendy Hershey

Wendy Hershey is an independent franchise broker who has been engaged as a broker representing Liberty Fitness since October 2005. From May 2004 to October 2005 she was Director of Franchise Development for Liberty Fitness in Carlsbad, California. From April 2003 to April 2004, Ms. Hershey was Director of Franchise Development for HCX, a franchisor of hair salons based in Ft. Lauderdale, Florida. From January 2002 to March 2003 she was a Consultant with Price Consulting in Houston, Texas; and from January 1993 to December 2001 she was Director of Franchise Development for Carlson Hospitality in Minneapolis, Minnesota.

FranChoice, Inc.

FranChoice, Inc. ("FranChoice") is a Minnesota corporation incorporated on March 10, 2000. Its principal place of business is 6385 Old Shady Oak Road, Suite 290, Eden Prairie, Minnesota 55344, and its telephone number is (952) 942-5561. *(Please see attached Disclosure Addendum, noted as "Attachment A.")*

FranChoice is a franchise referral organization, registered as brokers for selling in the States of Illinois, New York and Washington, and works with 60+ independent franchise consultants located throughout the United States. FranchiseBuyer, LLC, a similar referral network of independent contractors, merged with FranChoice in February 2006, and the resulting organization operates under the FranChoice name. A list of current FranChoice independent

franchise consultants and their biographies is included in Exhibit G. This information is also available by visiting the FranChoice website at: www.FranChoice.com.

ITEM 3

LITIGATION

We are defendants in a lawsuit pending in California state court, captioned *Jeffrey M. Stevens v. Concentric Equity Partners, LP*. (Case No. GIC 845861, filed April 14, 2005 in the San Diego County Superior Court). In this suit, Mr. Stevens, a former executive with our company, makes various accusations concerning the circumstances of his departure from the company as well as his employment by, and investment in, the company. Among other things, Mr. Stevens' complains of breach of contract, common law fraud and deceit, breach of fiduciary duty, breach of the implied covenant of good faith and fair dealing, and intentional interference with his contract. He seeks unspecified damages of over \$1.0 million against our company and against three individuals listed in Item 2, Mr. Kotynski, Mr. Hooten, and Mr. Franklin.

In Exhibit G, we describe certain litigation regarding the brokers listed in Item 2.

Other than the one action listed above (and those actions listed in Exhibit G regarding the brokers listed in Item 2), no litigation is required to be disclosed in this Offering Circular.

ITEM 4

BANKRUPTCY

Neither the franchisor, its affiliates, predecessor, or officers has been involved as a debtor in proceedings under the U.S. Bankruptcy Code required to be disclosed in this Item.

ITEM 5

INITIAL FRANCHISE FEE

Initial Franchise Fee

When you sign the Franchise Agreement, you must pay us an initial franchise fee of \$30,600. The initial franchise fee will be fully earned when paid, must be paid in one lump-sum amount and is not refundable. The initial franchise fee is uniform.

Multiple Unit Fees

If you sign a Multi-Unit Agreement to establish 3 Clubs, you will not have to pay a development fee, but when you sign the Multi-Unit Agreement, you will also sign all 3 Franchise Agreements, and we will reduce by \$3,500 the initial franchise fee for each of the 3 Clubs (your reduced total initial franchise fee for all 3 Clubs will be \$81,300).

If you sign a Multi-Unit Agreement to establish 6 Clubs, you will not have to pay a development fee, but when you sign the Multi-Unit Agreement, you will also sign all 6 Franchise Agreements, and we will reduce by \$6,500 the initial franchise fee for each of the 6 Clubs (your reduced total initial franchise fee for all 6 Clubs will be \$144,600).

You must pay the initial franchise fee for all 3 Clubs (under a 3-Pack Agreement) or all 6 Clubs (under a 6-Pack Agreement) up-front and in lump sum when you sign the Multi-Unit Agreement. The initial franchise fees are not refundable.

Area Development Fee

If you sign an ADA to be appointed as our representative in a defined region, you will pay us an Area Development Fee that will typically range from \$150,000 to \$560,000, depending on the size of your area. We will consider several factors in determining the Area Development Fee for a given area, including the number of Clubs we think may be supported by the markets in the assigned area, the population of the area, and the growth potential of the area. The higher the number of development units and the larger the size of the development territory the higher will be the Area Development Fee within the range cited above. When you establish a franchised club under the ADA you will sign a unit Franchise Agreement for each Liberty Fitness club. The Area Development Fee will include the initial franchise fees of the clubs you agree to develop. The ADA is not offered in Illinois.

Equipment

You must also pay us \$13,982 to buy exercise equipment for your Club. For your first Club, this amount will be due when you sign your franchise agreement. If you sign a Multi-Unit Agreement, you will pay for the exercise equipment for the first Club when you sign the Multi-Unit Agreement, and for each remaining Club, you will pay us for the equipment (currently, the cost is \$13,982) not later than 45 days before each Club is scheduled to open.

ITEM 6 OTHER FEES

(Please review this table in conjunction with all of the notes that follow.)

Name of Fee	Amount	Date Due	Remarks
See Note 1			
Royalty Fee (comprised of both the Membership Royalty Fee and the Overall Royalty Fee)	The Membership Royalty Fee is 5% of Membership Revenues. See Note 2.	Payable monthly, on or before the tenth day of each month, based on the prior month's sales.	Your Membership Royalty Fee each month will be at least \$495 but not more than \$795. See Note 4.
Overall Royalty Fee	Up to 10% of Non-Membership Revenues. See Note 3.	Payable monthly, on or before the tenth day of each month, based on the prior month's sales.	You must provide us a monthly spread sheet detailing all sources of the Club's revenue.

Name of Fee See Note 1	Amount	Date Due	Remarks
Advertising Contribution See Note 5.	At least \$1,500 per month	Due on or before the tenth day of each month.	Each month, your Advertising Contribution will be at least \$1,500. Of that amount, you will contribute not more than \$300 to the Advertising Fund and to any Regional Ad Fund. This restriction will apply until there are 500 or more Clubs in the US. (Note 5) If we form a "Regional Ad Fund" for your area, you must join that regional ad fund. At present, there are no regional ad funds.
Grand Opening Advertising	\$7,500	You must spend this amount in the first month after opening a Club	For the first month after opening a Club, and in place of the Advertising Contribution for that month, you must spend at least \$7,500, with our designated consultant, on local advertising and promotion conducted in conjunction with the Club's initial grand opening.
Additional Grand Opening Assistance (if you request)	\$750 per day, plus all other expenses we incur in connection with such assistance.	Upon demand	We will provide a representative to be present for 2 days at the time of the opening of your Club. If you request additional assistance, subject to space availability, we will provide additional on-site pre-opening and opening supervision and assistance for a fee.

Name of Fee See Note 1	Amount	Date Due	Remarks
Transfer Fee	\$5,000 under the Franchise Agreement (possibly an additional \$2,500 under the Multi-Unit Agreement)	At time of transfer	Payable if you sell your franchise, your company, or an indirect interest in your company. With respect to a Multi-Unit Agreement, you will only incur a transfer fee if, at the time of the transfer, you have not yet established and opened your 3 (or 6) Clubs.
Transfer Fee – ADA	\$15,000	At the time you transfer rights under the ADA	The ADA is not offered in Illinois.
Interest on Overdue Payments	1.5% per month on the underpayment See Note 6	Upon demand	Payable only on overdue amounts, from the date when originally due.
Costs and Attorneys' Fees	Will vary under circumstances	Upon demand	You must reimburse us for any costs (including attorney's fees) that we incur defending any claims relating to your operation of the Club.

