

FRANCHISE DISCLOSURE DOCUMENT



Farrell's eXtreme Bodyshaping, Inc.
an Iowa corporation
8510 New York Avenue
Urbandale, Iowa 50322
(515) 770-7295

www.joinfxb.com

info@extremebodys shaping.com

www.instagram.com/farrells_extremebodys shaping

www.facebook.com/extremebodys shaping

www.youtube.com/user/extremebodys shaping

You will operate a business that offers a comprehensive approach to wellness, combining kickboxing, strength training, nutrition, and personal coaching all under one roof under the then-current proprietary marks we designate that, as of the Issue Date, includes our current primary mark FARRELL'S EXTREME BODYSHAPING (each, a "Studio").

The total investment necessary to begin operation of a single franchised Studio ranges from \$181,900 to \$376,500. This includes \$61,700 to \$62,150 that must be paid to the franchisor or affiliate before you open your business.

The total investment necessary to develop multiple Studios under our form of area development agreement depends on the number of franchises we grant you the right to open, which in all cases will be three (3) or more under this Disclosure Document. The total investment necessary to enter into a development agreement for the right to develop three (3) Studios is \$257,000 to \$451,600, which includes (a) a development fee of \$135,000 that is paid to us or our affiliates prior to opening, and (b) the total estimated initial investment to begin operation of your initial Studio (as described above).

This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agreements carefully. You must receive this disclosure document at least 14 calendar days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no governmental agency has verified the information contained in this document.**

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Lance Farrell, our Chief Executive Officer, at 8510 New York Avenue, Urbandale, Iowa 50322 and (515) 770-7295.

The terms of your contract will govern your franchise relationship. Don't rely on the disclosure document alone to understand your contract. Read all of your contract carefully. Show your contract and this disclosure document to an advisor, like a lawyer or an accountant.

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information on franchising, such as "*A Consumer's Guide to Buying a Franchise*," which can help you understand how to use this disclosure document, is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC's home page at www.ftc.gov for additional information. Call your state agency or visit your public library for other sources of information on franchising.

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

Issuance Date: April 27, 2023

How to Use This Franchise Disclosure Document

Here are some questions you may be asking about buying a franchise and tips on how to find more information:

QUESTION	WHERE TO FIND INFORMATION
How much can I earn?	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibit E.
How much will I need to invest?	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor’s direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Exhibit C includes financial statements. Review these statements carefully.
Is the franchise system stable, growing, or shrinking?	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
Will my business be the only Farrell’s business in my area?	Item 12 and the “territory” provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchise have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What’s it like to be a System franchisee?	Item 20 or Exhibits E lists current and former franchisees. You can contact them to ask about their experience.
What else should I know?	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.

What You Need To Know About Franchising *Generally*

Continuing responsibility to pay fees. You may have to pay royalties and other fees even if you are losing money.

Business model can change. The franchise agreement may allow the franchisor to change its manuals and business model without your consent. These changes may require you to make additional investments in your franchise business or may harm your franchise business.

Supplier restrictions. You may have to buy or lease items from the franchisor or a limited group of suppliers the franchisor designates. These items may be more expensive than similar items you could buy on your own.

Operating restrictions. The franchise agreement may prohibit you from operating a similar business during the term of the franchise. There are usually other restrictions. Some examples may include controlling your location, your access to customers, what you sell, how you market, and your hours of operation.

Competition from franchisor. Even if the franchise agreement grants you a territory, the franchisor may have the right to compete with you in your territory.

Renewal. Your franchise agreement may not permit you to renew. Even if it does, you may have to sign a new agreement with different terms and conditions in order to continue to operate your franchise business.

When your franchise ends. The franchise agreement may prohibit you from operating a similar business after your franchise ends even if you still have obligations to your landlord or other creditors.

Some States Require Registration

Your state may have a franchise law, or other law, that requires franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends that franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use the agency information in Exhibit B.

Your state also may have laws that require special disclosures or amendments be made to your franchise agreement. If so, you should check the State Specific Addenda. See the Table of Contents for the location of the State Specific Addenda.

Special Risks to Consider About *This Franchise*

Certain states require that the following risk(s) be highlighted:

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with us by litigation only in Iowa. Out-of-state litigation may force you to accept a less favorable settlement for disputes. It may also cost you more to litigate with us in Iowa than in your own state.
2. **Minimum Performance.** You must maintain minimum sales performance levels. Your inability to maintain these levels may result in loss of any territorial rights you are granted, termination of your franchise, and loss of your investment.
3. **Spouse Liability.** Your spouse must sign a document that makes your spouse liable for all financial obligations under the franchise agreement even though your spouse has no ownership interest in the franchise. This guarantee will place both your and your spouse's marital and personal assets, perhaps including your house, at risk if your franchise fails.
4. **Mandatory Minimum Payments.** You must make minimum royalty or advertising fund payments, regardless of your sales levels. Your inability to make the payments may result in termination of your franchise and loss of your investment.

