

the Franchise Agreement (or, if you don't have a site chosen at the time the Franchise Agreement is signed, the radius will be determined after you have selected your site and we have approved that site). We intend to provide you with a Protected Territory that will include 25,000 to 50,000 persons (as we determine using data from the U.S. Census Bureau and information from SRC, LLC through its "Demographics Now" products; see [www.demographicsnow.com](http://www.demographicsnow.com)), which we believe will be a territory that is a circle with a radius of 1 to 5 miles (although in some areas, that may be smaller or larger, depending on population density). The radius of your Protected Territory may also be smaller in urban centers, where there may be a high concentration of residential and working populations. For example, we anticipate that in New York County, New York (Manhattan), the Protected Area will be one block in each direction from the Club.

During the term of the Franchise Agreement, we will neither establish nor license anyone else to establish another Club within the Protected Territory designated in your Franchise Agreement; however, we will retain the right (among others), to do the following:

- to use and to license others to use, the System and the Proprietary Marks for the operation of the Clubs at any location outside the Protected Territory, despite the proximity those businesses may have to the Protected Territory (as a result, another Club's Protected Territory may overlap with your Protected Territory);
- to acquire and operate any business or centers of any kind, whether located within or outside the Protected Territory despite the proximity of those business(es) or center(s) may have to the Approved Location (except that we may not do so from a Club operating under the Proprietary Marks located in the Protected Area); and
- to use and license the use of the Proprietary Marks and other marks in connection with the operation of centers at any location, which centers and marks may be the same as, similar to, or different from the Club and Proprietary Marks despite the proximity of those centers' proximity to the Approved Location (except that we may not do so from a Club located in the Protected Area).

Continuation of your Protected Territory depends upon your ability to the minimum performance levels (the **Performance Levels**) outlined below. If you do not meet the Performance Levels, then, upon our notice, you will have 90 days to correct any deficiencies. If you do not correct these deficiencies and meet the Performance Levels by the end of the 90-day period, then that will be deemed a default under the Franchise Agreement for which we will have the right to terminate the Franchise Agreement. The Performance Levels are as follows:

- You must achieve and maintain at 150 members at the Club by the end of the first year after opening the Club.
- At all times after the end of the second year after opening the Club, you must maintain at least 250 members at the Club.

Other than the above requirement pertaining to the Performance Levels, continuation of your Protected Territory does not depend upon any other conditions.

#### Site Selection Addendum

If you do not already have a site for the Club when you sign the Franchise Agreement, you must sign a Site Selection Addendum to establish the conditions that will apply to finding a location, subject to our approval. Under the Site Selection Addendum, you must select a location within an area that we designate (the "Site Selection Territory"), before the Addendum is signed. The Site Selection Territory is non-exclusive. As a result, we may establish or license others to establish a Club within your Site Selection Territory.

#### Multi-Unit Agreement

Under the Multi-Unit Agreement, the development area is non-exclusive; although each Franchise Agreement will have its own Protected Territory, as described above. As a result, we may establish or license others to establish and operate Clubs within your development area. The development area is merely the area within which you must open your 3 or 6 Clubs.

#### Area Development Agreement

Our ADA generally grants development rights to a large area and offers territorial protection during the term of the ADA. The area is generally large enough to support at least 19 Clubs. For example, our first ADA was granted for the entire state of North Carolina. The 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. During the term of the ADA we will not establish ourselves or license others to establish a Liberty Fitness Club in the Development Area. The ADA is not offered in Illinois.

\* \* \* \* \*


You will not have any options or rights of first refusal to acquire additional franchises within the Protected Territory, Development Area, or Site Selection Territory or any contiguous geographic areas.

As described more fully in Item 16, you may offer and sell products only face-to-face to customers who come in to your Club to order or pick up products and merchandise. You may not sell products by use of other means, such as the Internet, catalog, direct mail, and toll-free numbers.

There are no restrictions on our right to solicit or accepting orders inside or outside your Protected Territory. We do not have to pay you for soliciting or accepting orders inside your Protected Territory.