Name of Fee See Note 1	Amount	Date Due	Remarks
Audit Costs	Will vary, but if you have to reimburse us, it will be for our out-of-pocket costs and expenses associated with the audit, such as reasonable accounting and legal costs; as well as interest on the underpayment. See Note 6.	Upon demand	Payable only if we audit because you did not submit sales statements or keep books and records, or if you underreport sales by 2% or more. See Note 6.
Indemnification	Will vary under circumstances	As incurred	Note 7
Supplier Testing	Will vary under circumstances. See Note 8.	As incurred	If you want to buy products from an unapproved supplier, and we wish to inspect and test that proposed supplier's products, you (or the proposed supplier) may have to reimburse us for the out-of-pocket costs that we incur in hiring a third party to inspect the proposed supplier.
Securities Offering Fee	\$5,000 or our actual expenses, whichever is greater.	Upon demand	If you engage in a securities offering, you must reimburse us for our reasonable costs and expenses (including legal and accounting fees) to evaluate your proposed offering and you also must indemnify us (see above).
Additional persons training	\$750 - \$1,000	Upon demand	See Note 9.
Replacement personnel training fee	\$750 - \$1,000	Upon demand	See Note 10. Please also note that this fee may be adjusted according to changes in the Index. (See Note 4.)

Name of Fee See Note 1	Amount	Date Due	Remarks
Web-based employee training	Not presently charged.	As incurred	In the future, we may require you to enroll each of your employees in our web-based training program.
Additional Training programs	Up to \$750 per person.	Upon demand	We may periodically require you and your Club Manager to attend training programs for which we will charge a per person fee for attendance. This fee may be adjusted according to changes in the Index. (See Note 4.) We may also charge a fee for attendance at a franchise convention in an amount to be determined.
Renovation and Modernization Costs	Up to \$15,000	As incurred	One of the conditions you must meet in order to renew your Franchise Agreement is that you renovate and modernize your Club. You will not pay this amount to us, but you will incur this cost.
Upgrade of Exercise Equipment		As incurred	One of the conditions to renew your franchise agreement is to upgrade your exercise equipment to comply with our then- current standards in effect for new Clubs.

Notes to Item 6 Table:

1. All fees are non-refundable.
2. "Membership Revenues" means all revenue from the sale of memberships or similar rights to use the Club's facilities, and any ongoing, upgrade, and renewal fees, whether for cash, credit or otherwise (and regardless of collection in the case of credit). Membership Revenues exclude, however, sales or other taxes that you collect from customers and actually transmit to the appropriate taxing authorities.
3. "Non-Membership Revenues" means all revenue from the sale of all services and products and all other income of every kind and nature related to the Club, including to proceeds of

any business interruption insurance policies, whether for cash, credit or otherwise (and regardless of collection in the case of credit). Non-Membership Revenues exclude:

(a) Membership Revenues; (b) sales or other taxes that you collect from customers and actually transmit to the appropriate taxing authorities, and (c) other revenues we designate as being excluded from Non-Membership Revenues. Currently, we have designated as excluded from Non-Membership Revenues all sales revenues from the sale of the product from approved supplier Viscent, LLC known as "Green Tea Fiber Advantage." The term "Gross Revenues" means Non-Membership Revenues and Gross Revenues, combined.

4. The maximum and minimum fixed dollar amounts are subject to adjustment, up or down, depending on changes in the Index. The term "Index" means the Consumer Price Index (1982-84=100: all items; CPI-U; all urban consumers) published by the U.S. Bureau of Statistics (or if the Index is no longer published, a successor index that we reasonably specify in the Manuals or otherwise in writing). We will not make adjustments to fixed dollar amounts more than once a year and we will not make any adjustment at all until at least two years when date you sign the Franchise Agreement.
5. The Advertising Contribution is paid to the Advertising Fund, or to any Regional Ad Fund, or spent by you on local advertising and promotion. (For more details on the Advertising Fund and Regional Ad Fund, please refer to Item 11).

Even though the Franchise Agreement requires a maximum combined contribution of \$300/month to the Advertising Fund and any Regional Ad Fund (until there are at least 500 Clubs in the Liberty Fitness system), our current policies modify this requirement as follows: Your contribution will be \$150/month for the first 6 months of 2006, and \$200/month for the latter 6 months of 2006. Beginning January 2007, your contribution will be \$300/month, as stated in the Franchise Agreement (see Section 10.3 of the Franchise Agreement).

Company-owned Clubs, if any, in your area will vote in the same manner and proportion (one vote per Club) as franchisees when it comes to matters (including fees) involving a Regional Ad Fund.

In addition to the Advertising Contribution, we may require you to contribute funds to certain charitable organizations that as we may periodically designate and we may determine that these contributions constitute "local advertising and promotion" and is therefore subject to the restrictions described in Item 11 of this offering circular. Currently, however, we do not require you to contribute to any charitable organizations.

6. Interest starts to accrue when your payment was initially due. Interest rates will not exceed any maximum rate permitted by law.

If we conduct an audit for which you must reimburse us, we will ask you to reimburse us only for our out-of-pocket costs (such as accounting and legal fees), as well as interest. While audit costs are typically expected to be in the range of \$2,000 to \$10,000, we cannot estimate the audit expenses that we might incur (and that you might have to reimburse us for), since these costs will vary, for example, depending upon how you keep your books and records, how much work our accountants must do to find and go through your books, and the degree to which you cooperate with the auditors.

7. You must indemnify us, and reimburse us for our costs (including our attorneys' fees), if we are sued or held liable in any case: (a) having anything to do with any securities offering you make; (b) your use of the marks (in a manner other than as we approve); and (c) that has anything to do with a claim arising out of the operation of your Club.
8. If you want to buy products or services from an unapproved supplier, and we wish to inspect and test that proposed supplier's products or services, you (or the proposed supplier) may have to reimburse us for our out-of-pocket costs in hiring a third party to inspect the proposed supplier. While the cost of conducting these tests is typically expected to be in the range of \$2,000 to \$10,000, the costs may be higher if the product being tested is to be ingested by a customer (for example, a vitamin tablet) or if it is a service (for example, providing acupuncture) that requires us to engage in special testing of the proposed supplier.
9. We do not charge a fee for initial training of your personnel up to two persons. If you want us to train additional persons, subject to space availability, we will do so, and a charge fee will apply, per person, to all additional persons that you want trained in our basic training program. This fee is subject to adjustment, up or down, depending on changes in the Index (see Note 4). See Item 11 for details regarding training.
10. This fee will apply, per person, for all replacement personnel that we train. This fee is subject to adjustment, up or down, depending on changes in the Index (see Note 4). See Item 11 for details regarding training.

ITEM 7

INITIAL INVESTMENT

The following table represents the initial investment for a single Club. Please review this table and the notes that follow.

