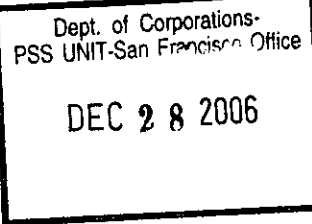


Butterfly Fitness, Inc.
2404 San Ramon Boulevard, Suite 200
San Ramon, CA 94583



INFORMATION FOR PROSPECTIVE FRANCHISEES
REQUIRED BY FEDERAL TRADE COMMISSION

To protect you, we have required your Franchisor to give you this information. We have not checked it and DO NOT know if it is correct. IT SHOULD HELP YOU MAKE UP YOUR MIND. STUDY IT CAREFULLY. DO NOT RELY UPON IT ALONE TO UNDERSTAND YOUR CONTRACT. READ YOUR ENTIRE CONTRACT CAREFULLY. BUYING A FRANCHISE IS A COMPLICATED INVESTMENT. TAKE YOUR TIME TO DECIDE. IF POSSIBLE, SHOW YOUR CONTRACT AND THIS INFORMATION TO AN ADVISOR, LIKE A LAWYER OR AN ACCOUNTANT. IF YOU FIND ANYTHING YOU THINK MAY BE WRONG OR ANYTHING IMPORTANT THAT HAS BEEN LEFT OUT, YOU SHOULD LET US KNOW ABOUT IT. IT MAY BE AGAINST THE LAW.

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

FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

EFFECTIVE DATE: December 27, 2006

ELECTRONIC DISCLOSURE STATEMENT

If you are viewing this disclosure document on a computer, or it is an electronic version, you will need a PC, Windows version 2000 or higher, an Internet connection allowing downloading of documents of this size – approximately 5 MB, and Adobe Acrobat version 6.0 or higher. You may wish to receive your disclosure document in another format, including paper, that is more convenient for you. To discuss the availability of disclosures in different formats, contact us at the address and telephone number listed on the next page.



FRANCHISE OFFERING CIRCULAR

BUTTERFLY FITNESS, INC.
a California corporation
2404 SAN RAMON BOULEVARD, SUITE 200
SAN RAMON, CA 94583
(800) 290-2977 (phone)
(925) 743-8820 (fax)
WWW.BUTTERFLYLIFE.COM

The franchisee will operate a fitness and weight loss center by providing instruction and equipment for short work outs. The initial franchise fee for a Butterfly Life location is \$29,500. You may develop multiple centers pursuant to the terms of the Area Development Agreement (See item 12 and Exhibit "E"). Under an Area Development Agreement (with a minimum of three centers), a franchisee will pay a discounted initial franchise fee ranging from \$24,000 to \$26,000 per center (based on the formula in Item 7) to be opened during the term of the Area Development Agreement. The development fee is nonrefundable. The estimated initial investment for a single location ranges from approximately \$89,566 to \$138,658. The estimated initial investment for development of three to ten units ranges from \$258,198 - \$1,331,580.

An area representative will also pay \$100,000 – \$250,000 under an Area Representative Agreement. The estimated initial investment for an area representative, in addition to any per unit investment ranges from approximately \$118,000 to \$287,000.

See Items 5 and 7 for further information concerning the total investment.

Risk Factors:

THE FRANCHISE AGREEMENT PERMITS THE FRANCHISEE TO ARBITRATE WITH BUTTERFLY ONLY IN CALIFORNIA. IF YOU DO NOT RESIDE IN CALIFORNIA, OUT OF STATE ARBITRATION MAY FORCE YOU TO ACCEPT A LESS FAVORABLE SETTLEMENT FOR DISPUTES. IT MAY ALSO COST MORE TO ARBITRATE IN CALIFORNIA THAN IN YOUR HOME STATE.

THE FRANCHISE AGREEMENT STATES THAT CALIFORNIA LAW GOVERNS THE AGREEMENT AND THIS LAW MAY NOT PROVIDE THE SAME PROTECTION AND BENEFITS AS LOCAL LAW. YOU MAY WANT TO COMPARE THESE LAWS.

THERE MAY BE OTHER RISKS CONCERNING THIS FRANCHISE.

THESE PROVISIONS MAY BE SUPERSEDED BY CERTAIN STATE LAWS. SEE STATE ADDENDA IN EXHIBIT D FOR A SUMMARY OF SOME OF THESE LAWS.

Information about comparisons of franchisors is available. Call the state administrator listed in Exhibit "B" or your public library for sources of information. The states listed in Exhibit "B" may require registration or filing of this Offering Circular.

REGISTRATION OF THIS FRANCHISE WITH THE STATE DOES NOT MEAN THAT THE STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS OFFERING CIRCULAR. IF YOU LEARN THAT ANYTHING IN THIS OFFERING CIRCULAR IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND THE APPLICABLE STATE ADMINISTRATORS LISTED IN EXHIBIT B. PLEASE SEE EXHIBIT D - STATE REQUIRED ADDENDA FOR ADDITIONAL DISCLOSURES.

Issuance Date (as most recently amended) for states not requiring registration: December 27, 2006.

Effective Dates for Registration States:

California:	_____
Hawaii:	_____
Illinois:	_____
Indiana:	_____
Maryland:	_____
Minnesota:	_____
New York:	_____
North Dakota:	_____
Rhode Island:	_____
South Dakota:	_____
Virginia:	_____
Washington:	_____
Wisconsin:	_____

**BUTTERFLY FITNESS, INC.
OFFERING CIRCULAR**

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ITEM 1. THE FRANCHISOR, ITS PREDECESSORS AND AFFILIATES

THE FRANCHISOR

The Franchisor is Butterfly Fitness, Inc., a California corporation. In this offering the Franchisor will be referred to as "Butterfly," "we", "us", and "our". "You" means the person or persons who buys a franchise, the franchisee. If the franchise will operate through a corporation or limited liability company, "you" also includes the franchisee's owners.

On April 18, 2003, Butterfly Fitness, Inc. was incorporated to own and develop the franchise business of Butterfly.

We do business under the name of Butterfly Fitness, Inc. and Butterfly Life. Our principal business and mailing address is 2404 San Ramon Boulevard, Suite 200, San Ramon, CA 94583. Butterfly's agents for service of process are listed in Exhibit "B" attached to this Offering Circular.

Butterfly does not have any predecessors. However, many of Butterfly's owners and officers were also owners and officers of Women's Workout and Weight-Loss Centers, Inc. of San Ramon, California ("WWWLC"). WWWWLC owned womens fitness centers that were larger facilities (in excess of 5,000 square feet) than Butterfly Life Centers. As of the date of this Circular, all WWWWLC centers have been sold or converted into Butterfly Life Centers. Converted WWWWLC centers are located in Hayward, Pleasanton, San Ramon, and Walnut Creek.

Butterfly does not have any affiliates that are offering franchises in any line of business or that are providing products or services to Butterfly franchisees, except for the WWWWLC centers that were converted into Butterfly Life Centers.

THE FRANCHISOR'S BUSINESS

We grant franchises to operate Butterfly Life Centers to qualified persons to own and operate fitness centers. We do not have any other material business activities that are not incidental to the ownership, operation and franchising of centers.

Neither we nor our affiliates have offered franchises to own and operate centers to any other parties.

THE FRANCHISED BUSINESS

The business you will conduct, as a Butterfly franchisee is the operation of a Butterfly Life Center. You will sign a franchise agreement ("Franchise Agreement") with Butterfly. The Franchise Agreement is attached to this Offering Circular as Exhibit "C." Certain provisions of the Franchise Agreement will also apply to your partners (if you are a partnership), to your shareholders (if you are a corporation) and to certain other parties involved in your business, such as guarantors and managers. You will be required to operate the Butterfly Life Center in accordance with the Franchise Agreement and our standards and specifications (the "Operating System").

The Butterfly Life Centers offer fitness and weight loss programming to a predominately female customer base. Each center will offer fitness and nutritional programming, variable resistance strength equipment, nutritional and weight loss supplements, and other consumer products.

Butterfly does not currently operate any company owned Butterfly Life Centers, or other businesses of the type being franchised. Butterfly has no other business activities other than the sale of franchises, support of its franchisees and development of its Operating System.

The Butterfly Life Center must be built to our specifications as to interior and exterior design and must use specified exercise equipment and point-of-sale computer hardware and software packages. Most Butterfly Life Centers are anticipated to be located at convenient sites of approximately 2,000 square feet. Smaller Centers may be permitted

and may be branded “Butterfly Life (Light).” All franchisees sign the same Franchise Agreement and this offering circular applies to both larger and smaller Centers.

We will provide certain of our franchisees with an opportunity to develop multiple centers under the terms of our Area Development Agreement (See Item 5 and Exhibit “E”). Under an Area Development Agreement, a franchisee is obligated to begin construction of and open an agreed number of centers on or before predetermined dates in order to maintain exclusive development rights within a specified geographic area (as defined in the Area Development Agreement).

We also offer an area representative franchise under the terms of our Area Representative Agreement (See Item 5 and Exhibit “F”). An area representative will act as our authorized representative in actively promoting the sale of Butterfly Life Centers and in providing services to Butterfly Life Centers within a specified territory. We reserve the right to grant or not grant, and to enter into all franchise agreements, and an area representative may not grant franchises or subfranchises or bind us to do so.

The target market for the goods and services sold through Butterfly franchises is comprised of females between the ages of 35 and 60 years old of all occupations, and ethnic groups. Your sales are generally not seasonal. The fitness center business is highly competitive. By operating a Butterfly Life Center, you will be competing with other local, regional and national centers offering similar fitness, weight loss, and nutritional services products as well as with other centers offering other products. You may also have to compete with other franchised or company-owned Butterfly Life Centers. The market for our services and products is well developed in some areas, but in other areas may be underdeveloped.

There may be state and other governmental regulations that apply specifically to the fitness center industry. For example, federal FDA regulations require certain disclosures must be made for weight loss programs, medical claims made to sell nutritional products, and certain health warnings must be given. In addition, state laws in many states: require that health club or fitness center contracts have specific financial disclosures to customers; require limitations on advance membership fees; limit other contract terms; have bonding requirement; and other consumer protections.

For example:

Maryland: Maryland Health Club Services Act (“Act”) requires every business that sells health club services in Maryland to register with the Consumer Protection Division. The Act also requires that health clubs that sell health club services agreements must purchase a bond. The bond must be in an amount sufficient to protect the members' fees or deposits up to \$200,000 per facility. In addition, every club that has a pre-opening sale must post at least \$50,000 before it can sell any memberships, regardless of how much money the club later collects. When the club's sales exceed \$50,000, the pre-opening bond must be increased to match the dollar amount of memberships sold. A health club services agreement is made whenever a facility collects more than three months' payment in advance for its services, or charges an initiation fee greater than \$200.

California: Civil Code Sections 1812.80 to 1812.95 limit the maximum term of a fitness center contract to three years and the amount that can be paid under the contract to \$1,000, as well as other consumer protection provisions including cancellation rights and triple damages for violations. California Civil Code Section 1812.97 requires anabolic steroid warnings at all athletic facilities. California Civil Code Sections 1694.5 to 1694.9 require disclosures and cancellation rights for weight loss contracts.