**ITEM 13**  
**TRADEMARKS, SERVICE MARKS, TRADE NAMES,**  
**LOGOTYPES, AND COMMERCIAL SYMBOLS**

You will be licensed by the Franchise Agreement to use our Proprietary Marks, including the principal marks described in the chart below.

<u>Mark</u>	<u>Services</u>	<u>Registration No.</u>	<u>Registration Date</u>
	Health club services; physical fitness instruction services (Int'l Class 041)	2,768,973	September 30, 2003
LIBERTY FITNESS	Health club services; physical fitness instruction services (Int'l Class 041)	2,768,972	September 30, 2003

The above-listed registrations appear on the Principal Register of the U.S. Patent and Trademark Office ("USPTO"). We intend to file when due, affidavits of use and incontestability, as well as a renewal application, for the marks listed above.

There are no currently effective determinations of the USPTO, Trademark Trial and Appeal Board, the trademark administrator of this state, or of any court, nor any pending interference, opposition, or cancellation proceedings, nor any pending material litigation involving the trademarks, service marks, trade names, logotypes, or other commercial symbols which is relevant to their use in this state or any other state in which the Club is to be located. There are no agreements currently in effect which significantly limit our rights to use or license the use of the Proprietary Marks (including trademarks, service marks, trade names, logotypes, or other commercial symbols) that are in any manner material to the franchise. There are no infringing uses actually known to us which could materially affect your use of the Proprietary Marks in this state or elsewhere (however, there is a co-ed gym in Manhattan (N.Y.), operating under one or both of the names "Liberty Fitness" and "Liberty Gym," which we are investigating).

You must promptly notify us of any suspected infringement of the Proprietary Marks, any challenge to the validity of the Proprietary Marks, or any challenge to our ownership of, or your right to use, the Proprietary Marks licensed under the Franchise Agreement. Under the Franchise Agreement, we will have the sole right to initiate, direct, and control any administrative proceeding or litigation involving the Proprietary Marks, including any settlement of the action. We also have the sole right, but not the obligation, to take action against uses by others that may constitute infringement of the Proprietary Marks. If you used the Proprietary Marks in accordance with the Franchise Agreement, we will defend you at our expense against any third party claim, suit, or demand involving the Proprietary Marks arising out of your use. If you did not use the Proprietary Marks in accordance with the Franchise Agreement, we will defend you, at your expense, against those third party claims, suits, or demands, and you must reimburse us upon our request.

If we undertake the defense or prosecution of any litigation concerning the Proprietary Marks, you must sign any documents and agree to do the things as may, in our counsel's opinion, be necessary to carry out that defense or prosecution, such as becoming a nominal party to any legal action. Except to the extent that the litigation is the result of your use of the Proprietary Marks in a manner inconsistent with the terms of the Franchise Agreement, we will reimburse you for your out of pocket costs in doing these things, except that you will bear the salary costs of your employees, and we will bear the costs of any judgment or settlement. To the extent that the litigation is the result of your use of the Proprietary Marks in a manner inconsistent with the terms of the Franchise Agreement, you must reimburse us for the cost of the litigation, including attorneys' fees, as well as the cost of any judgment or settlement.

#### **ITEM 14**

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

Patents and Copyrights We do not own any patents that are material to the franchise being offered. We own common law copyrights in the Manuals and advertising materials, and we will make these available to you. These materials are our proprietary property and must be returned to us upon expiration or termination of the Franchise Agreement.

There are no currently effective determinations of the USPTO, Copyright Office, or any court concerning any copyright. There are no currently effective agreements pursuant to which we derive our rights in the copyrights which could limit your use thereof. The Franchise Agreement does not obligate us to protect any of the rights that you have to use any copyright, nor does the Franchise Agreement impose any other obligation upon us concerning copyrights. We are not aware of any infringements that could materially affect your use of any copyright in any state.

#### Confidential Manuals

In order to protect our reputation and goodwill and to maintain high standards of operation under our Proprietary Marks, you must conduct your business in accordance with the Marketing Manuals, Operations Manuals, Real Estate & Construction Manuals, Start-Up Manuals, and Trainer Manuals, which, together, we refer to as the "Manuals." We will allow you access to our Manuals, which we have the right to provide in any format we choose (including paper, CD, or online), for the term of the Franchise Agreement.