Item	Estimated Cost (Low-High Range)	Method of Payment	When Due	To Whom Payment is Made
Initial franchise fee and expenses (Note 1)	\$30,600	Lump Sum	Upon signing the Franchise Agreement	Us
Real Property (Note 2)	\$4,000 to \$10,000	Monthly, Non-Refundable	As Arranged	Lessor
Plans and Improvements/Construction Costs (Note 3)	\$27,000 to \$40,000	Progress Payments	As Arranged	Vendors, Suppliers, Landlord
Furniture, Equipment and Software	\$9,333 to \$13,132	As Arranged	As Incurred	Vendors, Suppliers
Fitness Equipment (Note 5)	\$13,982	As Arranged	As Incurred	Us
Initial Inventory of Spare Parts and Shipping (Note 6)	\$1733 to \$5,288	As Arranged	As Incurred	Vendors, Suppliers
Supplies (Note 7)	\$200 to \$500	As Arranged	As Incurred	Vendors, Suppliers

Item	Estimated Cost (Low-High Range)	Method of Payment	When Due	To Whom Payment is Made
Grand Opening Advertising (Note 8)	\$7,500	As Incurred	As Incurred	Vendors
Insurance (Note 9)	\$1,200 to \$1,500	As Arranged	As Arranged	Insurance Providers
Initial Training (Note 10)	\$1,050 to \$2,600	As Arranged	As Incurred	Suppliers of transportation, food and lodging
Business Licenses (Note 11)	\$20 to \$3,000	As Incurred	As Incurred	Government Agencies
Utility Deposits (Note 12)	\$100 to \$1,270	Lump Sum	As Incurred	Utility Companies
Professional Fees (Note 13)	\$1,000 to \$3,500	As Incurred	As Arranged	Service Providers
Additional Funds (Note 13) (3 Months)	\$8,500 to \$26,000	As Arranged	As Incurred	Various Payees
Total	\$106,218 to \$159,372			

Notes to Item 7 Chart:

The following notes are intended to be read with the chart above.

Please note that we do not offer direct or indirect financing to you for any items. The availability and terms of financing from other sources will likely depend on factors such as the availability of financing generally, your creditworthiness, your business operations, and lending institutions' policies. If you sign a Multi-Unit Agreement, you will develop either 3 or 6 Clubs, and as a result you will incur 3 or 6 times the estimated cost of one Club (less the reduction in initial franchise fee that is explained in Note 1 below).

Except as described below, all fees and amounts that you must pay to us are non-refundable. For any amounts paid to third parties, the availability and conditions under which you may obtain refunds will depend on the terms offered by those third party suppliers.

1. **INITIAL FRANCHISE FEE.** These amounts are discussed in detail in Item 5. You must pay the initial franchise fee upon signing the Franchise Agreement. If you have also signed a Multi-Unit Agreement, you will not pay a development fee, but you will sign your 3 or 6 Franchise Agreements at the same time and we will reduce the initial franchise fee for each Club to be opened under the 3-Pack Agreement by \$3,500 (your total initial franchise fee for all 3 Clubs will be \$81,300) and under the 6-Pack Agreement by \$6,500 (your total initial franchise fee for all 6 Clubs will be \$144,600). The reduced franchise fees will be paid when you sign your Multi-Unit Agreement, and there will be no separate development fee. The initial franchise fee is not refundable.

2. **REAL ESTATE AND IMPROVEMENTS.** You will need approximately 2,000 square feet for the Club. The cost per square foot of purchasing or leasing commercial space varies considerably depending upon the location and market conditions affecting commercial property. Our estimate assumes that the cost of leasing 2,000 square feet of commercial space will range from \$10 to \$30 per square foot. The estimate provided assumes that you will pay a security deposit equal to one months' rent and one months' rent (pre-opening), for a total of two months' rent. The estimate for 3 months' rent (after opening) is included in the estimate for Additional Funds (see Note 13 below). If you rent a larger facility or pay a high per-square-foot charge, you will incur a greater cost.

If you decide to purchase the property for the location of your Club, you will incur additional costs that we cannot estimate.

3. **PLANS AND CONSTRUCTION.** You will need to construct improvements, or "build out," the premises at which you will operate the Club. Generally, you will take the premises in "vanilla box" condition (e.g., primed drywall ready to be painted, but without improvements). Among other things, you will probably need to arrange for proper wiring and plumbing, signs, floor covering, wall covering, partitions, heat, air conditioning, lighting, storefront modifications, painting, cabinetry, bathroom facilities, and the like. You may need to hire an architect and licensed builder. The estimate in the chart is before any landlord allowances for improvements or free months of rent.

4. **FURNITURE EQUIPMENT and SOFTWARE.** You must buy furniture and other miscellaneous items according to our specifications. This includes furniture (\$4,605 - \$5,800), computer (\$1,000 - \$2,500), poster (\$472 - \$721), Polar BodyAge Fitness Assessment Software (\$1,870), and stereo equipment (\$1,385.52 - 2,240.52). For more details on the required Computer System, please refer to Item 11. You may also purchase other, optional items of equipment, including hydro-message, infrared sauna, the Polar BodyAge System equipment, and approved cardio-vascular equipment. These optional purchases are not reflected in the equipment expenses range quoted in the Item 7 table.

5. **FITNESS EQUIPMENT.** Fitness equipment includes 11 pieces of hydraulic equipment, 11 running squares, and a Precor stretch trainer. Payment for your exercise equipment for your Club will be due when you sign your franchise agreement. If you sign a Multi-Unit Agreement, payment for the exercise equipment for your first Club will be due when you sign the Multi-Unit Agreement, and payment for the equipment for the remaining Clubs will be due to us not later than 45 days before each Club is scheduled to open.

6. **INITIAL INVENTORY OF SPARE PARTS AND SHIPPING.** In addition you will have to pay separately for: shipping, crating, sales tax (if applicable), and an initial spare parts kit. The estimates includes the following costs: shipping (\$465-\$3,050), sales tax on the equipment (\$970), initial spare parts kit (\$1,068), and crating (\$200). The estimate for the sales tax is for California at the rate of 7.75%. The estimate for the initial spare parts kit includes the sales tax. Shipping will vary considerably based on destination; the range given is based on a sample average for different parts of the country.

7. **SUPPLIES.** This estimate includes any supplies or materials you deem necessary to operate efficiently, such as any forms, writing material, writing utensils, posters, weight information devices, etc.

8. **ADVERTISING.** For the first month after opening a Club, and instead of the Advertising Contribution for that month, you must spend at least \$7,500 with our designated grand opening

consultant, Impact Marketing Services, on local advertising and promotion conducted in conjunction with the Club's initial grand opening. The \$7,500 figure includes all fees for the professional services from Impact Marketing Services; approximately 90% of this required expense will directly purchase advertising and promotion for your Club. Advertising will include direct mail, flyers, newspapers, and door hangers. Promotional items include shirts, water bottles, and gym bags. See Item 11 for more information.

9. **INSURANCE.** The estimate is for the premiums that you will have to pay for your first half's coverage. Your obligations with respect to insurance are more fully described in Item 8.

10. **TRAINING EXPENSES.** The estimate is for two persons attending the initial training. The cost you incur will vary depending upon factors such as the distance traveled, mode of transportation, meals, lodging, other miscellaneous expenses, and the number of persons who will attend training. As described more fully in Item 11, you may send more than two persons to attend training, subject to space availability and a training fee of \$750 per person. If you send more than two persons to attend training, you will incur additional out-of-pocket costs in the range of \$1,250 to \$2,050 per person.

11. **BUSINESS LICENSES:** You must register your business with the local, city or county along with a fictitious name and other requirements of your local or state government. You must obtain, among others, the following business licenses: certificate of occupancy, fire safety permit, business permit. Local, municipal, county, and state regulations vary on what licenses and permits you will need in order to operate. Licenses and permits fees are paid to governmental authorities before starting business.

12. **SECURITY DEPOSITS:** You will need to pay deposits for the utility services. Our estimate assumes that you will pay a deposit for telephone (\$0-\$120), electricity (\$100-\$1,000), water (\$0-\$150).