Certain states may require other risks to be highlighted. Check the "State Specific Addenda" (if any) to see whether your state requires other risks to be highlighted.

MICHIGAN NOTICE

THE STATE OF MICHIGAN PROHIBITS CERTAIN UNFAIR PROVISIONS THAT ARE SOMETIMES IN FRANCHISE DOCUMENTS. IF ANY OF THE FOLLOWING PROVISIONS ARE IN THESE FRANCHISE DOCUMENTS, THE PROVISIONS ARE VOID AND CANNOT BE ENFORCED AGAINST YOU.

Each of the following provisions is void and unenforceable if contained in any documents related to a franchise:

- A. A prohibition on the right of a franchisee to join an association of franchisees.
- B. A requirement that a franchisee assent to a release, assignment, novation, waiver or estoppel which deprives a franchisee of rights and protections provided in the Michigan Franchise Investment Act. This shall not preclude a franchisee, after entering into a franchise agreement, from settling any and all claims.
- C. A provision that permits a franchisor to terminate a franchise prior to the expiration of this term except for good cause. Good cause shall include the failure of the franchisee to comply with any lawful provision of the franchise agreement and to cure such failure after being given written notice thereof and a reasonable opportunity, which in no event need be more than 30 days, to cure such failure.
- D. A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) the term of the franchise is less than 5 years, and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.
- E. A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other franchisees of the same class or type under similar circumstances. This section does not require a renewal provision.
- F. A provision requiring that arbitration or litigation be conducted outside this state. This shall not preclude the franchisee from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
- G. A provision which permits a franchisor to refuse to permit a transfer of ownership of a franchise, except for good cause. The subdivision does not prevent a franchisor from exercising a right of first refusal to purchase the franchise. Good cause shall include, but is not limited to:
 - 1) The failure of the proposed transferee to meet the franchisor's then-current reasonable qualifications or standards.
 - 2) The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.
 - 3) The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
 - 4) The failure of the franchisee or proposed transferee to pay any sums owing to the franchisor or to cure any default in the franchise agreement existing at the time of the proposed transfer.
- H. A provision that requires the franchisee to resell to the franchisor items that are not uniquely identified with the franchisor. This subdivision does not prohibit a provision that grants to a franchisor a right of first refusal to purchase the assets of a franchise on the same terms and conditions as a bona fide third party willing and able to purchase those assets, nor does this subdivision prohibit a provision that grants the franchisor the right to acquire the assets of a

franchise for the market or appraised value of such assets if the franchisee has breached the lawful provisions of the franchise agreement and has failed to cure the breach in the manner provided in subdivision I.

I. A provision which permits the franchisor to directly or indirectly convey, assign or otherwise transfer its obligations to fulfill contractual obligations to the franchisee unless a provision has been made for providing the required contractual services.

If the franchisor's most recent financial statements are unaudited and show a net worth of less than \$100,000.00 the franchisor shall, at the request of a franchisee, arrange for the escrow of initial investment and other funds paid by the franchisee until the obligations to provide real estate, improvements, equipment, inventory, training or other items included in the franchise offering are fulfilled. At the option of the franchisor, a surety bond may be provided in place of escrow.

THE FACT THAT THERE IS A NOTICE OF THIS OFFERING ON FILE WITH THE ATTORNEY GENERAL DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENFORCEMENT BY THE ATTORNEY GENERAL.

Any questions regarding this notice should be directed to:

State of Michigan
Consumer Protection Division
Attention: Franchise
670 G. Mennen Williams Building
525 West Ottawa
Lansing, MI 48933
(517) 373-1160

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ITEM 1
THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS, AND AFFILIATES

To simplify the language in this disclosure document, the term “we,” “us,” or “our” means Farrell’s eXtreme Bodyshaping, Inc., which is the franchising arm of the brand (the “Franchisor”).

“You” means the person buying the franchisee, the franchisee. If the franchisee is a business entity, the term “you” does not include the entity’s owners unless otherwise stated.

The Franchisor

We are an Iowa corporation formed in November 2006. We do business only under our corporate name, and maintain our principal business address at 8510 New York Avenue, Urbandale, Iowa 50322. Our agents for service of process are listed in Exhibit A.