You must at all times accord confidential treatment to the Manuals, any other manuals we create (or that we approve) for use with the Club, and the information contained in the Manuals. You must use all reasonable efforts to maintain this information as secret and confidential. You may never copy, duplicate, record, or otherwise reproduce the Manuals and the related materials, in whole or in part (except for the parts of the Manuals that are meant for you to copy, which we will clearly mark), nor may you otherwise let any unauthorized person have access to these materials. The Manuals will always be our sole property. You must always keep the Manuals in a secure place at the Club's premises.

We may periodically revise the contents of the Manuals, and you must make corresponding revisions to your copy of the Manuals and comply with each new or changed standard. If there is ever a dispute as to the contents of the Manuals, our master copy of the Manuals (maintained at our home office) will be controlling.

### Confidential Information

Except for the purpose of operating the Club under the Franchise Agreement, you may never (during Franchise Agreement's term or later) communicate, disclose, or use for any person's benefit any of the confidential information, knowledge, or know-how concerning the operation of the Club that may be communicated to you or that you may learn by virtue of your operation of a Club. You may divulge confidential information only to those of your employees who must have access to it in order to operate the Club. Any and all information, knowledge, know-how, and techniques that we designate as confidential will be deemed confidential for purposes of the Franchise Agreement. However, this will not include information that you can show came to your attention before we disclosed it to you; or that at any time became a part of the public domain, through publication or communication by others having the right to do so.

In addition, upon our request, you must require your principals (that is, any person or entity that owns a direct or indirect interest in you), general managers, and supervisors to sign confidentiality covenants. Every one of these covenants must provide that the person signing will maintain the confidentiality of information that they receive in their employment or affiliation with you or the Club. These agreements must be in a form that we find satisfactory, and must include, among other things, specific identification of our company as a third party beneficiary with the independent right to enforce the covenants.

### **ITEM 15** **OBLIGATION TO PARTICIPATE IN THE** **ACTUAL OPERATION OF THE CENTER**

#### Franchise Agreement

You (or a Club Manager) must devote full time, energy, and best efforts to the management of the Club. We have the right to approve the Club Manager, who must also be successfully trained in accordance with our training program. We do not require the Club Manager to own an equity interest in you, if you are a business entity. All persons that later serve in as a Club Manager will also be subject to our approval and must also be successfully trained under with our training program. You may not engage in any business or other activities that conflict with your obligations under the Franchise Agreement.

The Franchise Agreement does not require you or your Designated Principal to participate personally in the direct operation of the Club, although we encourage and recommend active participation by you. As noted in Item 14, upon our request, you must require your Principals, general managers, and supervisors to sign confidentiality covenants. Every one of these covenants must provide that the person signing will maintain the confidentiality of information that they receive in their employment or affiliation with you or the Club. These agreements must be in a form that we find acceptable. Under the Franchise Agreement, if you are an entity or partnership, then owners of a beneficial interest in the entity or partners must sign a guarantee.

Except as noted above, there are no other restrictions that you must place on your manager.

### Multi-Unit Agreement

Under the Multi-Unit Agreement, you, or one designated management employee who will assume primary responsibility for your operations and who we have previously approve must devote full time, energy, and best efforts to the management and operation of your business. We have the right to require you to employ one or more district managers (who must be reasonably acceptable to us) to supervise the day to day operations of your Clubs.

Upon our request you must obtain and deliver to us confidentiality agreements (in a form satisfactory to us) signed by your principals and senior level management personnel. Under the Multi-Unit Agreement, if you are an entity or partnership, then owners of a beneficial interest in the entity or partners must sign a guarantee.

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

You may sell and provide only products (including "Products," as explained in Item 1 of this offering circular) and services (including "Services" as also explained earlier in Item 1 of this offering circular) that conform to our standards and specifications (which are described in Item 8 above). We have the right, without limit, to change the types of authorized products and services.

If and when Products are developed, you may only sell Products to end-users and other entities that do not resell the Products. You may offer and sell products only face-to-face to customers who come in to your Club to order or pick up products and merchandise. You may not sell products by use of other means, such as the Internet, catalog, direct mail, and toll-free numbers.