13. **PROFESSIONAL FEES.** The estimate is for legal, accounting, administrative, traffic studies, demographic studies, and miscellaneous other professional fees that you may incur before you open for business, including (among other things) to assist you in reviewing the Franchise Agreement. Your actual costs may vary, for example, depending on the degree to which you rely upon your advisors, and the rates that they charge.

14. **ADDITIONAL FUNDS.** We recommend that you have additional funds available during the start-up phase of your franchise. These amounts are our estimates of the amount needed to cover your expenses for a 3-month period from the date you open for business. These figures are only estimates and we cannot assure you that you will not have additional expenses starting your franchise. These figures do not include sums necessary for living or personal expenses nor payments for your debt service. These figures include estimated employees' salaries (and range from a low assuming that you will work at the Club with one part-time hourly employee to supplement your efforts, to a high assuming that you will hire a manager to run your Club). This estimate also assumes 3-months' rent (after opening), based on the factors listed in Note 2 above. This is only an estimate, however, and there is no assurance that additional working capital will not be necessary during this start-up phase or after. Our estimate is based on information received from our franchisees, our own experience, and estimates prepared by our marketing department estimates.

The figures in the chart and the explanatory notes are only estimates. Your actual costs may vary considerably, depending, for example, on factors such as local economic conditions; the local market for the Club; the prevailing wage rate; competition; the sales level achieved during

the initial period of operation; as well as your management and training experience, skill, and business acumen.

ITEM 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

General

To insure that the highest degree of quality and service is maintained, you must operate the Club in strict conformity with the methods, standards, and specifications that we may require in the Manuals or otherwise in writing.

In operating your Club, you must meet the following requirements (among others):

- You must maintain in sufficient supply, and use and sell, only those items, products, materials, supplies, and paper goods that meet our written standards and specifications;
- You may not use or offer any non-conforming items without our specific prior written consent.
- You may only offer or sell items, products, and services that we have expressly approved for sale in writing.
- You must offer and sell all the services and products (using the methods, standards and techniques) that we specify.
- You may not make any changes to the items offered at the Club without our prior written approval.
- You may not deviate from our standards and specifications without our prior written consent.
- You must stop offering and selling any products or services of which we disapprove (even if we previously had approved them).
- If you propose to deviate (or you do depart from) our standards and specifications, whether or not we have approved the deviation, the deviation will become our property.
- You will have sole discretion as to the prices to be charged to customers for products and services; but, if we have established a maximum price on a particular product or service, you may charge any price for that product or service but only up to and including the maximum price that we established.

Approved Suppliers

You must purchase and install, at your expense, all fixtures, furnishings, equipment, decor, and signs as we specify; and to refrain from installing or permitting to be installed on or about the Club premises, without our prior written consent, any fixtures, furnishings, equipment, decor, signs, or other items not previously approved as meeting our standards and specifications.

You must purchase all exercise equipment,* other equipment, supplies, materials, and other products used or offered for sale at the Club solely from suppliers (including manufacturers, distributors, and other sources) who demonstrate, to our continuing reasonable satisfaction, the ability to meet our then-current standards and specifications for those items; who possess adequate quality controls and capacity to supply your needs promptly and reliably; whose approval would enable the System, in our sole opinion, to take advantage of marketplace

efficiencies; and who we have been approved in writing before you may any purchases from that supplier (and so long as we have not later disapproved the supplier). (* - We are the only supplier, however, of "Liberty Fitness" brand, hydraulic exercise equipment and "Bountiful Springs™" brand dietary supplements to franchisees in the System.)

You are required to purchase the Polar Electro BodyAge Software directly from Polar Electro. This software may be used in your Club to provide a fitness and lifestyle evaluation of clients of the Club. The current cost of this software is \$1,870. This software is new to the Liberty Fitness program, and has been in continuous use in our system since March 2006. Polar Electro is one of the world's leading manufacturers of sports instruments, heart rate monitors and fitness evaluation equipment. In the United States, the company's contact information is as follows:

Polar Electro Inc.
1111 Marcus Avenue
Suite M15
Lake Success, NY 11042-1034

Contact: Sandy Neil, Ext. 3044 or Don Moxley
Phone: (800) 290-6330
Web site: <http://www.polarusa.com>

Polar Electro does not have a contractual obligation to provide ongoing maintenance, repairs, upgrades or updates of its software, although Polar Electro does provide support for its software customers for the first year of ownership for no charge. After the conclusion of the first year the company assesses a reasonable fee for its software support services.

We estimate that the purchase of all required exercise equipment, other equipment, supplies, materials, and other products used or offered for sale at the Club according to our standards and specifications will account for approximately 23% to 28% of the cost to establish a Club and approximately 1.6% to 4.4% of your total operating expenses. We derive revenue from your initial purchase of the hydraulic exercise equipment and your purchase of *Bountiful Springs™* dietary supplements. In 2005, our total revenues derived from these purchases of our hydraulic exercise equipment was \$84,000. This revenue was a pass-through at cost expense paid to the equipment manufacturer on which we made no profit.

Other than for hydraulic exercise equipment and *Bountiful Springs™* products, neither we nor our affiliates are approved suppliers or the sole approved suppliers for any categories of goods and services. We are the only supplier of hydraulic exercise equipment and *Bountiful Springs™* products to franchisees in the System.

If you wish to purchase any products (other than exercise equipment) from an unapproved supplier, you must submit to us a written request for our approval. You must not purchase from any supplier until, and unless, the supplier has been approved in writing by us. You will receive notification of supplier approval or disapproval within ninety days after we receive your written request for our approval as well as the other information we reasonably request in order to evaluate the proposed supplier. We will have the right to require that our representatives be permitted to inspect the supplier's facilities and that samples from the supplier be delivered either to us or to an independent laboratory that we designate for testing. You or the supplier will have to pay a charge not to exceed the reasonable cost of the inspection and the actual cost of the test. We may also require that the supplier comply with other requirements that we may

deem appropriate (which may include payment to us or our designee of reasonable continuing inspection fees and administrative costs, as well as license fees). We reserve the right, at our option, to re-inspect periodically the facilities and products of any approved supplier and to revoke its approval upon the supplier's failure to continue to meet any of our then-current criteria. We will not be required to approve any particular supplier. We make available to prospective suppliers the standards and specifications that we deem to be confidential on a case-by-case basis and in appropriate detail for the proposed items.

Computer System

We do not use a proprietary Computer System in our System. You must, however, use a Computer System that meets our standards and specifications. As part of the Computer System, you will have to use the Fusion3 software or any other software that we may specify from time to time. The Computer System and our standards and specifications regarding the Computer System are described in more detail in Item 11.

Advertising

You may not use any advertising or promotional plans that we have not approved in writing. To obtain approval, you must send to us all proposed advertising plans and samples of proposed advertising materials. You are not required to obtain our approval of the prices you intend to charge. We will ordinarily provide you with our response (approval or disapproval) within 15 days; but if we do not give our approval within 15 days, we will have disapproved the proposed plans or materials. For more details on Advertising, please see Item 11.