You should discuss the applicable regulations that apply in your community with your attorney. The maximum amounts that may be paid in advance may be lower in some states than in others, and bonding and other requirements vary as well.

You must also comply with all local, state and federal laws that apply to your operations and to public accommodations generally. Those laws include health, sanitation, smoking, civil rights and non-discrimination, Equal Employment Opportunity Commission (“EEOC”), Occupational Safety and Health Administration (“OSHA”), Federal Trade Administration (“FDA”) - advertising, Food and Drug Administration (“FDA”), employment and

sexual harassment laws. The Americans with Disabilities Act of 1990 requires readily accessible accommodations for disabled people in certain businesses open to the public, and therefore may affect your building construction, site elements, entrance ramps, doors, seating, bathrooms, parking, drinking facilities, etc. You must also obtain real estate permits and licenses and operational licenses. Land use and zoning requirements might also apply to your facility. You should consult with your attorney concerning these and other local laws and ordinances that may affect your center operations.

Area representatives must also comply with franchise disclosure requirements when promoting the sale of our franchise. We will pay the costs of offering circular registration and disclosure compliance, but you will pay your own costs if any broker or similar registration (see Item 7). Area representatives may not promote franchises for sale in any registration states unless we have an effective registration to offer franchises in the respective state.

An integral part of the Butterfly system is its membership management system. Federal and state laws protect consumer and member privacy regarding information about the members. You will be required to safeguard this information and obtain specific disclosures and waivers from the members that you enroll. In addition, all member data and information will belong to Butterfly.

We have been offering Butterfly franchises since August 20, 2003. We have not offered franchises in any other line of business. We do not currently conduct a business of the type to be operated by you.

ITEM 2. BUSINESS EXPERIENCE

BUTTERFLY FITNESS EMPLOYEES:

Mark Golob, Chief Executive Officer and President

Mark Golob is a founding shareholder and has been a Director, Chief Executive Officer and President of Butterfly since incorporation, April 2003. He is a founder and from March 1991 to June 2003 served as Chief Executive Officer of our affiliated corporation, WWLC, in San Ramon, California, a premier health club chain for women.

Thomas Gergley, Chairman of the Board

Thomas Gergley is a founding shareholder and has been a Director and the Chairman of Butterfly since incorporation in April 2003. He is a founder of, and from March 1991 to June 2003, served as President of, WWLC in San Ramon, California.

Susan Zager Golob, Director of Marketing

Susan Golob has been our Director of Marketing since June 2003. From March 1991 to June 2003, she served as Director of Marketing for WWLC in San Ramon, California.

Lisa Bellini, Executive Director of Nutrition Services.

Lisa Bellini has been our Executive Director of Nutrition Services since June 2003. From March 1991 to June 2003, she worked as Director of Nutrition for WWLC in San Ramon, California.

Denny Marsico, Executive Director of Fitness Services / Training University

Denny Marisco has been our Executive Director of Fitness Services since April 2003. From September 2002 to April 2003, she served as Executive Director of Fitness at WWLC in San Ramon, California; and from 1988 to April 2002, she served as Corporate Director of Fitness for 24 Hour Fitness in San Ramon, California. From April 2002 to September 2002, Ms. Marisco was not employed.

Michael Carroll: Director of Area Representatives

Michael Carroll has been Director of Area Representatives since July 2006. From January 2004 to June 2006, he was Account Executive with Susquehanna/SF Cumulus Media Partners in San Francisco, California. From January 2000 to May 2003, he was Director of Sales with ATT Media Services/SF in San Francisco, California. From May 2003 to January 2004 he was unemployed.

Rachelle Parks, Contract and Compliance Administrator

Rachelle Parks has been Contract and Compliance Administrator since March 2005. She was Director of Franchise Operations for Butterfly from October 2004 to March 2005. From October 2002 to October 2004, she worked in Broker Relations with Travel Insurance Services in Walnut Creek, California. From February 2001 to October 2002, she was a Marketing Assistant with California Bank & Trust in Oakland, California.

Taylor Golob, Vice President Business Development and Interactions

Taylor Golob has been Vice President Business Development and Interactions for Butterfly since January 2004. From December 2002 to January 2004, he was Director of Business Development of Linda Evans Fitness Centers in San Ramon, California. From November 1999 to December 2002, he was an Account Manager at CBS Radio Infinity Broadcasting in San Francisco, California.

Cathy Galli-Veneveld, Director of Franchise Operations

Cathy Galli-Veneveld has been Director of Operations since January 2006. From April 2005 to December 2005, she was Store Manager with Shane Co. in Novato, California. From June 2004 to April 2005, Ms. Galli-Veneveld was Assistant Store Manager with Shane Co. in Walnut Creek, California. From December 1995 to December 2005, she was Director of Membership Services with WWWLC in San Ramon, California.

Carly Golob, Director of Corporate Marketing

Carly Golob has been Director of Corporate Marketing since June 2006. From March 2004 to June 2006, she was Account Executive with B.A.R.C. Communications in San Francisco, California. From January 2003 to March 2004, she was an Intern with SHIFT Communications in San Francisco, California. From October 2002 to July 2003 she was a Sales Associate at Nordstrom. From 1998 to September 2002 she was a student at the University of Arizona.

Julie Storm, Franchise Marketing Manager

Julie Storm has been Marketing Manager since August 2006. From June 2004 to August 2006, she was Consumer Marketing Coordinator with Contra Costa Newspapers in Walnut Creek, California. From May 2003 to June 2004, Ms. Storm worked in Administration/Marketing with Toupin Construction in Walnut Creek, California. From May 2002 to March 2003, she was Marketing Specialist with Coldwell Banker in San Ramon, California. From May 2001 to May 2002, Ms. Storm was unemployed. From May 2000 to May 2001, she was Field Marketing Coordinator with Sydran Services.

Janet Lossick, Senior Sales/Training Executive

Janet Lossick has been a Senior Sales/Training Executive with Butterfly since October 2004. From February 2001 to December 2004, she was the Regional Sales Manager of Linda Evans Fitness Centers in San Ramon, California. From January 1999 through January 2001, she was an owner of Club Performance Network in Denver, Colorado.

Flora Aube, Franchise Sales Executive

Flora Aube has been a Franchise Sales Executive for Butterfly since November 2004. From August 2003 to November 2004, she served as a Director for Torch Academy in Pleasanton, California. From December 2000 to August 2003, she was a Center Director of a Sylvan Learning Center in Danville and Pleasanton, California. From September 1998 to February 2001 she served as a Corporate Trainer for the Foundation for Creative Learning in Danville, California.

Hakan Degirmenci, Franchise Sales Manager

Hakan Degirmenci has been a Franchise Sales Manager with Butterfly since March 2005. From May 2005 to February 2005, he was Sales Specialist with Tigi Linea in San Francisco. From January 2005 to May 2005, he was Senior Loan Specialist with Beacon Financial in Highlands Ranch, Colorado. From December 2003 to January 2005, he was co-founder and Director of Operations of Hope Center for Pain and Injury, Inc. in Minneapolis, Minnesota. From January 2001 to November 2003, he was Account Executive with Spectrum Sales Consultants in Denver, Colorado.

Cheryl Hoke, Franchise Sales Manager

Cheryl Hoke has been a Franchise Sales Manager with Butterfly since October 2005. From February 2005 to September 2005, she was Director of Operations of VFI in Livermore, California. From October 2004 to February 2005, she was not employed. From July 2003 to October 2004, Ms. Hoke was an Independent Consultant in Ft. Collins, Colorado. From June 2000 to May 2003, she was Assistant Director of Marketing and Enrollment at Regis University in Ft. Collins, Colorado.

Yolanda Fagen, Franchise Sales Executive

Yolanda Fagen has been a Franchise Sales Executive for Butterfly since November 2005. From February 2005 to November 2005, she was in Sales with First American Title in Anaheim, California. From September 2004 to February 2005, she was unemployed. From August 2003 to September 2004, she was in Sales with Sentinel Publishing in Danville, California. From December 2001 to August 2003, she was unemployed. From March 2000 to December 2001, Ms. Fagen was Sales Manager with Fusion Staffing in San Francisco, California.

Penny Crook, Franchise Sales Executive

Penny Crook has been a Franchise Sales Executive for Butterfly since April 2006. From January 2004 to April 2006, she was unemployed. From August 2003 to January 2004, Ms. Crook was Investment Advisor with Washington Mutual Financial in Richmond, California. From August 2000 to August 2003, she was Owner/President of Emerald Coast Financial in Pensacola, Florida.

Melissa M. Lee, Franchise Sales Executive

Melissa Lee has been a Franchise Sales Executive for Butterfly since August 2006. From May 2005 to August 2006, she was Area Sales Manager with La Weight Loss in Hersham, Pennsylvania. From November 2004 to May 2005, Ms. Lee was unemployed. From July 2004 to November 2004, she was Director of Admissions with BCTI in Vancouver, Washington. From January 2004 to July 2004, she was a Sales Representative with Mens Warehouse in Portland, Oregon. From March 2003 to January 2004, Ms. Lee was unemployed. From December 2002 to March 2003, she was Executive Director of La Weight Loss in Portland, Oregon. From August 2001 to December 2002, Ms. Lee was Manager of Vista Optical in Vancouver, Washington.

Margaret M. Welch, Franchise Sales Executive

Margaret Welch has been a Franchise Sales Executive for Butterfly since September 2006. Since January 1994, she has also be President of White Swan Intl., Inc. in Portland, Oregon. From October 2001 to September 2006, she was Assistant General Manager and Real Estate Agent with Global Intervals, Inc. in San Mateo, California.

Leslie Harris-Petrie, Franchise Sales Executive

Leslie Harris-Petrie has been a Franchise Sales Executive for Butterfly since September 2006. From February 2003 to August 2006, she was Director of Sales with Spa Salon Solutions in Pleasant Hill, California. From February 2002 to April 2003, she was Sales Executive with DIBI, Inc. in Bergamo, Italy. From April 1998 to November 2001, Ms. Harris-Petrie was Sales Executive with Dermalogica in Pleasanton, California.

Jeff Moraes, Franchise Sales Executive

Jeff Moraes has been a Franchise Sales Executive for Butterfly since September 2006. From April 2005 to September 2006, he was Vice President of Business Development with Valuation Broker in Sacramento, California. From September 2003 to April 2005, he was Executive Director of Sales and Marketing with Arden Hills Resort Club and Spa in Sacramento, California. From May 2002 to September 2003, Mr. Moraes was Regional Sales and Marketing Manager with W.U. Corporation in Hayward, California. From February 1999 to May 2002, he was Director of Membership Sales with Claremont Resort and Spa in Berkeley, California.