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

These tables list important provisions of the franchise and related agreements. You should read these provisions in the agreements attached to this offering circular.

Provision	Section in Franchise Agreement	Section in Multi-Unit Agreement	Summary
a. Term of the franchise	§ 2.1	§ 3	Term of Franchise Agreement is 10 years. Term of <u>Multi-Unit Agreement</u> expires on last date of Development Schedule.
b. Renewal or extension of the term	§ 2.2	None	One additional 10-year term. Among 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, which we estimate to be up to \$15,000 (in 2004 dollars).
c. Requirements for you to renew or extend	§§ 2.2.1 – 2.2.10	None	Notice, satisfaction of monetary obligations, compliance with Franchise Agreement, release, sign new Franchise Agreement, and others; see §§ 2.2.1 – 2.2.10.
d. Termination by you	None	None	None
e. Termination by us without cause	None	None	None

Provision	Section in Franchise Agreement	Section in Multi-Unit Agreement	Summary
f. Termination by us with cause	§ 14	§ 6.1	Default under Franchise Agreement, bankruptcy, abandonment, and other grounds; see § 14 of Franchise Agreement and §6.1 of <u>Multi-Unit Agreement</u> . Under the U.S. Bankruptcy Code, we may be unable to terminate the agreement merely because you make a bankruptcy filing. We may terminate you if you fail to meet your obligations under the Development Schedule and under any agreement with us.
g. "Cause" defined – defaults which can be cured	§ 14.3 of Franchise Agreement	§ 6.3	All defaults included under §§14.1 and 14.2 of the Franchise Agreement and §6.3 of Multi-Unit Agreement.
h. "Cause" defined - defaults which cannot be cured	§§ 14.1 and 14.2 of Franchise Agreement	§ 6.2	Bankruptcy, abandonment, conviction of felony, and others; see § 14.2. Under the U.S. Bankruptcy Code, we may be unable to terminate the agreement merely because you make a bankruptcy filing. If you do not meet your obligations under the Development Schedule, we may terminate the Multi-Unit Agreement without affording you an opportunity to cure.
i. Your obligations on termination/ nonrenewal	§ 15	§ 6.5	Cease operating Club, payment of amounts due, and others; see §§ 15.1 – 15.9 of Franchise Agreement.



Provision	Section in Franchise Agreement	Section in Multi-Unit Agreement	Summary
j. Assignment of contract by us	§ 13.1	§ 7.1	There are no limits on our right to assign the Franchise Agreement.
k. "Transfer" by you – definition	§§ 13.4.1 – 13.4.4	§ 7.4	Includes transfer of any interest.
l. Our approval of transfer by you	§ 13.4	§ 7.5	We have the right to approve transfers.
m. Conditions for our approval of transfer	§ 13.5	§ 7.5	Release, signature of new Franchise Agreement, payment of transfer fee, and others; see §§ 13.5.1 – 13.5.9 of Franchise Agreement and §7.5 of <u>Multi-Unit Agreement</u> .
n. Our right of first refusal to acquire your business	§ 13.6	§ 7.6	We can match any offer.
o. Our option to purchase your business	§§ 15.4 and 15.9	None	Upon termination or expiration of the Franchise Agreement, we can acquire any interest which you have in any lease or sublease for the premises and purchase your furnishings, equipment, material, or inventory at cost or fair market value.
p. Your death or disability	§§ 13.7, 13.8 and 13.9	§§ 7.7, 7.8	Your estate must transfer your interest in the Club to a third party we have approved.
q. Non-competition covenants during the term of the franchise	§§ 16.2, 16.3 and 16.4	§§ 8.2, 8.3	Includes prohibition on engaging in any other business which is the same or similar to the Club and others.