Insurance

Under the Franchise Agreement, you must obtain and maintain the following insurance: (a) comprehensive general liability insurance (including without limitation personal injury and property damage coverage), on an occurrence form, with a combined single limit of at least \$1,000,000 for both bodily injury and property damage; (b) business automobile liability insurance with limits of liability not less than \$1,000,000 per occurrence for both bodily injury and property damage; (c) statutory workers' compensation insurance and employer's liability insurance for a minimum limit of at least \$100,000 or the statutory minimum (whichever is greater); (d) Commercial umbrella liability insurance with limits which bring the total of all primary underlying coverages (comprehensive general liability, business auto liability, employers liability and liquor liability) to not less than \$1,000,000 total limit of liability; (e) property insurance providing coverage for direct physical loss or damage to real and personal property for all-risk perils; (f) appropriate coverage must also be provided for business interruption and extra expense exposures. The policy or policies must value property (real and personal) on a new replacement cost basis without deduction for depreciation and the amount of insurance must be at least ninety percent of the Club's full replacement value, plus that of its furniture, fixtures, equipment, and stock (real and personal property). Any deductibles contained in the policy will be subject to our review and approval.

Your insurance policy must be issued by an issuer we approve, must have a current Best's rating of at least A-IX, must be licensed to do business in the state in which the Club is located. All public liability and property damage policies must name us as additional insureds and must provide that each policy is can not be canceled without giving us sixty days' prior written notice. You must deliver to us a certificate of insurance showing that all required insurance is in full force and effect.

* * *

We receive revenue from the purchase of hydraulic exercise equipment; our subsidiary Bountiful Springs, LLC receives revenue when you purchase dietary supplements from it; and we receive a 15% commission payment from approved supplier Viscent, LLC for purchases of its "Green Tea and Fiber Advantage" drink mix products. We do not include your sales of Viscent "Green Tea and Fiber Advantage" drink mix products when calculating Non-Membership Revenues. Except as noted, neither we nor our affiliates receive revenue from suppliers based on franchisee purchases from those suppliers, including commissions, rebates, or reduced prices for merchandise that we (or our affiliates) buy from the supplier, but we reserve the right to do so in the future.

We currently negotiate purchase arrangements with suppliers for the benefit of our franchisees by which we can reduce the price for products and services used by our franchisees in the operation of Liberty Fitness Clubs. We do not provide material benefits to a franchisee based on a franchisee's use of designated or approved sources, and you will not receive any material benefits for using designated or approved sources. There are no purchasing or distribution cooperatives.

Except as specified here, you are not required to purchase any other goods or services in accordance with our specifications or from approved suppliers.

ITEM 9

FRANCHISEE'S OBLIGATIONS

THESE TWO TABLES LIST YOUR PRINCIPAL OBLIGATIONS UNDER THE FRANCHISE AND OTHER AGREEMENTS. IT WILL HELP YOU FIND MORE DETAILED INFORMATION ABOUT YOUR OBLIGATIONS IN THESE AGREEMENTS AND IN OTHER ITEMS OF THIS OFFERING CIRCULAR.

Obligation	Section in Franchise Agreement	Section in Multi-Unit Agreement	Item in Offering Circular
a. Site selection and acquisition/lease	§§ 1.2 3.2, and 5.1; Site Selection Addendum §§ 1, 5 and 6	§ 3.2	11
b. Pre-opening purchases/leases	§ 5.13, 11.1	None	5, 7 8
c. Site development and other pre-opening requirements	§§ 5.3, 5.5, 5.6	§§ 1.1.1, 1.1.2, 3.3,	8 and 11
d. Initial and ongoing training	§§ 3.1, 5.6, and 13.5.7	§ 5.2.5	11
e. Opening	§5.4, 5.5 5.6	None	11
f. Fees	§ 4, 9.4, 10.2,	§ 2	5 and 6
g. Compliance with standards and policies/Manuals	§§1 .6, 5.2, 5.7, 5.9, 5.10, 7, 11, 19	§ 5.2.3	8, 11, and 14
h. Trademarks and proprietary information	§§ 6, 8, 15.2, and 15.3	§§ 1.3, 1.4	13 and 14
i. Restrictions on products/services offered	§ 1.4	None	8 and 16

Obligation	Section in Franchise Agreement	Section in Multi-Unit Agreement	Item in Offering Circular
j. Warranty and customer service requirements	§ 5.8	None	None
k. Territorial development	§§ 1.3, 1.6	§ 3	12
l. Ongoing product/service purchases	§§ 5.12, 5.13, 5.14.	None	8
m. Maintenance, appearance and remodeling requirements	§§ 5.11, 11.1.4	None	8
n. Insurance	§ 12	None	7 and 11
o. Advertising	§§ 5.15, 10, 11.6	None	6, 7 and 11
p. Indemnification	§§ 12.5, 13.12, 18	§§ 7.12, 11	None
q. Owner's participation/management/staffing	§ 5.8	§§ 5.2.5, 8.1	15
r. Records/reports	§§ 5 and 9	§ 9	6
s. Inspection/audits	§§ 3.13, 5.16,	None	6 and 11
t. Transfer	§ 13	§ 7	17
u. Renewal	§ 2.2	None	17
v. Post-termination obligations	§ 15	§ 6.5	17
w. Non-competition covenants	§ 16	§ 8	17
x. Dispute resolution	§ 24	§ 15	17
y. Taxes/permits	§ 17	§ 12	1

Obligation	Section in Area Development Agreement	Item in Offering Circular
a. Site selection and acquisition/lease	N/A	Item 11
b. Pre-opening purchases/leases	N/A	Items 5,7, and 8
c. Site development and other pre-opening requirements	N/A	Items 6, 7 and 11
d. Initial and ongoing training	N/A	Item 11
e. Opening	N/A	Item 11
f. Fees	§ 11	Items 5 and 6

Obligation	Section in Area Development Agreement	Item in Offering Circular
g. Compliance with standards and policies/Manuals	N/A	Item 11
h. Trademarks and proprietary information	§ I.D	Items 13 and 14
i. Restrictions on products/services offered	N/A	Items 8 and 16
j. Warranty and customer service requirements	N/A	Item 11
k. Territorial development and sales quotas	§ I	Item 12
l. Ongoing product/service purchases	N/A	Item 8
m. Maintenance, appearance and remodeling requirements	N/A	Item 8
n. Insurance	N/A	Items 7 and 11
o. Advertising	N/A	Items 6, 7 and 11
p. Indemnification	§ X.C	Item 6
q. Owner's participation/management/staffing	N/A	Items 11 and 15
r. Records and reports	N/A	Item 6
s. Inspections and audits	N/A	Item 6 and 11
t. Transfer	§ VII	Item 17
u. Renewal	§ IV	Item 17
v. Post-termination obligations	§§ VI.D and VIII	Item 17
w. Non-competition covenants	§ VIII	Item 17
x. Dispute resolution	§ XIII.A	Item 17

ITEM 10 **FINANCING**

We do not offer direct or indirect financing. We will not guarantee your notes, lease, or other obligations.

ITEM 11 **FRANCHISOR'S OBLIGATIONS**

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

Pre-opening Obligations

Site Selection Addendum. If you do not have a site for the Club at the time you sign the Franchise Agreement, you must sign a Site Selection Addendum, under which we are obligated to provide you with:

1. Site selection guidelines including our minimum standards, for a location for the Club within an area described in the Site Selection Addendum, and site selection counseling and assistance that we may deem advisable (Site Selection Addendum Sections 1 and 6.a.).
2. On-site evaluation that we may deem advisable in response to your requests for site approval; except that we will not provide on-site evaluation for any proposed site before the receipt of the required completed site approval form from you (Site Selection Addendum, Section 6.b.).