We have been offering franchises of the type described in this Disclosure Document since October 2007. We have never offered franchises in any other line of business and have not engaged in any other substantive business activities not related to the administration of the franchise system. We have never operated a business of the type described in this disclosure document and, except as provided in this Item, we have not been involved in any other substantive business activity.

Please note that our principal and founder, Lance Farrell, has owned and operated a number of Studios that utilize the Proprietary Marks and System components since opening the brand’s original location in 1989 via a business entity that is our affiliate.

The Franchise Offered

We franchise the right to operate a business that offers a comprehensive approach to wellness, combining kickboxing, strength training, nutrition, and personal coaching all under one roof. You will operate the business using our proprietary business system (“System”), which includes our proprietary fitness techniques and workout programs (collectively, “Courses”), proprietary marketing systems, and proprietary sales techniques we designate and may update from time to time as we determine appropriate and, as of the Issue Date, pursuant to our current form of franchise agreement attached to this Disclosure Document as Exhibit B (the “Franchise Agreement”). We call this the “Franchised Business.”

Our System is comprised of various proprietary and, in some cases, distinguishing elements such as: proprietary methodology and procedures for the establishment and operating procedures of the Franchised Business; standards and specifications for the purchase, storage and presentation of certain products; site selection guidelines and criteria, as applicable, for the Franchised Business; standards and specifications for the design, layout and construction of the interior and exterior of the Franchised Businesses; standards and specifications associated with the certain proprietary artwork, décor and trade dress of the Franchised Business, as well as the retail space from which branded merchandise can be sold; specific suppliers and providers of proprietary equipment in connection with Franchised Businesses, if and as applicable; standards and specifications for the furniture, fixtures and/or equipment located within the Franchised Business; established relationships with approved or designated suppliers for certain inventory and other supplies necessary to operate the Franchised Business; and standards and specifications for advertising, bookkeeping, sales and other aspects of operating a Franchised Business. We may change, improve, further develop, or otherwise modify the System from time to time, as we deem appropriate at our discretion.

You will operate the Franchised Business from a physical location, which we call the “Studio,” under the name “FARRELL’S EXTREME BODYSHAPING” and other trademarks that we designate to identify businesses using our System (collectively, the “Proprietary Marks” or “Proprietary Marks”). In operating the Franchised Business, you will follow our mandatory and suggested specifications, standards, operating procedures and rules that we periodically specify (“System Standards”).

Once you have entered into a Franchise Agreement with us for your Franchised Business, we will typically designate a site selection area (the “Site Selection Area”) in the “Data Sheet” that is attached as an Exhibit your Franchise Agreement (the “Data Sheet”). Under your Franchise Agreement, you will be required to secure a location from which to operate your Franchised Business after you afford us the opportunity to review and approve that Studio. You will not be permitted to operate your Franchised Business at any location other than your Studio, which the parties will identify and set forth in writing in the Data Sheet once approved by Franchisor and secured by you.

After we have determined your Studio, we may assign you a designated territory (“Designated Territory”), wherein

you will be afforded certain territorial protections as outlined in Item 12 of this Disclosure Document.

We also offer franchisees the right to development multiple Studios in a defined “Development Area” under the terms of our Area Development Agreement (see Exhibit B-2 to this disclosure document). If you sign our Area Development Agreement, you will pay us a development fee as described in Item 5. When you sign the Area Development Agreement, you also will sign a Franchise Agreement for your first Studio in the form attached as Exhibit B-1 to this disclosure document. For each additional Studio that you develop, you will be required to sign our “then-current” form of Franchise Agreement which may differ from the Franchise Agreement included with this franchise disclosure document.

Parents, Predecessors and Affiliates

We do not have any parents or predecessors that require disclosure in this Item.

Our affiliate, Farrell’s eXtreme Distribution, LLC, is an Iowa limited liability company with a principal business address at 700 Walnut, Suite 1600, Des Moines, IA 50309 (“FED”), supplies marketing services to our franchisees.

Other than as disclosed in this Item, we do not have any predecessors, parents, or affiliates that require disclosure in this Item.

Market and Competition

You will offer and provide services to the general public. As a franchisee, you will compete for consumers’ discretionary income with a variety of other businesses, including other health clubs and fitness centers, from low cost, key-card access gyms to high end fitness centers. The market for fitness centers generally is well developed and highly competitive. Your competition may be local, independent businesses, or may be part of a regional or national chain or franchise. You may also encounter competition from other System businesses operated by us, our Affiliate or other franchisees. Demand for the services you offer may be dependent on the local and national economic conditions’ effect on the public’s discretionary spending.