Provision	Section in Franchise Agreement	Section in Multi-Unit Agreement	Summary
r. Non-competition covenants after the franchise is terminated or expires	§§ 16.3 and 16.4	§ 8.3	Includes a 24 month prohibition similar to “q” (above), within five miles of the Approved Location, or within five miles of any other Club then-operating under the System.
s. Modification of the agreement	§ 21	§ 13	Must be in writing signed by both parties.
t. Integration/ merger clause	§ 21	§ 13	Only the final written terms of the Franchise Agreement are binding.
u. Dispute resolution by arbitration or mediation	§ 24.8	§ 15.7	Disputes referred to mediation and if not resolved then to binding arbitration. All mediation and arbitration proceedings will take place in the jurisdiction of our headquarters, currently Travis County, Texas.
v. Choice of forum (subject to state law)	§ 24.2	§ 15.2	All litigation, if not precluded by the arbitration requirements, will take place in the jurisdiction of our headquarters, currently Travis County, Texas.
w. Choice of law (subject to state law)	§ 24.1	§ 15.1	Delaware.

### Area Development Agreement

The Area Development Agreement is not offered in Illinois

Provision	Section in Area Development Agreement	Summary
a. Term of the franchise	Section IV.A.	The term of the ADA is 10 years.
b. Renewal or extension of the term	Section IV.A	One additional 10-year term. Conditions for renewal include providing notice to us, meeting all development obligations, meeting training requirements, signing a release, and paying a \$25,000 renewal fee.
c. Requirements for you to renew or extend	Section IV.A	Conditions for renewal include providing notice to us, meeting all development obligations, meeting training requirements, signing a release, and paying a renewal fee.
d. Termination by you	N/A	
e. Termination by us without cause	Section VII.F	We reserve the right for a successor to repurchase your area development business and terminate the ADA. There are no other grounds for termination without cause.
f. Termination by us with cause	Sections VI.B and C	We can terminate only if you default under the Franchise Agreement or the ADA, as specified.
g. "Cause" defined - defaults which can be cured	N/A	

Provision	Section in Area Development Agreement	Summary
h. "Cause" defined - defaults which cannot be cured	Sections VI.B and C	Non-curable defaults under the ADA include an act of bankruptcy, conviction of certain crimes, commitment of certain acts that injure the trademark, and failure to meet the development schedule. A default under the ADA is not a default under or grounds to terminate a franchise agreement executed pursuant to the ADA.
i. Your obligations on termination/ non-renewal	Sections VI.D., VI.E, and VIII	Remaining options to develop Liberty Fitness clubs are void, rights to service franchisee cease, as does the right to compensation; restrictions on competition apply for 2 years following termination.
j. Assignment of contract by us.	Section VII.A.	No restriction on our right to assign the ADA.
k. "Transfer" by you – definition	Section VII.B and C.	Includes transfer of agreement, ownership and any interest in the business.
l. Our approval of transfer by you	Section VII.C.	We have the right to approve all transfers.
m. Conditions for our approval of transfer	Section VII.D.	Under the ADA the transferee must demonstrate qualifications, you must be in compliance with the ADA and any Franchise Agreement signed; the transferee must assume all obligations under the ADA, and pay a transfer fee.
n. Our right of first refusal to acquire your business	Section VII.E.	We can match any offer for your development business or your rights under the ADA.

Provision	Section in Area Development Agreement	Summary
o. Our option to purchase your business	Section VII.F	We reserve the right for our successor to purchase your business if we transfer ownership and you have operated under the ADA for at least 2 years. The ADA provides guidelines for the valuation of your business if the repurchase of your business occurs. See Section VII.F.
p. Your death or disability	Section VII	Under the ADA, this circumstance would be covered by general transfer provisions.
q. Non-competition covenants during the term of the ADA	Section VIII.A.	Under the ADA you may not engage in any business or activity that is the same or similar to a Liberty Fitness club within a 5-mile radius of an Approved Location or existing club in the Liberty Fitness System.
r. Non-competition covenants after the franchise is terminated or expires	Section VIII.A.	Under the ADA you may not engage in any business or activity that is the same or similar to a Liberty Fitness club within a 5-mile radius of an Approved Location or existing club in the Liberty Fitness System, for 2 years (including after assignment).
s. Modification of the agreement	Section XIII.B.	No modifications except by written agreement between the parties.
t. Integration/merger clause	Section XIII.B.	Only the terms of the ADA are binding (subject to state law). Any other promises may not be enforceable.
u. Dispute resolution by arbitration or mediation	Section XIII.A	Disputes referred to mediation and if not resolved then to binding arbitration. All mediation and arbitration proceedings will take place in the jurisdiction of our headquarters, currently Travis County, Texas.
v. Choice of forum (subject to state law)	Section XIII.	All litigation, if not precluded by the arbitration requirements, will take place in the jurisdiction of our headquarters, currently Travis County, Texas.