Derek Rey, Franchise Sales Executive

Derek Rey has been a Franchise Sales Executive for Butterfly since September 2006. From July 2005 to September 2006, he was an Agent with Pacific Union GMAC Real Estate in San Francisco, California. From January 2005 to July 2005, he was unemployed. From October 2003 to January 2005, he was an Analyst with Global Aquarius/APCCO in Manica, Philippines. From February 2003 to October 2003, Mr. Rey worked for Global Aquarius/APCCO as a Marketing Analyst. From January 2002 to February 2003, he was an Analyst with Parker Hannifin in Modesto, California. From November 1999 to December 2001, Mr. Rey was a Supervisor with United Parcel Service in Modesto, California.

Anna Pomazanova, Operations Assistant

Anna Pomazanova has been Operations Assistant for Butterfly since April 2006. Ms. Pomazanova was previously employed at Shane Company in Walnut Creek, California beginning in May 2003 as a Sales Associate and ending as a Sales Manager in April 2006. From March 2003 to May 2003, she was Assistant Manager with Forever 21 in Concord, California. From November 2002 to February 2003, she was Sales Associate with Forever 21 in Concord, California. From January to October 2002 she was unemployed.

Jennifer Kleist, Administrative Assistant

Jennifer Kleist has been our Administrative Assistant since September 2006. Since July 2006, she has also been employed as a Child Care Supervisor with Cornerstone Fellowship in Livermore, California. From July 2006 to September 2006, she was a Coffee Seller with Parchments Café in Livermore, California. From March 2006 to June 2006, Ms. Kleist was a Café Seller with Borders Books and Music and Café in San Diego, California. From September 2004 to June 2006, she was a Student Work Financial Aid in San Diego California. Form March 2002 to August 2005, she was a Server/Trainer with Chili's Bar & Grill in Livermore, California. From November 2001 to January 2002, Ms. Kleist was Administrative Assistant with Ry Nck Tire and Auto in Pleasanton, California.

AREA REPRESENTATIVES:

We franchise to Area Representatives the right to assist us in the establishment and support of Butterfly Life Centers in certain territories. Our Area Representatives are listed below:

Terry A. Cichocki, Area Representative
(Territory Limited to State of North Carolina)

Terry Cichocki has been a Butterfly Area Representative since February 2005. From August 1995 to January 2006, he was the Manager of Nippon Express in Morrisville, NC.

Candace Azzolino, Area Representative
(Territory Limited to State of California)

Candace Azzolino has been a Butterfly Area Representative since August 2006. From April 1984 to August 2006, she was in Sales with Nordstrom in Vancouver, Washington

Eric Rosner, Area Representative
(Territory Limited to State of New Jersey)

Eric Rosner has been a Butterfly Area Representative since March 2006. From March, 2006 to Present, he was a self-employed Realtor at SER Enterprises, LLC in Moorestown, New Jersey. Prior to March 2006 he was a self-employed realtor in Moorestown, New Jersey.

Janeene Fitzgerald, Area Representative
(Territory Limited to State of Colorado)

Janeene Fitzgerald has been a Butterfly Area Representative since July 6, 2006. From January 1, 1995 to August 1, 2006, she was the Office Manager for The Fitzgerald Group, LLC in Colorado Springs, Colorado.

Seth Goodman, Area Representative
(Territory Limited to State of South Carolina)

Seth Goodman has been a Butterfly Area Representative since May 2006. From June, 1990 to present, he has been an Airline Pilot with Northwest Airlines in Minneapolis, Minnesota.

Michael Funkhouser, Area Representative
(Territory Limited to State of South Carolina)

Michael Funkhouser has been a Butterfly Area Representative since May 2006. From December, 1994 to present, he has been an Investigator with ISD in Lexington, North Carolina.

Geoffrey I. Henderson, Area Representative
(Territory Limited to State of Colorado)

Geoffrey I. Henderson has been a Butterfly Area Representative since June 2006. From October, 1988 to the present, he has been an MSRP, Reg. Rep. For Omnivest, Inc. in Denver, Colorado.

Susie Henderson, Area Representative
(Territory Limited to State of Colorado)

Susie Henderson has been a Butterfly Area Representative since June 2006. From September, 1997 to September, 1998, she was Airline Sales Account Manager for The Travel Society, Inc. in Littleton, Colorado. From September, 1998 to September, 2000, she was Director of Group Air Sales for TG Worldwide, Inc., in Denver, Colorado. From

July, 2001 to November 22, 2004, she was Director of Sales and Marketing for The Travel Society, Inc. in Denver, Colorado.

Donna Barnhart, Area Representative

(Territory Limited to State of Arkansas and Oklahoma)

Donna Barnhart has been a Butterfly Area Representative since December 2005. From August, 1999 to February, 2002, she was a Sales Executive for Clear Channel in Little Rock, Arkansas. From February, 2002 to Present she has been a Sales Executive for Pitney Bowes in Little Rock, Arkansas.

David Heun, Area Representative

(Territory Limited to State of Pennsylvania)

David Heun has been a Butterfly Area Representative since March 2006. From 1980 to Present, he has been self-employed in Warrington, Pennsylvania.

Ken Uptain, Area Representative

(Territory Limited to State of Washington)

Ken Uptain has been a Butterfly Area Representative since July 2006. From June 1998 to present he has been an Owner of Essentia Water, Inc. in Bothell, Washington.

Haesook Kim, Area Representative

(Territory Limited to State of California)

Haesook Kim has been a Butterfly Area Representative since July 2006. From June, 2005 to February, 2006, Haesook was Nurse Manager for Kaiser Permanente Medical Center in Sacramento, California. From April, 2000 to December, 2004, Haesook was President of Secure Nursing Service, Inc. in Los Angeles, California. From January, 1989 to February, 2000, Haesook was Nurse Manager for Cedars Sinai Medical Center in Los Angeles, California.

Ryan Hokenson, Area Representative

(Territory Limited to State of Minnesota)

Ryan Hokerson has been a Butterfly Area Representative since January, 2006. From January 2006 to Present he was the Owner of Dakota Blessing. From April, 2006 to August, 2006, he was in Sales for Sears in Bloomington, Minnesota. From October, 2005 to April, 2006, he was in Outside Sales for MJ's Contract Appliance in Oakdale, Minnesota. From January, 2003 to November, 2005, he was in Sales for Sears in Bloomington, Minnesota. From June, 2000 to December, 2002, he was a Manager for Wireless Concepts in Grand Forks, North Dakota.

Russell Amerson, Area Representative

(Territory Limited to State of South Carolina)

Russell Amerson has been a Butterfly Area Representative since January 1, 2006. From December, 1998 to December, 1999, he was a Representative for Edward Jones in Elgis, South Carolina. From January, 2000 to June, 2003, he was a CFP for Amerson & Arsils in Elgis, South Carolina. From July, 2003 to December, 2005, he was a self-employed CFP in Elgis, South Carolina. From January, 2006 to present, he was a CFP for A&A Small Business Solutions in Elgis, South Carolina.

David B. Nagle, Area Representative

(Territory Limited to State of Pennsylvania)

David B. Nagle has been a Butterfly Area Representative since December 2005. From August, 1999 to October, 2004, he was a General Manager for Odyssey Fitness in Wilkes-Barre, Pennsylvania. From November, 2004 to Present, he has been self-employed in Forty Fort, Pennsylvania.

Kelly Davidson, Area Representative

(Territory Limited to State of Oregon and Washington)

Kelly Davidson has been a Butterfly Area Representative since June 2006. From January, 2001 to Present, Kelly has been the Owner of Home Instead Senior Care in Bend, Oregon. From February, 1989 to July 12, 2002, Kelly was Sales Supervisor for High Desert Beverage in Bend, Oregon.

Ali (Alene) Davidson, Area Representative

(Territory Limited to State of Oregon and Washington)

Ali Davidson has been a Butterfly Area Representative since June 2006. From January, 2001 to Present, Ali has been a Director for Home Instead Senior Care in Bend, Oregon. From September 1997 to February 2005, Ali was a self-employed Counselor in Bend, Oregon.

Matt VanSooy, Area Representative

(Territory Limited to State of Oregon and Washington)

Matt VanSooy has been a Butterfly Area Representative since June 2006. From September, 1998 to June, 2001, he was a Student at Linfield College in McMinnville, Oregon. From June, 2001 to December, 2002, he was an Insurance Agent for AFLAC in Portland, Oregon. From June, 2002 to December, 2002, he was an Investment Advisor Representative for Securian Financial Services in Portland, Oregon. From January, 2002 to December, 2003, he was an Independent Consultant for Property Management/Business Consulting in Portland and Bend, Oregon. From December, 2003 to September, 2004, he was Resident Manager for Princeton Property Management in Portland, Oregon. From June, 2005 to August, 2006, he was Investment Advisor Representative for Waddell and Reed in Bend, Oregon. From October, 2004 to Present, he was Office Manager for Home Instead Senior Care in Bend, Oregon.

Darwin W. Chevalier, Area Representative

(Territory Limited to State of Washington)

Darwin W. Chevalier has been a Butterfly Area Representative since July 2006. From January 1990 to Present, he has been Owner of Perkins School.

There are no franchise brokers other than as described in this Item 2.

ITEM 3. LITIGATION

Shelly's Body Shoppe, LLC v Lorraine Cervoni, Patricia Jarusinsky, and Butterfly Fitness, Inc., (State of Connecticut, Superior Court, Case No. CV-064010769). This action was filed on May 25, 2006. The plaintiff, who owns a women's fitness center in Connecticut, alleges breach of a non-compete contract and tortious interference with plaintiff's contracts and business relations by defendants Cervoni and Jarusinsky, who are former employees of plaintiffs, and unfair trade practices by all defendants. Defendant Cervoni is currently a Butterfly Life franchise

owner in Connecticut, and defendant Jarusinsky is employed at defendant Cervoni's Butterfly Life business. Plaintiff alleges that we knew or should have known that defendant Cervoni was subject to restrictive covenants. The plaintiff is seeking an injunction (i) restraining defendant Cervoni from participating in the ownership or operation of her competing Butterfly Life business, and (2) restraining defendant Jarusinsky from participating in the operation of defendant Cervoni's Butterfly Life business; unspecified damages; unspecified punitive damages; and attorney's fees and costs. We denied the claims against us. This matter was settled on September 18, 2006, by payment of an agreed amount by an insurance carrier to the franchisee's former employer, without any admission of liability on our part or on the part of our franchisee. The case was dismissed with prejudice.

Butterfly Life, Inc. v Susan Kruse and Linda Coogan, (American Arbitration Association, Western Case Management Center, Case No.: 74 114 00618 05). On September 9, 2005, we filed an amended claim for arbitration against the named franchisees for breach of contract pursuant to a November 5, 2003 Franchise Agreement; breach of the implied covenant of good faith and fair dealing; misappropriation of trade secrets; and interference with economic relationship. The franchisees filed a counter claim for fraud, intentional misrepresentation, violation of the California Franchise Act, breach of contract and breach of the duties of good faith and fair dealing. We filed a general denial and affirmative defenses against the franchisees' counterclaim. On October 6, 2005, the parties entered into a Settlement Agreement which resolved all differences without either party admitting liability. No money was paid. There was a mutual release of claims by the parties and the case was dismissed.