Regulations Specific to the Industry

The Franchised Business must comply with all laws and regulations that apply to businesses generally. In addition, there are Federal, state and local laws that apply to the fitness business and industry practices. Many states, for example, have enacted specific laws (1) regulating membership contract length and terms, advertising and limitations on pre-opening sales, and (2) requiring bonding, buyer’s remorse cancellation rights for limited periods (usually three to ten days after sale), and cancellation and partial refund rights for medical or relocation reasons. At the federal level, health clubs who sell memberships on credit may be subject to the federal Truth-In-Lending Act and Regulation Z and various other credit-related statutes like the Equal Credit Act and Fair Debt Collection Practices Act.

Some states have laws that require and regulate the content of service contracts and/or that require the presence of at least one person trained in administering CPR and/or to use an external defibrillator. Many states also require that certain types of fitness centers be equipped with working defibrillators. Additionally, some states’ laws require postings concerning steroids and other drug use, require certain medical equipment in the facility, limit the supplements that facilities can sell, require bonds if a health/fitness center sells memberships valid for more than a specified time period, require club owners to deposit into escrow certain amounts collected from members before the facility opens (sometimes referred to as “pre-sale” memberships), and/or impose other restrictions on memberships that the facility sells.

It is solely your responsibility to comply with all applicable laws and regulations and to obtain and keep in force all necessary licenses and permits. Before purchasing the franchise, we strongly urge you to hire an attorney to review local, state and federal laws that may affect your operations.

ITEM 2 BUSINESS EXPERIENCE

Chief Executive Officer: Lance Farrell

Mr. Farrell has served as our Chief Executive Officer since our incorporation in November 2006. Mr. Farrell served as our President from November 2006 until December 2018. Mr. Farrell has also served as President and Chief Executive Officer of Farrell’s U.S. Martial Arts, Inc. (“FUSMA”), located in West Des Moines, Iowa, since July 1998. Mr. Farrell founded our concept and has operated Farrell’s Studios in and around Des Moines, Iowa, since August 1989.

Chief Financial Officer: Jennifer Gordon

Mrs. Gordon has served as our Chief Financial Officer since October 2021. Mrs. Gordon has been a Controller/CFO with CustomOne CFO & Controllers in West Des Moines, Iowa since August 2011.

Chief Strategy Officer: Luke Vogel

Mr. Vogel has served as our Chief Strategy Officer since October 2021 and was previously our Chief Financial Officer since 2008. Mr. Vogel also founded and has served as Chief Financial Officer at CustomOne CFO & Controllers in West Des Moines, Iowa since August 2004.

Director of Marketing and Sales: Erik Russell

Mr. Russell has served as our Director of Marketing and Sales since August 2020. Mr. Russell has been the owner of Membership Sales & Services, LLC located in Dexter, NY since 2015.

Director of Programming and Training: Todd Dorr

Mr. Dorr has served as our Director of Programming and Training since January 1996.

**ITEM 3
LITIGATION**

No litigation is required to be disclosed in this Item.

**ITEM 4
BANKRUPTCY**

No bankruptcy is required to be disclosed in this Item.

**ITEM 5
INITIAL FEES**

Franchise Agreement

You must pay us an initial franchise fee amounting to \$59,900 (the “Initial Franchise Fee”) at the time you execute a Franchise Agreement for the right to open a single Franchised Business. The Initial Franchise Fee is deemed fully earned upon execution of the Franchise Agreement and is not refundable.

Our standard franchise offering expects and assumes that you will (a) timely enter into a lease for the approved Premises of your franchised Studio, and (b) commence paying our then-current Technology Fee on a monthly basis once the Premises has been secured through the date you are required to open and commence operations of your Franchised Business. As of the Issue Date, our Technology Fee amounts to \$599/month. As such, we estimate you will pay us between four (4) and five (5) months of this Technology Fee prior to opening in an amount totaling between \$2,400 and \$3,000.

Development Agreement: Development Fee

If we award you the right to develop two or more Franchised Businesses within a given Development Area, you must pay us a one-time Development Fee upon execution of your Development Agreement. Your Development Fee will depend on the number of Franchised Businesses we grant you the right to develop within the Development Area, and is calculated as follows: (i) \$110,000 for the right to develop two Franchised Businesses; (ii) \$45,000 per Franchised Business if you agree to develop between three and five Franchised Business; (iii) \$40,000 per Franchised Business if you agree to develop between six and nine Franchised Businesses; and (iv) \$35,000 per Franchised Business if you agree to develop 10 or more Franchised Businesses.

You will be required to enter into our then-current form of franchise agreement for each Franchised Business you wish to develop under your Development Agreement, but you will not be required to pay any additional Initial Franchise Fee at the time you execute each of these franchise agreements. If you enter into a Development Agreement, you must execute our then-current form of Franchise Agreement for the initial Franchised Business we grant you the right to develop within your Development Area concurrently with the Development Agreement.