Provision	Section in Area Development Agreement	Summary
w. Choice of law (subject to state law)	Section XIII.A.	Delaware law applies.

These states have statutes which may supersede the Franchise Agreement in your relationship with us, including the areas of termination and renewal of your franchise: Arkansas [Ark. Code Sections 4-72-201 to 4-72-210]; California [Bus. & Prof. Code Sections 20000 to 20043]; Connecticut [Gen. Stat. Sections 42-133e to 42-133h]; Delaware [Code Sections 2551 to 2556]; Hawaii [Rev. Stat. Section 482E-6]; Illinois [815 ILCS 705/1-44]; Indiana [Stat. Sections 23-2.5-1 and 23-2-2.7]; Iowa [Code Sections 523H.1 to 523H.17]; Michigan [Stat. Section 19.854(27)]; Minnesota [Stat. Section 80C.14]; Mississippi [Code Sections 75-24-51 to 87-410]; Missouri [Rev. Stat. Sections 407.400 to 407.410]; Nebraska [Rev. Stat. Sections 87-401 to 87-410]; New Jersey [Rev. Stat. Section 56:10-1 to 56:10-12]; South Dakota [Codified Laws Section 37-5a-51]; Virginia [Code 13.1-557 through 13.1-574]; Washington [Code Section 19.100.180]; and Wisconsin [Stat. Section 135.01 to 135.07]. These and other states may have other statutes and court decisions that may supersede the franchise agreement in your relationship with us including the areas of termination and renewal of your franchise.

The ADA is not offered in Illinois.

Please refer to the disclosure addenda and contractual amendments appended to this offering circular for additional terms that may be required under applicable state law.

**ITEM 18**  
**PUBLIC FIGURES**

We currently do not use any public figures to promote our franchise. We reserve the right to use public figures in the future.

**ITEM 19**  
**EARNINGS CLAIMS**

**Representations Regarding Earnings Capability**

We do not furnish or authorize our salespersons to furnish any oral or written information concerning the actual or potential sales, costs, income or profits of a Club. Actual results vary from unit to unit and we cannot estimate the results of any particular franchise.

**ITEM 20**  
**LIST OF OUTLETS**

**Information about the Liberty Fitness System**

FRANCHISED LIBERTY FITNESS CENTER STATUS SUMMARY  
FOR FISCAL YEARS ENDING DECEMBER 31, 2005/2004/2003  
(Please review with the notes that follow.) (Notes 1, 3)

State	Transfers			Cancelled or Terminated			Not Renewed			Reacquired by Franchisor			Otherwise Left the System			Total from left columns			Franchises Operating at Year End (Note 2)		
	'05	'04	'03	'05	'04	'03	'05	'04	'03	'05	'04	'03	'05	'04	'03	'05	'04	'03	'05	'04	'03
Ariz.	0	0	0	0	0	0	0	0	0	0	0	0	2	0	0	2	0	0	0	2	0
Calif.	2	1	0	0	0	0	0	0	0	0	0	0	13	1	0	15	2	0	15	27	21
Colo.	0	1	0	0	0	0	0	0	0	0	0	0	1	0	0	1	1	0	1	2	1
Conn.	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1	0	0	0	1	1
Fla.	0	0	0	0	0	0	0	0	0	0	0	0	3	0	0	3	0	0	1	4	1
Ga.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3	1	1
HI	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0
Idaho	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0
Ill.	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1	0	0	0	0
Indiana	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0
Iowa	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0
Mich.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	1
N.J.	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1	0	0	1	1	1
N.Y.	0	0	0	0	0	0	0	0	0	0	0	0	1	2	0	1	2	0	0	1	2
Ohio	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1	0	0	1	1	1
Penn.	1	0	0	0	0	0	0	0	0	0	0	0	3	1	0	3	1	0	4	5	5
S.C.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	3	3	0
Wash.	1	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1	0	0	0	1	1
<b>TOTAL</b>	<b>4</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>27</b>	<b>5</b>	<b>0</b>	<b>31</b>	<b>7</b>	<b>0</b>	<b>34</b>	<b>52</b>	<b>36</b>