Beth J. Shaw vs. Butterfly Fitness, Inc., (Superior Court of the State of California, County of Los Angeles, Case No.: BC329592). On March 1, 2005, Ms. Shaw filed suit against us alleging improper use of a person's name or image in advertising or soliciting under California Civil Code Section 3344; appropriation of likeness; quasi contract and breach of contract. Her complaint demanded (without specifying an amount) damages for profits and compensation from the unauthorized sale of products and services using her picture and name, damages from emotional distress, punitive damages, and attorneys fees and costs. Ms. Shaw entered into a Trainer Independent Contractor Agreement for certain yoga, training and consulting services with us on October 15, 2003, which we believe gave us certain rights to exploit the results and proceeds of Ms. Shaw's services in perpetuity. Ms. Shaw alleged that the agreement terminated on October 15, 2004 and that any further use of her name or likeness is unauthorized. The parties entered into a Settlement Agreement on November 1, 2005. We agreed to pay Ms. Shaw \$10,000, and Ms. Shaw agreed to complete a shoot for five new yoga DVDs for us. Ms. Shaw will receive royalties on the sales of these five DVDs. We may market, promote and sell the DVDs in perpetuity, but otherwise agreed to cease using Ms. Shaw's image and likeness in promotional materials after December 31, 2007. The case has been dismissed.

Other than these three actions, no litigation is required to be disclosed in this Offering Circular.

ITEM 4. BANKRUPTCIES

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

ITEM 5. INITIAL FRANCHISE FEE

The initial franchise fee for any Butterfly Life Center is \$29,500. The initial franchise fee is payable upon the signing of the Franchise Agreement and is nonrefundable. In addition, equipment cannot be ordered and an opening cannot be scheduled until you have completed your orientation training.

If you are an existing Butterfly franchisee who has operated a center under a Butterfly franchise agreement for which the initial term has expired, you may elect to renew your franchise agreement as described in Item 17. You must pay us a renewal fee of \$5,000, described in Item 6.

The initial franchise fee does not include the cost of equipment, sales tax, shipping or installation which you must pay directly to approved vendors of Butterfly Fitness, Inc. The cost range is described in Item 7. You are also required to purchase or lease a point-of-sale computer system and accounting software. This point-of-sale equipment is not included in the initial franchise fee and you will be responsible for purchasing the system.

Area Development Agreement

We may provide certain of our franchisees with an opportunity to develop at least three multiple centers under the terms of an "Area Development Agreement," attached as Exhibit "E" to this Circular. Additional information regarding the Area Development Agreement are contained in Item 12 of this Offering Circular. Under an Area Development Agreement, a franchisee agrees to enter into new Butterfly franchise agreements in a specified geographic area under certain terms and conditions, including opening an agreed number of centers on or before pre-determined dates in order to maintain exclusive development rights within a specified geographic area. The franchisee must enter into the then current Franchise Agreement for each new center established.

Under an Area Development Agreement, franchisees will be required to pay a reduced initial franchise fee calculated per the chart below. Of this amount, the amount due on signing the Area Development Agreement is \$12,500 times the number of centers authorized under the Agreement plus \$12,500. Upon signing the Area Development Agreement, the franchisee also pays \$12,500 of the initial franchise fee for the first location. The fees are not refundable under any circumstances.

Your payment and designation deadlines will be specified in Schedule A-1 of the Area Development Agreement. The following chart describes the discounted initial franchise fees and payment schedule:

Locations - X	Reduced Initial Franchise Fee Per Location =	Total Initial Franchise Fees	Calculation of Amount Due at signing of ADA			Remaining Amount Due
			Franchise Fees Due at Signing (\$12,500 x # of locations)	+ First Location Fee Due at Signing	= Total Due at Signing	
Three	\$26,000	\$ 78,000	\$ 37,500	\$ 12,500	\$ 50,000	\$ 28,000
Four	26,000	104,000	50,000	12,500	62,500	41,500
Five	26,000	130,000	62,500	12,500	75,000	55,000
Six	26,000	156,000	75,000	12,500	87,500	68,500
Seven	26,000	182,000	87,500	12,500	100,000	82,000
Eight	26,000	208,000	100,000	12,500	112,500	95,500
Nine	26,000	234,000	112,500	12,500	125,000	109,000
Ten	24,000	240,000	125,000	12,500	137,500	102,500

	Total Due at signing \$	Second Location 180 days after signing	Third Location 360 days	Fourth Location 540 days	Fifth Location 720 days	Sixth Location 900 days	Seventh Location 1080 days	Eighth Location 1260 days	Ninth Location 1440 days
Three	50,000	\$14,000	\$14,000	0	0	0	0	0	
Four	62,500	14,000	14,000	\$13,500	0	0	0	0	
Five	75,000	14,000	14,000	14,000	\$13,000	0	0	0	
Six	87,500	14,000	14,000	14,000	14,000	\$12,500	0	0	
Seven	100,000	14,000	14,000	14,000	14,000	14,000	\$12,000	0	
Eight	112,500	14,000	14,000	14,000	14,000	14,000	14,000	\$11,500	
Nine	125,000	14,000	14,000	14,000	14,000	14,000	14,000	14,000	\$11,000
Ten*	137,500	14,000	14,000	14,000	14,000	14,000	14,000	14,000	\$4,500

* = An Area Development Agreement for more than ten locations is subject to negotiation.

The opening of the additional centers will depend upon the franchisee being in good standing under its current Franchise Agreement with us and the historical development activity of the franchisee.

Area Representative Agreement

This section only applies to Area Representatives

An Area Representative must pay to Butterfly a fee in the amount of \$100,000 for a 10 Unit Territory; \$175,000 for a 25 Unit Territory and \$250,000 for a 50 Unit territory.

All fees are payable in full when the relevant agreement is signed and are non-refundable. We charge identical initial franchise fees to all franchisees, area developers, and area representatives, respectively, except as disclosed in this offering circular. The actual range of initial fees paid during our fiscal year ended September 30, 2006 for individual Center franchises was \$19,500 to \$29,500; for area development franchises was \$17,500 (to develop three Centers) to \$26,000 (to develop three Centers); and for area representative franchises was \$100,000 (for one ten unit area) to \$500,000 (for two fifty club territories).

ITEM 6. OTHER FEES**Individual Center Owners and Area Developers**

<i>Name of Fee</i>	<i>Amount</i>	<i>Due Date</i>	<i>Remarks</i>
Royalty* ^{1,2}	\$1,000 per month per Butterfly Life Center Location.	Payable monthly on the 5th day of the current month via direct electronic debit of your bank account	All royalty fees are payable to us. All royalty fees are nonrefundable. Royalty includes rental of certain exercise video programs for full sized Centers.
Local Advertising By You ³	Varies	As Incurred	See Note 3
Point of Sale Computer Hardware and Software and Updates and Maintenance ⁴	Up to \$400 per month	As incurred	You must update and maintain your POS Computer system. Fees payable to third party vendor or us.
Costs of testing products and equipment ^{5*}	Butterfly actual costs	As incurred	We may refuse to accept proposed products or equipment if they do not meet our standards. This would preclude your use of these products or equipment.
Additional Training ^{6*}	About \$100 per hour plus travel and lodging expenses	Before training	Training for the initial manager is described in Item 11.
Delinquency ^{7*}	\$50 if not paid within 5 days; plus 1 1/4% per month (or maximum amount permitted by state law if this amount is less than 1 1/4% per month) of amount due if not paid within 30 days	On demand	You must pay delinquency charges on all past due royalty fees you owe to us plus attorneys' fees and costs that we incur to collect unpaid fees from you.

<i>Name of Fee</i>	<i>Amount</i>	<i>Due Date</i>	<i>Remarks</i>
Assignment or transfer ^{8*}	\$5,000	Before consummation of assignment or transfer	Payable if you sell your franchise, subject to our approval.
Renewal*	\$5,000	No less than 6 months and no more than 9 months before the end of the term of your franchise agreement	Payable to us and is nonrefundable. Renewal is subject to meeting certain conditions.
Attorneys' Fees and Costs ^{9*}	Our actual costs	Upon termination of Franchise Agreement for your default as incurred by us	
Insurance Premiums ¹⁰	Premiums will vary. If we pay a premium to avoid lapse, you must pay us the cost plus a fee of \$1,500	Will vary	Paid to insurance company or agency; \$1,500 fee would be payable to us if you lapse in your payments
Liquidated Damages*	\$24,000 for future royalties and damages if you are terminated for good cause; plus \$100 per day up to a maximum of \$36,000 if you stay open after termination or expiration or infringe on intellectual property	In certain situations, after termination or expiration of Franchise Agreement	Section 11.02 of Franchise Agreement
Audit Costs	Varies	Upon billing after audit	Payable only if audit shows an understatement of at least 2%

FOOTNOTES:

*=Payable to Butterfly. Estimates are for one Butterfly Center. Unless otherwise indicated above, all of the above fees are payable to Butterfly. All fees are nonrefundable.

NOTE 1. Royalty

You pay a monthly royalty from the earlier of (a) the date you sign your first membership agreement from any customer (regardless of whether you collect the membership fee or hold the membership agreement) OR (b) the date of the opening of each Butterfly Life Center operated under a Franchise Agreement OR (c) 180 days after the franchise agreement is signed. This amount is payable monthly by the fifth (5th) day of each month, and will be deducted electronically on the fifth day of each month from your designated checking account via direct debit. You agree to sign all necessary authorizations required in order for these direct debit transactions to occur. If, for any reason, you are more than five (5) days late in paying this royalty, you will be charged a \$35 late fee; and if you are more than 30 days late, you will be charged the late fee plus interest at the rate of one and one-quarter percent (1 1/4%) per month or, if the maximum interest rate permitted by state law is less than one and one-quarter percent (1 1/4%) per month, interest at the maximum rate.

Certain existing franchisees paid a royalty of \$600 per month and an advertising fee of \$400, but this was discontinued the end of 2005.

NOTE 2. Direct Debit Arrangement

The Franchisor shall directly debit the Franchisee's checking account on the 5th day of every month during the term of the Franchise Agreement for the monthly royalty fee and any other fees or costs due and owing to the Franchisor for activity in the prior month. The direct debit arrangement shall be entered into between Franchisee and its bank(s) and shall provide for the electronic transfer of funds from Franchisee's bank(s) to the Franchisor's

accounts the full amount due no later than the end of business on the 5th day of each month. Franchisee shall maintain sufficient funds in its account at all times to ensure that all amounts due to the Franchisor and its affiliates and subsidiaries are promptly and fully paid.

NOTE 3. Advertising

You must participate, at your own expense, in drives, contests and other local and national programs, related to sales promotions established by us and must honor any coupons or similar promotional material issued by us or other franchisees. You are required to participate in certain day pass and free membership programs described in Item 11.

NOTE 4: Point of Sale Computer System

We may require you to purchase or lease a point-of-sale computer system and accounting software that we specify. These items are not included in the initial franchise fee and you will be responsible for purchasing or leasing these items from designated vendors or from us.

NOTE 5. Costs of Testing Services, Products and Equipment

If you want to offer new services or use any products, equipment or other items that we have not approved, you may request that we approve the items. We may test the item, and you must pay any costs incurred by us in connection with the testing. These fees are not refundable.