Franchise Agreement. Under the Franchise Agreement, before the Club opens, we will provide the following assistance and service to you:

1. If you will occupy the premises from which the Club is conducted under a lease or sublease, we will provide you with written approval of the lease. Our approval is conditioned upon the inclusion of a form lease rider prescribed by us. (Franchise Agreement, Section 5.1).
2. We will provide you with preliminary plans and specifications for site improvement and construction of the Club based upon prototype design and image specifications. These standard specifications will not necessarily meet the requirements of any federal, state or local law, code or regulation (such as those concerning the American with Disabilities Act ("ADA") or similar rules governing public accommodations or commercial facilities for persons with disabilities). Additionally, these standard specifications may not meet the requirements for (and they should not be used for) construction drawing or other documents that you may need to obtain permits or authorization to build your Club. You must adapt, at your expense, the standard plans and specifications to suit your Club location, subject to our approval. We will notify you of our written consent or disapproval of your proposed location within 14 days after we have received all the requested information about the proposed location. (Franchise Agreement, Sections 3.2 and 5.3).

3. We will send a representative to be present for two days at the time of the opening of your Club. We will also provide additional on-site pre-opening and opening supervision and assistance to the extent we deem it advisable to do so. If we cannot provide our representative on the date that you propose to first open the Club for business, then you must reschedule your opening to a date on which our representative can attend. (Franchise Agreement, Sections 3.3 and 5.5).
4. We will inspect (either in person or through the use of digital pictures) and approve the Club for opening before the opening of the Club. You may not start operating the Club until you receive our approval to do so. (Franchise Agreement, Section 3.8).
5. We will train you (or, if you are an entity, one of your principals or a senior management employee you designate to supervise the Club's operation, who we have previously approved (the "**Designated Principal**"), and your full-time store manager of the Club (the "**Club Manager**") at a location that we designate. (Franchise Agreement, Sections 3.1 and 5.6).
6. We will lend you one copy of the confidential manuals (the "Manuals"). We may provide the Manuals to you in paper form, through an extranet, on one or more CD's, or in another format. (Franchise Agreement, Section 3.4).
7. We will provide you with a written list of equipment and suppliers of the materials that are needed to open your Club. (Franchise Agreement, Section 3.11).
8. We will help you develop and conduct a grand opening advertising program, which you will conduct at your expense. (Franchise Agreement, Section 10.9).

Multi-Unit Agreements. Before you open your first Club, we will:

1. Furnish site selection guidelines, including our minimum standards for a location for the Club, and the site selection counseling and assistance that we may deem advisable. (Multi-Unit Agreement, Section 5.1)
2. Provide the on-site evaluation that we deem advisable in response to your request for site approval. However, we will not provide on-site evaluation for any proposed site before the receipt of all information required with respect to a proposed site under the Site Selection Addendum. (Multi-Unit Agreement, Section 5.2)

We are not required by the Franchise Agreement or the Multi-Unit Agreement to furnish any other service or assistance to you before the opening of your Club.

Continuing Obligations

We are required by the Franchise Agreement to provide certain assistance and service to you. During the operation of your Club:

1. We will review and have the right to approve or disapprove all advertising and promotional materials which you propose to use. (Franchise Agreement, Sections 3.6 and 10).

2. We may conduct, as we deem advisable, periodic inspections of the Club, and may evaluate the products sold and services rendered by your Club. (Franchise Agreement, Section 3.9).
3. We will give you periodic and continuing advisory assistance as to the operation and promotion of the Club, as we deem advisable. (Franchise Agreement, Section 3.10).
4. We will administer the Advertising Fund as stated in the Franchise Agreement and as described below in this Item 11. (Franchise Agreement, Section 3.6).

Neither the Franchise Agreement, nor any other agreement, requires us to provide any other assistance or services to you during the operation of the Club.

We estimate that the time period between the signing of the Franchise Agreement and the start of operations will be approximately four months. The factors that might affect the time it will take you to start operations are your ability to obtain a lease, building permits, and complying with local ordinances. If you sign a Site Selection Addendum (for a mutually agreed upon Site Selection Territory, as described in Item 12) and you and we cannot agree on a site for the Club within the specified time period, then we may terminate the Franchise Agreement. Under the Site Selection Addendum, you must submit to us a completed site approval form within 120 days after signing the Franchise Agreement and we will have 30 days after receipt of the completed form to approve or disapprove the site. You must open the Club within six months after signing the franchise agreement. If you fail to construct and open the Club within six months, upon notice to you we may terminate the Franchise Agreement without affording you any opportunity to cure.

The factors we will evaluate in considering whether to approve a site include location, size, and proposed lease terms.

Training

Before your Club opens, you (or, if you are an entity, one of your principals or a senior management employee designated to supervise the operation of the Club, who we have previously approved (the "**Designated Principal**") and the senior full-time manager of the Club (the "**Club Manager**") must attend and successfully complete, to our satisfaction, our basic training program. Both the Designated Principal and Club Manager are subject to our approval. Upon your request, up to two additional persons may attend our basic training program, subject to space availability, for a fee of \$750 per person. (This fee may be adjusted periodically based on changes to the "Index" (as explained in Note 4 to the chart in Item 6).) All persons that we train must also pass our certification test before managing or operating the Club.

You must always employ the Club Manager we trained or who was trained in accordance with our training program. If your Club Manager leaves for any reason, you must train a new Club Manager. You may ask that your replacement personnel attend our training program for a fee of \$750 per person, and subject to space availability. (This fee may be adjusted periodically based on changes to the "Index" (as explained in Note 4 to the chart in Item 6).)

We may occasionally require that you, the Designated Principal, and your Club Manager attend conventions, seminars, and other training programs. Presently, we anticipate that any required additional training will be conducted in conjunction with the annual franchise convention that we also expect to conduct. This training is likely to last no more than 3 days. We will determine the

location for our franchise convention at a place in the U.S. (in 2004, the convention was held in Las Vegas; in 2005 it was held in San Diego). The subject matter of any additional required training (which we will determine at that time) will be related to providing fitness and health goods and services to customers. As described in Item 6, we may charge a per person fee of up to \$750 (but that fee may be adjusted periodically based on changes to the "Index" (as explained in Note 4 to the chart in Item 6)) for attendance to required training programs. We may also charge a fee to attend our conventions. You must pay your own expenses and those of your employees who attend any training programs or conventions. You may have to enroll each of your employees in our web-based training program, for which there may be a charge per employee, as described above in Item 6.

We will bear the cost of all training (instruction and required materials) (except for replacement Club Managers, and web-based training, as noted above and in Item 6). You will bear all other expenses incurred in attending training, such as the costs of transportation, lodging, meals, wages, and worker's compensation insurance (see Items 6 and 7 of this offering circular).

The subjects covered in the initial training program are described below.