**Notes**

- 1) The information for the period before June 24, 2004 (the date of the Acquisition) came from LFI. Only those states with franchises are listed.
- 2) The numbers in the "Total" column may exceed the number of franchises affected because several events may have affected the same franchise.
- 3) We have signed one Multi-Unit Agreement in California as of the date of this offering circular; and we have signed two Area Development Agreements, one in North Carolina and one in Florida.

COMPANY-OWNED LIBERTY FITNESS CENTER ACTIVITY SUMMARY FOR FISCAL  
YEARS 2005/2004/2003

State	Clubs Closed During Year	Clubs Opened During Year	Total Clubs Operating At Fiscal Year-End
	2005/2004/2003	2005/2004/2003	2005/2004/2003
California	1/0/1	0/0/0	0/1/1
<b>TOTALS*</b>	1/0/1	0/0/0	0/1/1

**Note:**

"Company-owned" refers to Clubs owned by us or by our affiliates.

Company-owned Clubs are listed in Exhibit I.

PROJECTED LIBERTY OPENINGS THROUGH DECEMBER 31, 2006

State	Franchise Agreement Signed As Of December 31, 2005 But, As Of December 31, 2005, The Club Was Not Yet Open	Projected Clubs To Be Opened	Projected Company-Owned Clubs To Be Opened
California	2	1	0
Arizona	0	0	0
Colorado	0	0	0
Conn.	0	0	0
Florida	1	1	0
Georgia	1	1	0
Idaho	0	0	0
Hawaii	0	0	0
Illinois	0	0	0
Indiana	0	0	0
Iowa	0	0	0
Mass.	1	1	0
Michigan	0	0	0
Minnesota	1	1	0
New Jersey	1	1	0
New York	0	0	0
North Carolina	4	4	0
Ohio	0	0	0
Pennsylvania	0	0	0
South Carolina	0	0	0
Texas	5	5	0
Washington	1	0	0
<b>TOTAL</b>	<b>17</b>	<b>15</b>	<b>0</b>

The names, addresses, and telephone numbers of our franchisees as of December 31, 2005 are listed in Exhibit H.



The franchisees who had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under a Franchise Agreement during the most recently completed fiscal year, or who had not communicated with us within 10 weeks of the date of this Offering Circular are listed in Exhibit H.

**ITEM 21**  
**FINANCIAL STATEMENTS**

The following financial statements are attached as Exhibit J to this offering circular:

- The balance sheet of Liberty Fitness Holdings, LLC as of December 31, 2005, and the related statements of operations, changes in members' equity, and cash flows for the fiscal year ending December 31, 2005.
- The balance sheet of Liberty Fitness Holdings, LLC as of December 31, 2004, and the related statements of operations, changes in members' equity, and cash flows for the period from June 9, 2004 (date of organization) to December 31, 2004.

**ITEM 22**  
**CONTRACTS**

The Franchise Agreement (with Electronic Debit Agreement and Site Selection Addendum) is included in this offering circular under Exhibit B. The Multi-Unit Agreement is attached in Exhibit C. The Area Development Agreement is attached in Exhibit D. The ADA is not offered in Illinois.

**ITEM 23**

**RECEIPT**

The last two pages of this offering circular (Exhibit O) are identical pages acknowledging receipt of this entire document (including the exhibits). Please sign and return to us one copy; please keep the other copy along with this offering circular.

**EXHIBIT A**

**EFFECTIVE DATES**

The effective dates of this offering circular in the states listed below are:

**STATE EFFECTIVE DATE**

California

Hawaii

Illinois

Indiana

Maryland

Minnesota

New York April

Rhode Island

Virginia

Washington

Wisconsin