NOTE 6. Additional Training

Training for the initial general manager is described in Item 11. Additional training may be purchased at a price agreed upon before beginning of the training. We do not charge any tuition or registration fees for the initial manager training for one owner and one manager for your first Center. You must pay us (at our actual costs) for any training supplies or materials. You or your employees must pay any salaries, wages, benefits, meals and travel expenses incurred by you or your employees during the training process.

If additional opening assistance is requested by you or deemed necessary by Butterfly, you must reimburse us (at our actual cost) for our reasonable expenses incurred in providing the Butterfly representative's salary and living and travel expenses. The expenses for which you must reimburse us would normally amount to approximately \$100 per hour, (which includes salary for one (1) Butterfly representative) plus travel expenses (airfare and rental car for additional travel period), lodging and meals.

We may require you and your employees to attend and successfully complete subsequent training, but no individual will be required to travel more than 100 miles more than twice per year. The cost will be approximately \$100 per hour of training.

NOTE 7. Delinquency Charges and Costs of Collection

You are required to pay a late fee of \$35 (if you are more than five days late) and a sum equal to the lesser of one and one-quarter percent (1 1/4%) per month, or the maximum rate permitted by applicable state law, on all accounts which are more than 30 days past due, as well as a sum equal to Butterfly attorneys' fees and costs incurred in the collection of any amounts due from you to Butterfly.

NOTE 8. Assignment

If you assign your interest in the Franchise Agreement in accordance with Section 13, you (or the transferee) will be required to pay to Butterfly \$5,000, plus our legal and accounting fees and other costs associated with the transfer. The Area Development Agreement is not assignable.

NOTE 9. Attorney's Fees and Costs

You shall reimburse Butterfly for all costs, including legal fees and court costs incurred in defending claims, suits, proceedings or judgments arising in connection with your operation of the Butterfly Life Center.

NOTE 10. Insurance

You must name us as an additional insured. If you fail to obtain or maintain required insurance coverage, Butterfly may procure the coverage and you must pay Butterfly costs, plus a reasonable administrative fee determined solely by us in an amount up to \$1,500, incurred in placing insurance coverage for you.

Area Representatives

This section only applies to Area Representatives

<i>Name of Fee</i>	<i>Amount</i>	<i>Due Date</i>	<i>Remarks</i>
You receive compensation on initial fees	50% of initial franchise fees received from individual center franchisees	On or before the 20th day of the calendar month following the calendar month to which the fee relates	See Notes 1 and 2
You receive compensation on continuing royalty fees	\$300 per Center for territories with 10 or 25 Centers; or \$400 per Center for territories with 50 centers	On or before the 20th day of the calendar month following the calendar month to which the fee relates	See Notes 1 and 2
Additional Assistance	Charges for assistance beyond reasonable levels, currently up to \$100 per hour plus travel and lodging	Upon request	Payable only if you request assistance beyond reasonable levels of sales support or levels as specified in the regional franchise manual
Assignment or transfer ^{7*}	20% of the Initial Area Representative Fee	Before consummation of assignment or transfer	Payable if you transfer your franchise, subject to our approval.
Renewal*	20% of the Initial Area Representative Fee	No less than 12 months and no more than 18 months before the end of the current term	Payable to us and is nonrefundable. Renewal is subject to meeting certain conditions.
Attorneys' Fees and Costs ^{8*}	Our actual costs	Upon termination of Area Representation Agreement	Payable only if we incur attorneys' fees and costs upon your termination due to default
Compliance Costs	\$0 to \$5,000	As incurred	See Note 3
Attendance at Meetings	\$500 to \$1,500	As incurred	See Note 4
Insurance Premiums	Premiums will vary. See footnote 10 to franchisees ongoing costs above	Will vary	Paid to insurance company or agency

FOOTNOTES:

NOTE 1.

We reserve the right to increase or decrease franchise fees and royalty fees at any time and accordingly, the fees payable to you. However, you will continue to receive 50% of the initial fees collected, and either 30% or 40%, as described below, of the royalty fees collected. Royalties are currently \$1,000 month per Butterfly Life Center. Your compensation on royalty fees will be limited to the fixed monthly amount. You will not receive compensation on renewal or transfer fees paid to us, or on advertising fees, cost reimbursements, training fees or other fees required to be paid by franchisees under their respective Franchise Agreements. If we incur expenses to collect a

royalty fee, your compensation will be reduced by the prorated portion of the collection costs. We also have the right to reasonably compromise, defer, reduce, waive or forgive any royalty fee or to otherwise modify the Franchise Agreements upon notice to you.

NOTE 2.

As full compensation for the representation and support services you provide us, for each Butterfly Life Center franchise we grant within your territory while the Area Representative Agreement continues in effect, we will pay you: (i) 50% of the initial franchise fee we receive from the franchisee; and (ii) a portion of the continuing monthly royalty fees actually paid by each Butterfly Life Center in your territory that is open and paying the full royalty. We will pay you \$300 per Center if your franchise is for up to 49 Centers, or \$400 per Center if your franchise is for 50 or more Centers. You will not receive compensation on any royalty fees paid for any Centers owned directly or indirectly by you. In 2005, we sold three area representative franchises for 100 Center territories and those area representatives will receive compensation on royalties at \$300 per Center.

NOTE 3.

If applicable, you must reimburse us for the cost of registering your franchise sales personnel with the franchise regulatory authority for your Territory. If the regulatory authority requires any performance bonds to be posted for you or your sales personnel, then you must promptly obtain, maintain and pay for the necessary bonds. Currently, the states of Illinois, New York and Washington require registration of franchise brokers.

NOTE 4.

Area representatives may be required to attend in-person at a meeting as Franchisor may require at Representative's own expense four times every year, at locations to be designated by Franchisor.

ITEM 7. INITIAL INVESTMENT

Individual Center Owners

Your Estimated Initial Investment	Amount	Method of Payment	When Due	To Whom Payment Is To Be Made
Initial Franchise Fee	\$29,500 per fitness center to be developed (See Note 1)	Cash	\$29,500 upon signing of franchise agreement. Reduced if subject to Area Development Agreement. See chart below and Item 5.	Butterfly
Real Estate and Improvements	\$3,000 - \$16,000 (\$1,500 to \$9,500 for a Butterfly Life (Light) Center) (See Note 2)	As Incurred	During Lease Term or at Purchase	Landlord or Seller and/or Construction Company
Living Expenses while Training	\$750 to \$800 (See Note 3)	As Incurred	During training of initial general manager	Hotels, restaurants and airlines
Non Fitness Equipment	\$16,960 to \$19,400 (\$4,385 to \$5,855 for a Butterfly Life (Light) Center) (See Note 4)	As Incurred	Before operation	Third party vendor, or us.

Your Estimated Initial Investment	Amount	Method of Payment	When Due	To Whom Payment Is To Be Made
Fitness Equipment (including tax, est. shipping, est. installation)	\$17,800 to \$19,000 (\$15,000 to \$18,000 for a Butterfly Life (Light) Center) (See Note 5)	As Incurred	Before operation	Third party vendors, or us
Pre-Opening Advertising	\$1,000 to \$1,500 (See Note 6)	As Incurred	Before Opening	Third party vendors; minimum \$4,500
Inventory	\$1,200 - \$1,400	As Incurred	Before Opening	Third party vendors approved by Butterfly, or us
Miscellaneous and Additional Funds	\$19,356 - \$51,058 (\$7,786 to \$15,695 for a Butterfly Life (Light) Center) (may vary see Note 7)	As Incurred	During Operation	Various
TOTAL	\$89,566 to \$138,658 for a full size Center (\$59,921 to \$80,850 for a Butterfly Life (Light) Center)			

Area Developers (for three to 10 Centers)

Your Estimated Initial Investment	Amount	Method of Payment	When Due	To Whom Payment Is To Be Made
Initial Franchise Fee	\$78,000 - \$240,000 (for three to ten Centers) (See Note 1)	Cash	\$12,500 for each Center to be opened under Area Development Agreement due upon signing of Area Development Agreement. Balance due upon signing each individual Franchise Agreement. See Item 5.	Butterfly
Real Estate and Improvements	\$9,000 to \$160,000 (\$4,500 to \$95,000 for a Butterfly Life (Light) Center) (See Note 2)	As Incurred	During Lease Term or at Purchase	Landlord or Seller and/or Construction Company
Living Expenses while Training	\$2,250 to \$8,000 (See Note 3)	As Incurred	During training of initial general manager	Hotels, Restaurants and Airlines
Non-Fitness Equipment	\$50,880 to \$194,000 (\$13,155 to \$58,550 for a Butterfly Life (Light) Center) (See Note 4)	As Incurred	Before operation	Third party vendors, or us

Your Estimated Initial Investment	Amount	Method of Payment	When Due	To Whom Payment Is To Be Made
Fitness Equipment, including tax, est. shipping, est. installation	\$53,400 to \$190,000 (\$45,000 to \$180,000 for a Butterfly Life (Light) Center) (See Note 5)	As Incurred	Before operation	Third party vendors, or us
Pre-Opening Advertising	\$3,000 to \$15,000 (See Note 6)	As Incurred	Before opening	Third party vendors minimum \$4,500 per Center
Inventory	\$3,600 to \$14,000	As Incurred	Before opening	Third party vendors approved by Butterfly, or us
Miscellaneous and Additional Funds	\$58,068 to \$510,580 (\$23,358 to \$156,950 for a Butterfly Life (Light) Center) (may vary, see Note 7)	As Incurred	During operation	Third party vendors approved by Butterfly, or us
TOTAL	\$258,198 - \$1,331,580 (\$172,863 to \$767,500 for a Butterfly Life (Light) Center)			

NOTE 1: As further detailed in Item 5, \$29,500 is the maximum initial franchise fee for a territory. The fee is reduced if you enter into an Area Development Agreement for three or more fitness centers. In addition, we charge an initial fee to Area Representatives. The initial franchise fee is nonrefundable. See explanation in Item 5.

NOTE 2: These costs may be less (\$1,500 - \$9,500 per center) if you open a smaller Butterfly Life (Light) Center. You must provide your own financing for the construction of each Butterfly Life Center, the acquisition and installation of fixtures and equipment, and/or the acquisition of any lease or monthly rental payments for land, building, leaseholds and other equipment. The cost of these items will vary considerably depending on, among other things, the type of site and local conditions, the size of the property and the cost of obtaining financing. The estimate is based on hypothetical leasehold improvements to a basic "vanilla" shell of \$10,000 to \$12,000. Free standing buildings, regional mall locations and locations in multi-story buildings will cost more to build than single story strip retail buildings. Stores with multiple storefronts and extensive signage will also cost more. Frequently landlords will pay part of tenant improvements, including carpet, paint, and signage. If these costs are not paid by the landlord, you may have to pay these costs yourself.

We have assumed that you will be leasing your facilities and that you will not buy or build your facility. The center site and all improvements must be constructed or modified to comply with plans and specifications approved in advance by Butterfly.