Subject	Time Begun	Instructional Material	Hours of Classroom Training	Hours of On The Job Training	Instructor
Intro and welcome The Liberty Fitness Business	Day 1	Training manual Operations Manual Lecture	1		Liberty Harper, a member of management team, or one of their designates (identified in Item 2)
Business Planning Staffing Pricing		Interactive exercises	1		
Customer Service Contracts and their Provisions			4		
Disc Assessment			3		
The Workout What makes an effective workout The machines The aerobics The stretches Dealing with pre-existing conditions Psychology of Diet and Exercise	Day 2	Training Manual Operations Manual Hands-on with machines and exercises Lecture	8		Liberty Harper, a member of management team, or one of their designates

Subject	Time Begun	Instructional Material	Hours of Classroom Training	Hours of On The Job Training	Instructor
Nutritional counseling	Day 3	Training Manual	2		Liberty Harper, a member of management team, or one of their designates
Scheduling for the member		Operations Manual	1		
Fitness Club operational standards		Interactive exercises	1		
7 day plan for success		Lecture	2		
Customer Satisfaction And the Liberty Fitness difference	Day 4	Training Manual	1		Liberty Harper, a member of management team, or one of their designates
Additional products and services Sales		Lecture	2		
		Interactive exercises	3		
Marketing		Marketing Manual	3		
		Marketing materials			
		Lecture			
		Interactive exercises			
Business Systems and Eclipse Software	Day 5	Lecture	5		Liberty Harper, a member of management team, or one of their designates
Take-home Exam		Computer lab			
		Take home questions and answers	2		
		Exam			

Training will be conducted over a 5-day period in Austin, Texas. In addition, we or, if applicable to your location, our Area Developer will send a representative to be present for 2 days at the time of the opening of the Club.

Our instructors and the members of the management team have experience relevant to the subject they will be providing training in. For the background and experience of Liberty Harper and members of the management team, please refer to Item 2.

Advertising

As described in Item 6 above, you must advertise locally and for each month during the term of the Franchise Agreement, you will have to make an Advertising Contribution. The Advertising Contribution will be an amount equal to \$1,500 per month. The Advertising Contribution is paid to the Advertising Fund, or to a regional advertising fund (if one is established for your region (a

“Regional Ad Fund”), or spent (by you directly) on local advertising and promotion. Each Club that we own will make Advertising Contributions at the same rate as you.

Periodically, we will determine what proportion of the Advertising Contribution you must: (1) contribute to the Advertising Fund; (2) contribute to a Regional Ad Fund; and (3) spend on local advertising and promotion. However the Advertising Contribution is split, the total required amount you must pay or spend will not exceed \$1,500 per month, and we will not require you to contribute more than \$300 of that amount to the Advertising Fund or to a Regional Ad Fund (unless there are 500 Clubs in the U.S.). (Section 10.2 of Franchise Agreement).

Even though the Franchise Agreement requires a maximum combined contribution of \$300/month to the Advertising Fund and any Regional Ad Fund (until there are at least 500 Clubs in the Liberty Fitness system), our current policies modify this requirement as follows: Your contribution will be \$150/month for the first 6 months of 2006, and \$200/month for the latter 6 months of 2006. Beginning January 2007, your contribution will be \$300/month, as stated in the Franchise Agreement (see Section 10.3 of the Franchise Agreement).

The required contributions and expenditures are minimum requirements only and you may, and are encouraged to, expend additional funds for local advertising and promotion of a local nature which will focus on disseminating advertising directly related to your Club.

The Advertising Fund

None of the amounts collected or held by the Advertising Fund will be used for advertising that is principally a solicitation for the sale of franchises. We do not receive payment for providing goods or services to the Advertising Fund. A statement of the Advertising Fund's operations, as shown on our books, will be prepared annually, and that statement will be made available to you upon request. As described below, we are not required to spend any particular amount on advertising in the area where your Club is located. As also described below, if amounts are unspent in the Advertising Fund at fiscal year-end, those amounts are carried over by the Advertising Fund for expenditure in the following year. During the last fiscal year, the Advertising Fund did not collect any contributions or make any expenditures.

We have sole discretion over how the Advertising Fund creates, places, and pays for advertising. We (or our designee, which might be a corporate subsidiary or an advertising agency) will maintain and administer the Advertising Fund, as follows:

- (a) We or our designee will direct all advertising programs, with sole discretion over the concepts, materials, and media used in these programs and the placement and allocation of the programs. The Advertising Fund is intended to maximize general public recognition, acceptance, and use of the System. Neither we nor our designee are obligated to make expenditures for you that are equivalent or proportionate to your contribution, or to ensure that any particular franchisee benefits directly or pro rata from expenditures by the Advertising Fund.
- (b) The Advertising Fund, all contributions, and any earnings, will be used exclusively to meet the costs of marketing and any other activities that we believe will enhance the System's image and, in our sole discretion, promote general public awareness of and favorable support for the System.
- (c) You must contribute monthly to the Advertising Fund by electronic transfer according to the Authorization Agreement for Prearranged Payments (included

as an exhibit to the Franchise Agreement) made payable to the Advertising Fund. All sums you pay to the Advertising Fund will be maintained in an account separate from our other monies and will not be used to defray any of our expenses, except for the reasonable costs and overhead, if any, as we may incur in activities reasonably related to the direction and implementation of the Advertising Fund and advertising programs for you and the System (for example, costs of personnel for creating and implementing, advertising, merchandising, promotional and marketing programs). The Advertising Fund and its earnings will not otherwise inure to our benefit or be used to solicit the sale of franchises. We or our designee will maintain separate bookkeeping accounts for the Advertising Fund.

The Advertising Fund is not and will not be our asset.

Although the Advertising Fund is intended to be of perpetual duration, we maintain the right to terminate the Advertising Fund. The Advertising Fund will not be terminated, however, until all monies in the Advertising Fund have been expended for advertising or promotional purposes.

We advertise using print, direct mail, email, internet, and broadcast media and the scope of coverage is local, regional, and national. The source of advertising is a local advertising agency.

Regional Ad Funds

We will have the right, as we see fit, to designate any geographical area for purposes of establishing a Regional Ad Fund for your region. The purpose of a Regional Ad Fund is to conduct advertising campaigns for the Clubs located in that region.

If a Regional Ad Fund for your area was established before you began to operate your Club, then when you open your Club, you must immediately join that Regional Ad Fund. If a Regional Ad Fund for your area is established after you begin to operate your Club, then you will have thirty days to join the new Regional Ad Fund. You will not have to become a member of more than one Regional Ad Fund. The following provisions will apply to each Regional Ad Fund (if and when organized):

- (a) Regional Ad Funds will be established, organized, and governed in the form and manner that we have approved in writing in advance. The governing documents of any Regional Ad Funds will not be available for the review of the franchisees.
- (b) Regional Ad Funds will be organized for the exclusive purpose of administering regional advertising programs and developing (subject to our approval) standardized promotional materials for use by the members in local advertising and promotion.
- (c) Regional Ad Funds may not use advertising, promotional plans, or materials without our prior written approval, as described below.
- (d) You must submit your required contribution to the Regional Ad Fund by the tenth business day of each Month, based on the Gross Revenues for the preceding Month. At the same time, you will have to submit the reports that we or the Regional Ad Fund require. We may require that your payments and reports to the Regional Ad Fund be made to us for distribution to the Regional Ad Fund.

We do not have the power to require the Regional Ad Fund to be changed, dissolved or merged. The Regional Ad Fund is not required to prepare annual or periodic financial statements.

Local Advertising and Promotion

Certain criteria will apply to any local advertising and promotion that you conduct. All of your local advertising and promotion must be dignified, must conform to our standards and requirements, and must be conducted in the media, type, and format that we have approved.

You may not use any advertising or promotional plans that we have not approved in writing. To obtain approval, you must submit to us all proposed advertising plans and samples of proposed advertising materials. You are not required to obtain our approval of the prices you intend to charge. We will ordinarily provide you with our response (approval or disapproval) within 15 days; but if we do not give our approval within 15 days, we will have disapproved the proposed plans or materials.

All copyrights in any advertising and promotional materials you develop (or that are developed for you) will become our sole property. You must sign the documents (and, if necessary, require your independent contractors to sign the documents) that we deem reasonably necessary to implement this provision. (These requirements (as well as those in the prior two paragraphs) also apply to any Regional Ad Funds.)