NOTE 3: This estimate is for lodging, meals and transportation. In addition, Butterfly will charge approximately \$100 per hour (payable to Butterfly) if a trainee requires additional or remedial training beyond the basic course of training.

NOTE 4: Based upon our experience, the cost of the standard startup package from designated vendors or from us including furniture, fixtures, equipment (other than initial exercise equipment and computerized point of sale equipment and membership management system) and decor varies but will generally be between \$16,900 and \$19,400 per center. The cost varies and depending on distance, location from

supplier and mode of delivery (not including shipping and handling). These costs may be less (\$4,385 to \$5,855 per Center) if you open a smaller Butterfly Life (Light) Center.

NOTE 5: You must purchase initial weight training, fitness and exercise equipment from designated third party vendors or from us. See Item 8 for a description of our approval process. These items are not included in the initial franchise fee and you will be responsible for purchasing or leasing these items. These costs may be less (\$15,000 to \$18,000 per Center) if you open a smaller Butterfly Life (Light) Center.

NOTE 6: The Franchise Agreement requires you to spend \$1,000 to \$1,500 per Center in pre-opening advertising from designated vendors or from us.

NOTE 7: We have based our estimate of three month's Additional Funds on our estimates of regularly occurring operating expenses that have been incurred by our franchisees, less income earned. This estimate does not include any salary or personal expenses for you, nor does it include any estimate for business losses beyond the first three months. You must carry insurance in accordance with the Franchise Agreement. We estimate that between \$2,000 and \$3,000 will be required during the initial three months (25% deposit with the remainder paid over nine months) for insurance premiums relating to each Butterfly Life Center. Some insurance companies may require larger premiums, monthly payments or deposits. Licensing laws and permit requirements including fees may vary from state to state and city to city. You are obligated to comply with these laws. Depending upon lease provisions and local regulations and requirements, deposits for utilities vary. These figures are just estimates and we cannot guarantee that you will not have higher costs, or that you will ever achieve profitability. Competitive conditions described in Item 1 above affect these costs. This also includes prepaid expenses and deposits (e.g. utilities and rent); initial supplies; legal and accounting fees (if any); taxes, licenses and permits; advertising and marketing; other variable costs (e.g. electricity, telephone, heat, etc.); and general and administrative costs. You will pay your own legal and other expenses in connection with the review and negotiation of your lease. If you open a smaller Butterfly Life (Light) Center, these costs may be less (\$7,786 to \$15,695 per Center).

We do not offer financing. We do not guarantee lease or note obligations. All amounts are non-refundable.

Area Representatives

This section only applies to Area Representatives

Your Estimated Initial Investment	Amount	Method of Payment	When Due	To Whom Payment Is To Be Made
Initial Franchise Fee	\$100,000 - \$250,000 or more. (See Note 1)	Cash	Upon signing the Area Representative Agreement. See Item 5.	Butterfly
Rent	\$0 - \$3,000 (totals for the first three months) (See Note 2)	As Incurred	Due each month	Landlord
Computer and Equipment	\$3,000 - \$5,000	As Incurred	Before operation	Third party vendor or us. Approx. \$330 per month per Center
Inventory	\$1,000 - \$3,000	As Incurred	Before operation	Third party vendors or us

Your Estimated Initial Investment	Amount	Method of Payment	When Due	To Whom Payment Is To Be Made
Miscellaneous	\$4,000 - \$6,000 (See Note 3)	As Incurred	As incurred	Third party vendors or us
Additional Funds (estimated for 3 mos.)	\$10,000 - \$20,000 (See Note 4)	As Incurred	During Operation	Various
TOTAL	\$118,000 - \$287,000			

NOTE 1: The initial area representation fee is \$100,000 for a 10 Unit Territory; \$175,000 for a 25 Unit Territory and \$250,000 for a 50 Unit territory. If you choose to open a company-owned Butterfly Life Center, you will incur the initial estimated investment listed in the first chart in this Item 7. See Item 5. Franchisor will waive the initial fee for any first Center opened by Representative under a separate Franchise Agreement during the initial term of this Agreement, if Representative commits to open a 50 Center territory, and Representative is in full compliance with the Area Representative Agreement.

NOTE 2: You may operate your area representative business out of your home office or from your company-owned Butterfly Life Center. If you lease space for your office, we estimate you will incur the costs described above.

NOTE 3: This estimates is for miscellaneous costs such as insurance, travel and living expenses during training, utilities, etc.

NOTE 4: These are estimates of your initial three-month start-up expenses including three business seminars, less income earned, not including any salary or person expenses for you. These figures are just estimates and we cannot guarantee that you will not have higher costs, or that you will ever achieve profitability. Competitive conditions described in Item 1 above affect these costs. This also includes prepaid expenses and deposits (e.g. utilities and rent); initial supplies; insurance premiums; legal and accounting fees (if any); taxes, licenses and permits; advertising and marketing; other variable costs (e.g. electricity, telephone, heat, etc.); and general and administrative costs. You will pay your own legal and other expenses in connection with the review and negotiation of your lease. If we assist you in negotiating the lease or negotiating our required option to assume the lease, we may charge you up to \$3,000 of our fees. This amount is included in this Item 7 estimate.

We do not offer financing. We do not guarantee lease or note obligations. All amounts are non-refundable.

ITEM 8. RESTRICTIONS-ON SOURCES OF PRODUCTS AND SERVICES

In purchasing equipment (including computer hardware and software), supplies, fixtures, inventory, real estate or any other item, you are required to meet our specifications and deal with suppliers designated or approved by us. (See Item 11 of this offering circular for specific information regarding computer hardware and software.)

You must purchase the following from approved or designated suppliers:

- Weight training, fitness and exercise equipment.
- Custom fitness, nutritional education and inspirational media sold on DVD, VHS, CD ROM and cassette tapes. See Item 14 regarding videos that you must purchase.
- Private label fitness, exercise and life style clothing, shoes, and accessories, including eyewear, hats and athletic sport under garments.
- Private label fitness equipment and sports accessories.
- Private label Nutritional supplements including, vitamins, minerals, Amino Acids, and Herbal supplements.
- Private label meal replacement products, including bars, drinks and powders.
- Private label metabolism enhancers.
- Private label sport drinks including water.

This list will change periodically and you will be provided new lists as updates to the Confidential Operations Manual.

You must purchase a minimum inventory of \$1,200 of private label retail items from approved suppliers. You must replace and maintain this level of inventory. We currently do not derive revenue or material consideration from the sale to you of inventory or other required purchases, but may do so in the future.

We may set up relationships with vendors where we might receive rebates on account of some of your purchases, in an amount up to \$5,000 or more per franchise. We may also become the only approved vendor for certain items.

In our latest fiscal year ended September 30, 2006, our total revenue from rebates, commissions or other payments from third party vendors of any products or services to franchisees was \$ 0.

You must also use an approved direct debit arrangement provider and lease certain software and hardware (you may purchase your own hardware, however, you must license the software and use the data and fund transfer services) for a computerized point of sale and membership system. You will make your payments directly to the third party provider.

You must purchase a TV and Video/music system from one of our approved suppliers or that meets our specifications. We do not receive revenue from the sale of the TV and Video/music system

You must lease certain DVD video programs from us (except for Butterfly Life (Light) smaller Centers, which will not have group class space). The rental cost for the basic set of programs is included in your monthly royalty fee. The list of basic programs (which we may change periodically) is listed in the Confidential Operations Manual. Additional programs may be offered for an additional fee.

We are the only approved supplier for diet books, journals, fashion books, and home DVDs. We have no affiliates that currently offer or sell equipment, products or supplies to you, but we may in the future. Currently, we have only one designated vendor in each of the following categories: couch and chair, retail clothing, timing light, 10 piece equipment, rebounder, signs and posters, the Web site, retail racks, pedestal tables, window poster frames, lockers and cubbies, and key tags.

In order to protect, maintain and foster the reputation, goodwill, and public acceptance of our trade names, trademarks, service marks and products, we reserve the right (a) to determine, approve and supervise the quality of service and sale of the products sold by the franchised business and (b) to inspect the premises, the equipment and products to maintain the quality and standards of the products on the premises. You are required to purchase all fixtures, equipment, inventory and other supplies, products, ingredients and materials used in the operation of the Butterfly Life Center from suppliers approved and not subsequently disapproved by us. A current list of approved suppliers shall be maintained by us at our corporate headquarters and shall be made available to existing franchisees.

If you desire to purchase any of these items from a supplier that has not previously been approved by us, either you or the supplier must submit a written request for approval to us. As a condition of our approval, we may require that our representative inspect the supplier's facilities and that samples from the supplier be delivered to us or our designee for testing. Based on the information and samples supplied, we will test the items supplied and review the proposed supplier's financial records, business reputation, delivery performance, credit rating and other information. You or the supplier may be charged a fee not to exceed the cost of the inspection or testing. Our review is typically completed in thirty (30) days.

You may install at your Butterfly Life Center only the decor that is approved by us and conforms to the appearance standards and specifications required by us. We may make available for purchase these artifacts, signs, pictures, posters, and similar items from our inventory, or from approved third parties, at a cost equal to the cost to us plus shipping and handling costs.

Except for exercise equipment purchased from WWLWC and converted into Butterfly Life Centers, neither Butterfly nor any person affiliated with us is among those suppliers currently recommended by us, your obligations described in this Item 8 arise by reason of provisions of the Franchise Agreement, and not by reason of any other device or practice of Butterfly.

Based on our research, testing and field input and experience, we may modify or update our Butterfly Life Center site selection guidelines and Butterfly Life Center construction plans and specifications. We will communicate those modifications to you and other franchisees in writing in order to allow you to comply with them as necessary. Based on our research, testing and field input and experience, we may modify our standards and specifications and approved services or items, brands or suppliers of equipment, furnishings, or other products and supplies. We will communicate those modifications to you by revisions in the Confidential Operations Manual, or through bulletins or other written communications or on-line electronic communications. We will not communicate to you our specifications (or modifications) that we consider proprietary trade secrets.

If you want to purchase any item or service that is not listed as an approved brand or item or otherwise has not been approved for use in a Butterfly Life Center by us, you may request that we evaluate and approve the item. In some instances, we may require that you submit a sample of the item to us or an independent laboratory designated by us. We will charge you for the cost of the testing. The time required for testing and evaluation depends upon a number of factors, including the nature of the item and whether Butterfly or an independent laboratory will perform the testing. If we approve an item for use in a Butterfly Life Center, we may then periodically re-test the item. We may revoke these item's prior approval if the item fails to continue to meet our standards and specifications or if the item fails to achieve certain performance levels (for example, sales levels or safety reasons). We will notify you in writing of the item's revocation of our approval and you may not then use in a Butterfly Life Center the item for which approval has been revoked. We issue specifications and standards to suppliers. Our criteria for supplier approval are available to franchisees.

Between 90% and 95% of your total purchases associated with constructing and establishing your Butterfly Life Center and between 90% and 95% of your total purchases associated with the ongoing operation of your Butterfly Life Center must be either purchased from approved suppliers or must conform to our standards.