As discussed in Item 6, instead of making an Advertising Contribution for the first month after opening your Club, you must spend at least \$7,500 on local advertising and promotion conducted for the Club's Grand Opening Advertising Program, in accordance with our specifications for that program, and working in conjunction with our designated grand opening consultant, Impact Marketing Services ("IMS"). IMS will earn a fee for the professional services provided of approximately 10% of the required grand opening expense, and the balance will be spent directly on local advertising and promotion. You may view additional information about IMS at www.impactmarketingservices.com; the contact and owner of the firm is John Lee, telephone number (800) 836-6625. You must complete the Grand Opening Advertising Program no later than one month after the Club first opens for business. All materials used in the Opening Advertising Program will be subject to our prior written approval, as described above. The Grand Opening Advertising Program is considered "local advertising and promotion" and is therefore subject to the restrictions described below.

In addition to the Advertising Contribution, we may require you to contribute funds to certain charitable organizations that as we may periodically designate and we may determine that these contributions constitute "local advertising and promotion" and is therefore subject to the restrictions described below. Currently, however, we do not require you to contribute to any charitable organization.

As used in the Franchise Agreement, the term "**local advertising and promotion**" refers to only the direct costs of purchasing and producing advertising materials (such as camera-ready advertising and point of sale materials), media (space or time), promotion, and your direct out-of-pocket expenses related to costs of advertising and sales promotion in your local market or area. Local advertising and promotion also includes associated advertising agency fees and expenses, postage, shipping, telephone, and photocopying costs. "Advertising and sales promotion" does not, however, include any of the following:

(a) Salaries, incentives or discounts offered to your employees, and your employees expenses;

(b) Charitable, political, or other contributions or donations to organizations that we have not approved in writing;

(c) the value of discounts given to consumers;

Websites

As used in the Franchise Agreement, the term "Website" is defined to mean a group of related documents that can be accessed through a common internet address. Websites are considered as "advertising" under the Franchise Agreement, and are subject (among other things) to our review and prior written approval before they may be used. As a result, if you are permitted to operate your own website, then the time period for approval of that proposed Website is the same as the time period for approval of "advertising," which is 15 days. Unless you receive our prior written approval, you may not establish a separate Website. Instead, you may only have one or more references or web pages, if we designate and approve of them in advance, within our Website. However, if we approve in writing a separate Website for you (subject to our right to review and approve any proposed advertising, as described above, under "Local Advertising and Promotion"), then in connection with that Website, the Franchise Agreement provides the following:

- We may require you to have electronic links only to our Website.
- You may not establish or use any Website without our prior written approval.
- Before establishing any Website, you must submit to us a sample of the Website format and information in the form and manner that we may reasonably require.
- In addition to any other applicable requirements, you must comply with our standards and specifications for Websites (which we may issue periodically).
- If you propose any material revision to the Website or any of the information contained in the Website, you must submit each proposed revision to us for our prior written approval. Since the Website is considered "advertising," the time period for our approval is the same as for "advertising," which is 15 days.

Computer Systems

You must obtain, install, and use the Computer System that we require. The term "**Computer System**" as used in the Franchise Agreement means communications, computer systems, and hardware to be used by, between, or among Clubs, including: (a) back office and point of sale systems, data audio, video and voice storage, retrieval, and transmission systems for use at Clubs, and between and among your Clubs and us and you; (b) cash register systems; (c) physical, electronic, and other security systems; (d) printers and other peripheral devices; (e) archival back-up systems; and (f) internet access mode (for example, your telecommunications connection) and speed. You must also obtain, install, and use the computer software programs, accounting system software that we require ("**Required Software**"). We are not obligated to provide or assist you to obtain the computer System and the Required Software.

You must implement and periodically make upgrades and other changes to the Computer System and Required Software as we may reasonably request in writing.

You must use (and pay an initial \$350 license fee for) the Fusion3 software, which we require as part of the Computer System. Please refer to Items 8 for more details on Fusion3.

The current configuration of the Computer System is, and you must obtain and use, the following:

Hardware

- Dell PC, Pentium 4, 256 MB Ram, 20GB Hard Drive
- Ethernet card
- Video card
- CD burner

Software

- Microsoft Windows XP Professional
- Microsoft Office XP Small Business
- Fusion3 Eclipse
- Fusion3 check-in system
- ACH Direct Credit Card / Check Draft Processing Software

Periodically, we may require you to obtain and use a Computer System configuration that we specify in our Manuals, which may be different than the current configuration. We may change the configuration to include new components, as they are introduced into the market, for approximately the equivalent of a Dell computer system priced at \$2,500.

The Computer System that we currently require is not proprietary to us, but is the proprietary property of the third parties listed below.

Vendor	Address	How the hardware or software will be used in the Club, and the general type of data collected or generated	Length of time that we have made continuous use of the component or program
Microsoft Corp. Office XP Small Business and Windows XP Professional	One Microsoft Way Redmond, WA 98052 Tel. 425.882.8080	These software have operating systems and general office functions	2 years
Fusion3 Eclipse	P.O. Box 25878 Seattle WA 98165 Tel. (888)625-7343	Tracks member names and usage information.	2 months
Fusion3 Check-in System	P.O. Box 25878 Seattle WA 98165 Tel. (888)625-7343	Tracks member visits to the Club	2 months

Vendor	Address	How the hardware or software will be used in the Club, and the general type of data collected or generated	Length of time that we have made continuous use of the component or program
ACH Direct Credit Card / Check Draft Processing Software	35-325 Date Palm Dr. Ste #236 Cathedral City, CA 92234 (760)202-9370	Tracks member names, address, telephone, and payment information.	1 year
Dell, Inc.	One Dell Way Round Rock, TX 78682 (800)915-3355	Computer CPU	2 years

Other than these capabilities, we do not have any requirements or specifications for computer hardware or software for the Club. We reserve the right to approve your email address.

We reserve the right to download sales and other data from your computer. There is no contractual limitation on our right to receive this information. As part of your obligation to refurbish the Club (but not more often than every 3 years), we reserve the right to require you to bring any computer hardware and software, related peripheral equipment, as well as the cash register system, into conformity with our then-current standards for new Clubs. (See Sections 5.11 and 11.1 of the Franchise Agreement.) The cost to upgrade the hardware and maintain or upgrade the software depends on our future needs, as well as technological developments, none of which we can predict at this time.

You must pay Fusion3 a monthly access fee of \$35 per month for the "Fusion3 Eclipse" software. You are not required to obtain a service contract to cover upgrades and updates, enhancements, and telephone support for any other required software and hardware components of the Computer System.

Manuals

We will provide you with 4 confidential manuals (number of pages of each are shown in parentheses): Marketing Manual (51 pages), Operations Manual (96 pages), Real Estate & Construction Manual (16 pages), Start-Up Manual (23 pages), and Trainer Manual (85 pages), which, together, we refer to as the "Manuals." The Manuals are confidential and you must treat them as confidential documents, as explained in Item 14. The tables of contents of the Manuals are attached at Exhibit K.

ITEM 12 **TERRITORY**

Franchise Agreement

You will be permitted to operate your Club at the Approved Location described in the Franchise Agreement. You may not relocate Club to another location without our prior written approval.

You will operate your Club within a "Protected Territory." The Protected Territory will typically be a circle with its center at the front door of your Club, and the circle will have a radius stated in