In addition to the required purchases described above, you must maintain, at your expense, the insurance that we require as described in the Franchise Agreement. You must obtain the insurance from insurance companies licensed to do business in the state in which your Butterfly Life Center is located and having a Best's insurance rating of at least "A 1." The insurance required in the Franchise Agreement includes comprehensive general liability insurance (through a single policy or by a primary policy with one or more excess or umbrella policies) including personal injury, bodily injury, hired and non-hired auto liability, liquor liability (where applicable), products liability, and professional liability insurance, with minimum policy limits of \$2,000,000 in the aggregate, and \$1,000,000 per occurrence, and property damage insurance with policy limits in the minimum amount of \$1,000,000 per occurrence. You must also purchase business interruption insurance which covers 60% of your Gross Sales for the most recently ended calendar year. You must purchase such other insurance coverage as may be required by law, and fire, casualty

and extended coverage insurance with limits of not less than the full replacement cost of your Butterfly Life Center and its equipment and other improvements.

We do not have any purchasing or distribution cooperatives.

We will contact suppliers of required equipment and negotiate on your behalf based on our prior experience and purchases from these suppliers for your benefit. We monitor prices paid by our franchisees in an effort to obtain the best price available.

If you comply with the purchasing and use of required products and services, you will be in compliance with the terms of your franchise agreement that require these products and services. Compliance with your agreement is required for renewal. We do not provide any other material benefits to you based on your use of designated or approved sources.

ITEM 9. FRANCHISEE'S OBLIGATIONS

THIS TABLE LISTS YOUR PRINCIPAL OBLIGATIONS UNDER THE FRANCHISE AGREEMENT, AREA DEVELOPMENT AGREEMENT 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. IF NO REFERENCE IS MADE FOR A PROVISION IN A PARTICULAR AGREEMENT, THAT PROVISION IS NOT CONTAINED IN THE AGREEMENT.

Obligation	Section in the Franchise Agreement or Area Development Agreement	Item in Offering Circular
a. Site selection and acquisition/lease	Section 1, 2 and 3 and Exhibit B of the Franchise Agreement; Sections 1, 3, and 4 and Schedule A of Area Development Agreement	Items 7, 11 & 12
b. Pre-opening purchases/leases	Section 3, 4 and 6 of Franchise Agreement; Sections 2 and 9 and Schedule B of Area Development Agreement	Items 7, 8, 10 & 11
c. Site development and other pre-opening requirements	Section 3, 4, 5, 6 and 7 of Franchise Agreement; Sections 1, 2, 3, 4, and Schedule A-1 of Area Development Agreement	Items 1, 7 & 11
d. Initial and ongoing training	Section 5.03 and 5.04 of Franchise Agreement	Items 7 & 11
e. Opening	Section 5 of Franchise Agreement	Items 7 & 11
f. Fees	Sections 1.01(e), 1.04(a)(6), 6 and 13.02(d)(7) of Franchise Agreement	Items 5, 6 & 7
g. Compliance with standards and policies/Operating Manual	Section 1, 3, 4, 5 and 8 of Franchise Agreement	Items 1, 8, 11, 15 and 16
h. Trademarks and proprietary information	Section 10 of Franchise Agreement	Items 13 and 14
i. Restrictions on products/services offered	Sections 1.01(g), 3, 4 and 12 of Franchise Agreement	Items 8 and 16
j. Warranty and customer service requirements	Section 9 of the Franchise Agreement	N/A
k. Territorial development and sales quotas	Franchise Agreement – None; Sections 1, 11, and Schedule A-1 of Area Development Agreement.	Item 12 and Exhibit "E"
l. Ongoing product/service purchases	Section 4, 5 and 7 of Franchise Agreement	Items 8, 11, 16
m. Maintenance, appearance and remodeling requirements	Section 2.02(a)(8), 3 and 4 of Franchise Agreement	Item 7

Obligation	Section in the Franchise Agreement or Area Development Agreement	Item in Offering Circular
n. Insurance	Section 9 of Franchise Agreement	Items 6 & 7
o. Advertising	Section 6 and 7 of Franchise Agreement	Items 6 & 11
p. Indemnification	Section 9 of Franchise Agreement	Item 6
q. Owner's participation/management/staffing	Section 5 of Franchise Agreement	Item 15
r. Records and reports	Section 8 and 12.01 of Franchise Agreement	Item 11
s. Inspections and audits	Section 8 of Franchise Agreement	Item 6
t. Transfer	Section 13 of Franchise Agreement	Item 17
u. Renewal	Section 2.02 of Franchise Agreement	Item 17
v. Post-termination covenants	Sections 10, 11, and 12 of Franchise Agreement	Items 14, 16 & 17
w. Noncompetition covenants	Section 12 and Exhibit "A" of Franchise Agreement	Items 16 & 17
x. Dispute resolution	Section 14.12 of the Franchise Agreement	Item 17
y. Release of all Claims	Sections 2.02, 11 and 13.02(d)(2) of Franchise Agreement; Section 4 of Area Development Agreement	Item 17

Area Representatives

Area Representatives have separate obligations regarding their development of their Granted Territory:

Obligation	Section in the Area Representative Agr.	Item in Offering Circular
a. Site selection and acquisition/lease	Sections 2 and 5 and Exhibits 1, 2, and 3 of the Area Representative Agreement	Item 5
b. Pre-opening purchases/leases	Sections 4, 7 and 13 of Area Rep. Agreement	Items 11
c. Site development and other pre-opening requirements	Sections 2, 5, 7, 14 and Exhibit 3 of Area Rep. Agreement	Item 11
d. Initial and ongoing training	Sections 4, 5, 7 of Area Rep. Agreement	Item 11
e. Opening	Sections 3 and 11 Exhibit 3 of Area Rep. Agreement	Item 11
f. Fees	Sections 3, 4, 5, 10 and Exhibit 2 of Area Rep. Agreement	Items 5, 6 & 7
g. Compliance with standards and policies/Region Franchise Manual	Section 2, 3, 4, 5, 6, 7, 8, 9, 10 and 11 of Area Rep. Agreement	Item 11
h. Trademarks and proprietary information	Section 6, 7, 8, 9(c), and 12 of Area Rep. Agreement	Item 13
i. Restrictions on products/services offered	Sections 6, 7, 8, 9, and 12 of Area Rep. Agreement	Item 11
j. Warranty and customer service requirements	Sections 7 and 15 of the Area Rep. Agreement	N/A
k. Territorial development and sales quotas	Sections 2 (c), 5(c), 7(d) and Exhibits 2 and 3 of Area Rep. Agreement	Items 5 and 12 and Exhibit "3"
l. Ongoing product/service purchases	Sections 7, 8 and 13 of Area Rep. Agreement	Item 11
m. Maintenance, appearance and remodeling requirements	Section 7 or Area Rep. Agreement	Item 11
n. Insurance	Section 13 of Area Rep. Agreement	Item 11
o. Advertising	Sections 2(d), 7(c), (h) and (i), and 12(a)(6), of Area Rep. Agreement	Item 11
p. Indemnification	Section 15 of Area Rep. Agreement	Item 11

Obligation	Section in the Area Representative Agr.	Item in Offering Circular
q. Owner's participation/management/staffing	Sections 7, 9 and 10 of Area Rep. Agreement	Item 11
r. Records and reports	Sections 7(d) and (f), and 17(a) of Area Rep. Agreement	Item 11
s. Inspections and audits	Sections 7(f) and 17(a) of Area Rep. Agreement	Item 11
t. Transfer	Section 10 of Area Rep. Agreement	Item 17
u. Renewal	Section 3(b) of Area Rep. Agreement	Item 17
v. Post-termination covenants	Section 12 of Area Rep. Agreement	Items 11 & 17
w. Noncompetition covenants	Section 9 of Area Rep. Agreement	Items 11 & 17
x. Dispute resolution	Sections 17 and 19 of the Area Rep. Agreement	Item 17
y. Release of all Claims	Sections 1(k), 10(e)(iii) and 15 of Area Rep. Agreement	Item 17

ITEM 10. FINANCING

Butterfly does not currently offer any direct financing.

Butterfly does not arrange financing from other sources, but may forward to you information we receive regarding third party lenders or loan brokers. Butterfly does not receive direct or indirect payments for placing financing. We do not guarantee your lease or note obligations.

ITEM 11. FRANCHISOR'S OBLIGATIONS

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

A. Before Opening (Obligations Imposed by Franchise Agreement; section numbers noted refer to the applicable Franchise Agreement provision):

Before you open each Butterfly Life Center, we are obligated, under the terms of the Franchise Agreement, to provide the following services to you:

- Upon your request, we will provide you with written guidelines for site selection. (Section 1.04, Franchise Agreement.)
- We will make available standard plans, drawings and specifications for the Butterfly Life Center and its related facilities, as well as standard layouts and specifications for fixtures, furnishings, interior design and decor, signs and equipment for the Butterfly Life system (Section 1.04, Franchise Agreement.)
- You may have to modify, revise or otherwise alter the plans and specifications to ensure compliance with applicable local building codes and regulations. The cost of any modification, revision or alteration shall be borne solely by you. We will review your site plans and final construction plans and specifications for conformity to the construction standards and specifications of the Operating System, upon our receipt of your written request for acceptance. (Section 3.01(b), Franchise Agreement.)
- We will train you and your executive, managerial and supervisory employees as we deem necessary. The extent of training is at our discretion based on your or your manager's experience. Section (5.03(b))

- We will provide you with pre-opening assistance as we, in our sole discretion, deem necessary for you to meet system standards, and pre-opening management training and any other training as we may designate periodically. (Sections 1.04(a), Franchise Agreement.)
- Make available to you the use of our confidential Operations Manual, including any additions and modifications as we may issue periodically in our discretion. (Section 1.04(a), Franchise Agreement.)
- We will make available to you a sample of our standardized charts of accounts and required format for reporting documents. (Section 1.04(a), Franchise Agreement.)
- We will make available to you copies of required DVD video programs (except for Butterfly Life (Light) smaller Centers, which will not have group class space). (Section 1.04(a), Franchise Agreement.)
- We will provide you with the Butterfly marketing and advertising programs. (Section 1.04(a), Franchise Agreement.)

We do not furnish any other supervision, assistance or services to you before the opening of your first Butterfly Life Center and we are not bound to do so by the Area Development Agreement, the Franchise Agreement or any related agreement.

B. During Operation:

Following the opening of a Butterfly Life Center, we are obligated to provide the following services and assistance to you during the term of the Franchise Agreement:

- Make available to you the use of our confidential Operations Manual, including any additions and modifications as we may issue periodically in our discretion. (Section 1.04(a), Franchise Agreement.). We shall use commercially reasonable efforts to make available to you any training films or videotapes, made by us, for a fee equal to our cost of producing and distributing these films or tapes. (Section 5.03, Franchise Agreement.)
- We may make available to you periodically, merchandising and operating aids and services, and connected printed material as we furnish generally to other franchisees.. (Section 5.04, Franchise Agreement.)
- We may in our discretion periodically send our representatives to consult with you regarding the operation of your Center, and may inspect your Center for system compliance without prior notice (Section 5.04, Franchise Agreement.)

The table of contents to the Confidential Operations Manual is attached as Exhibit G. There are 825 pages in the Manual. The manual may be in the form of paper, electronic or other media.

Butterfly does not furnish other supervision, assistance or services during the operation of the Butterfly Life Center by you and is not bound to do so by the Area Development Agreement, the Franchise Agreement or any related agreement.

- Computer/Cash Register System: You must lease a computer/cash register system for your Butterfly Life Center that will be used to record membership and other sales and member information. We have selected a proprietary system and software, but you may choose to provide your own hardware. Currently, the lease of the computer system and software is approximately \$400 per month which includes updates and maintenance, so long as you are current in your payments. We will provide you with the specifications and requirements for your system hardware as well as recommended vendors. We shall require hardware and software upgrades periodically with specifications provided by us and

the cost of these upgrades shall be borne solely by the Franchisee. (Section 8.01(b), Franchise Agreement.)

The hardware components can be purchased from any computer dealer so long as they meet the specifications outlined below. We are under no obligation to assist you in obtaining this computer system, however, the vendor of the computer software and service offers hardware as part of its package. The approved software systems may be purchased only from our approved vendor. You must replace or upgrade your equipment in your Butterfly Life Center as necessary to be in compliance with Butterfly current standards and specifications and as a condition of renewal. The Franchise Agreement does not impose contractual limitations on the frequency and cost of your obligation to keep your system up to specifications. (Section 8.01(b), Franchise Agreement.)

Butterfly shall have independent access to the information and data stored in the computer or point of sale/cash register system. We shall have the right to access all information contained in Franchisee's database contained in the software listed below, or any other software used by Franchisee for the tracking and management of sales, membership information, and inventory at the Butterfly Life Center. (Section 8.01(d), Franchise Agreement.) All business information and data on the system shall be the sole property of Butterfly. There will not be any limitation on Butterfly's access to the information and data.

Minimum Hardware Components:

- | | |
|--|---|
| • Pentium 4 - 2.4 Ghz | • Laser Printer (equivalent to an HP1300) |
| • 256 MB Memory, 1.44 Diskette Drive | • 56K Baud External Modem* |
| • 20 GB Hard Disk, CD-ROM Drive | • Three Year On-Site Warranty |
| • SVGA 17" Monitor | • ZAP ID Software |
| • 20GB Tape Drive, UPS | • Point of Sale Software |
| • PC attached camera (equivalent to Logitech Quick Cam Pro Camera) | • Bar Code Slot Reader |

* A dedicated telephone line is required for the computer modem.

Computer systems are vulnerable in varying degrees to computer viruses, bugs, worms, spy-ware, power disruptions, communication line disruptions, Internet access failures, Internet content failures, hardware and software failures, and attacks by hackers and other unauthorized intruders and other disruptions. It is your responsibility to protect yourself from these problems. This may include taking reasonable steps to secure your systems (including continually updating firewalls, password protection, and anti-virus systems), and to use backup systems.

Approved Software Programs:

- **Check Free - RCM SOLUTIONS** -- with Electronic Funds Transfer
- Microsoft Windows (most current version) - One-Station Single-User Operating System

C. Method of Location Selection.

Under the terms of the Franchise Agreement, you must propose a city, zip code, or neighborhood for your Butterfly Life Center, which if approved by us, will be inserted into the executed Franchise Agreement. Within 75 days after executing the Franchise Agreement for your Location you must submit to us for approval the address of the Location, which shall be between the required minimum and maximum space, which currently average approximately 1,000 square feet for a Butterfly Life (Light) Center and 2,000 square feet for a Butterfly Life Center. It is your obligation to select proposed sites for your Butterfly Life Center. We will base our determination of your Territory on the most recent US Census data available to Butterfly. Your selection of a Location should take into consideration a list of criteria furnished by us which criteria includes population density, ease of ingress or egress, market saturation, visibility and zoning. You then submit a site to us for acceptance. We will accept or reject the

proposed site based on our evaluation of this information or our own on-site inspection and evaluation. Our response time will depend upon the quality and quantity of information you give us regarding the site. We expect to respond within ten days after receipt of all necessary information.

You will be in breach of your Franchise Agreement, if you fail to have a signed lease for your Location within 90 days after your signing of the Franchise Agreement for your first Location, and we may terminate the Franchise Agreement.

In addition, under the terms of the Area Development Agreement, if you enter into one, it is your obligation to select proposed sites for your Butterfly Life Centers within the Development Area.

D. Typical Length of Time Between Signing Agreement and Opening of First Butterfly Life Center:

You must designate an address and have a signed lease within 90 days of signing the Franchise Agreement. If you fail to open your site before 180 days after your signing of the Franchise Agreement, you will be in breach of your Franchise Agreement and we may terminate the Franchise Agreement.

However, if you have entered into an Area Development Agreement, you must designate your first Location upon signing of the Area Development Agreement and the opening of the first Butterfly Life Center for business by you must be completed within 180 days after designation of the Location, unless extended under the terms of the Franchise Agreement for the Location. The Area Development Agreement provides a Performance Schedule for designating and opening those Butterfly Life Centers. The factors that affect this Performance Schedule timeframe are the ability to obtain a lease, financing or building permits, zoning and local ordinances, weather conditions, shortages, delayed installation of equipment, fixtures and signs, and delayed training of personnel.

The typical length of time between signing the franchise agreement and opening has been 3 to 6 months.

E. Training Program:

We provide a training program for the benefit of your Butterfly Life Center employees. The Butterfly Life Center general manager is required to attend five days of training before the opening of the center, to consist of classroom training at our headquarters. The general manager must complete the training to our satisfaction. The training programs will be modified on a case-by-case basis by us based on your general manager's and assistant managers' experience. We provide the training program free of charge to the initial manager of your first center, but may charge additional fees for successor or additional managers or other individuals. You are responsible for all costs associated with the travel, meals, lodging and compensation of your managers and employees during training. The training of Butterfly Life Center employees is described in this Offering Circular, in Item 11 under the section "Before Opening."

We may require that you attend additional training programs or refresher courses after opening and based on your compliance with the standards specified in the Confidential Operations Manual or the introduction of new services or equipment. We are unable, at present, to predict the location, duration and content of any additional training and/or refresher courses.

We schedule your training after you sign the Franchise Agreement and mutually convenient dates are arranged.

Our orientation training includes the following:

Subject	Time Begun	Classroom Hours ¹	On-the-job Hours ¹	Instructional Materials	Instructor(s)/ Experience ²
Introduction To Butterfly Life Fitness Education and Circuit Gym Time	Day 1	8	0	Fitness and Life Vision Manual	Denny Marsico
Life Vision Programming BFL Diet/WLE Gym Time	Day 2	8	0	Fitness and Life Vision Manual	Denny Marsico
Sales - Telephone Inquiry Sales - Lifestyle Assessment Sales – Tour Sales – Internal Referrals	Day 3	8	0	Sales Manual	Denny Marsico
Sales - Contract Preparation - Lead Source Tracking - Master Appointment Book/Smart Day - Stat Sheet Operations – Administrative Procedures - Systems and Forms - Customer Support - Club maintenance - Interviewing and Hiring	Day 4	8	0	Sales Manual	Denny Marsico
Marketing and Promotions and Guidelines - External Marketing - Internal Marketing - Outreach Marketing:	Day 5	5	0	Marketing Manual	Denny Marsico and Janet Lossick
Building your Club	Day 5	3	0	Guidelines Manual	Denny Marsico
Total		40	0		

Footnotes:

NOTE 1. Classroom training is conducted at our headquarters and is scheduled on an as needed basis. Pre-opening training will focus upon qualifying the franchisee's general manager in each of the skills required for each respective worker position.

NOTE 2: Thomas Gergley is our Chairman. He oversees the development of your training. Area Representatives also provide training. See Item 2 for biographical information about Janet Lossick and Denny Marsico and Area Representatives.

F. Marketing:

Advertising Fees paid by franchisees that signed franchise agreements before Fall 2005 are paid to Butterfly and are combined with other franchisee Advertising Fees. New franchisees are not now required to pay the Advertising Fee and are not required to participate in an Advertising Cooperative. We are not required to spend any amount on advertising in your territory.

All of your advertising must be approved by us in advance. You may use your own advertising material only if we have approved the material in advance. Except for your pre-opening advertising, the Advertising Fee, telephone listings, promotional programs, and potential Advertising Cooperative, we do not require you to spend a specific amount on advertising. However, you are responsible maintaining your facility's presence which generally requires some form of advertising.

You must participate in the following programs, which may be modified periodically by us and as described in more detail in the Confidential Operations Manual: Single Day Travel Passes, Limited Duration Free Initial Memberships. You will not be reimbursed for any of the passes or memberships described above.

Area Representative Agreement

Before you begin business, we will provide the following to you:

(i) Information relating to preliminary plans, layouts, and standards and specifications for all fixtures, furnishings, signs, equipment and leasehold improvements for use in developing standard BUTTERFLY Units (Section 4(a)(i), Area Representation Agreement);

(ii) Any information we may have concerning possible sources of fixtures, furnishings, signs, equipment, leasehold improvements, and other products and services available in connection with the operation of the Units (Section 4(a)(ii), Area Representation Agreement);

(iii) Training and orientation in the sale of BUTTERFLY Unit franchises, including sales techniques and procedures and disclosure requirements (Section 4(a)(iii), Area Representation Agreement); and

(iv) If we develop a Regional Franchise Manual, which may be amended periodically by us in our sole discretion; one set shall be delivered to you. (Section 4(a)(iv), Area Representation Agreement)

During the operation of your business, we will continue our efforts to maintain standards of quality, appearance, service and cleanliness required by us at all units to protect and enhance the public image and reputation of the BUTTERFLY System and the demand for the products and services, and will, in our sole discretion provide you with the following:

(i) Approximately two weeks of training (and any additional time as we may deem necessary) in the operation of your business. This training will be conducted exclusively by us or our designee at a site designated by us. You must pay all costs and living expenses during and in connection with this training (Section 4(b)(i), Area Representation Agreement);

(ii) Sales support in connection with marketing and sales of BUTTERFLY System franchises (via conference calls, email, video communication, or other electronic forms of communication). We may assess a fee for additional assistance provided at your request if, in our reasonable judgment, the assistance exceeds reasonable levels of sales support or levels specified in the Regional Franchise Manual (Section 4(b)(ii), Area Representation Agreement);

(iii) Copies of the disclosure documents you must use in connection with the sale of Unit Franchises in your territory (Section 4(b)(iii), Area Representation Agreement);

(iv) Periodic individual or group counseling in the operation and supervision of the Units, given in person, by seminar, or by newsletters or bulletins as we may deem appropriate (Section 4(b)(iv), Area Representation Agreement);

(v) Advice concerning operating problems, new techniques or operating methods disclosed by reports submitted to or inspections made by us or other representatives, as we may deem appropriate (Section 4(b)(v), Area Representation Agreement); and

This section only applies to Area Representatives