Your Development Fee will be deemed fully earned upon payment and is not refundable under any circumstances.

Other Disclosures

Except as provided above, we expect to impose the amounts set forth above in this Item on all new System franchisees.

**ITEM 6
OTHER FEES**

Type of Fee	Amount	Due Date	Remarks
Royalty	An amount of (a) 7.5% of Gross Sales provided you timely pay such amounts under the Franchise Agreement, or (b) our then-current minimum royalty (the “Minimum Royalty”). If you fail to timely pay your Royalty Fees, then we may, in addition to late fees and interest, increase your Royalty Fee by 1% (resulting in a Royalty Fee amounting to 8.5%) of the Gross Sales of your Franchised Business throughout the balance of your Franchise Agreement with us.	Monthly	Your Royalty Fee obligations will commence on the date you open and commence operating your Franchised Business. If we have not collected Royalty as of the end of a given month of operations amounting to at least the Minimum Royalty, then we have the right to collect a shortfall payment from your designated EFT account amounting to (a) the Minimum Royalty, less (b) the actual Royalty Fees you actually paid to us in that month of operations (the “Shortfall Payment”). We have the right to increase your Minimum Royalty to an amount equal to up to \$1,500 per month upon 30 days’ prior written notice. See Note 1.
Brand Development (“Fund”) Contribution	Currently, you must contribute to the Fund in an amount equal up to 3% of the Gross Sales generated by your Franchised Business (your “Fund Contribution”).	Monthly starting as soon as the business commences operation.	The Fund is to promote, market, and further develop our brand, goodwill, System, Intellectual Property, Approved Products and/or Services. See Note 3.
Local Advertising Requirement (“LAR”)	You must expend a minimum amount on the local advertising, marketing and promotion of the Franchised Business within your Designated Territory. As of the Issue Date, your LAR amounts to 1% of the Gross Sales generated by your Franchised Business.	Monthly commencing upon your opening or required opening date	This is the minimum amount you must currently expend on advertising, marketing and promoting your Franchised Business. We reserve the right to (a) modify or otherwise designate the Approved Supplier from which you must acquire services/products to promote your Franchised Business as part of your LAR, and/or (b) request that you provide us with invoices detailing the expenditures you may each month on advertising and marketing (to ensure compliance and consistency with your financial reporting). We reserve the right, upon 30 days’ prior written notice, to increase the current LAR by an amount equal to up to two percent (2%) of the Gross Sales

Type of Fee	Amount	Due Date	Remarks
			<p>generated by your Franchised Business.</p> <p>Any amounts that you are required to expend as part of an Advertising Cooperative will be credited towards your LAR.</p>
Technology Fee	<p>Then-current amount charged by our Approved Supplier(s) for certain System-required software</p> <p>Currently, the licensing fees associated with our current required software is approximately \$599/month</p>	<p>Monthly, due on or around the 20th of each month.</p>	<p>We reserve the right to collect a Technology Fee in connection with technology products or services we determine to (a) associate or utilize in connection with the System, and (b) use the Technology Fee to cover all or certain portion of the corresponding costs.</p> <p>If we increase or otherwise modify the Technology Fee, we will provide you with 30 days' prior written notice.</p>
Required Software	<p>Then-current software license fees associated with any third-party software that is not covered or associated with the Technology Fee</p> <p>Currently, the ongoing license fees in connection with such Required Software includes:</p> <p>\$150/per month for the fitness monitoring equipment purchased from our Approved Supplier</p>	<p>As arranged with the Approved Supplier or other provider</p>	<p>You must acquire or license the software we designate for use in connection with your POS system, Computer System and/or Franchised Business generally (each, a "Required Software"), as set forth in the Manuals or otherwise in writing.</p> <p>We may require that you license or otherwise source any Required Software from one (1) of our Approved Suppliers.</p>
Cooperative Contributions	<p>Amount the Cooperative determines, subject to the Proprietary Marketing Spending Requirement</p>	<p>As Cooperative specifies</p>	<p>Any amounts contributed to our Fund and any amounts you are required to contribute to an Advertising Cooperative will be credited towards your Local Advertising Requirement (or LAR).</p>
Renewal Fee	<p>\$7,500</p>	<p>Prior to us approving your request to renew</p>	<p>There are other conditions that you must meet for us to approve your renewal request.</p> <p>This amount will help defray certain costs we incur in connection with your renewal and any refresher training we might require you to complete as a condition to your renewal.</p>

Type of Fee	Amount	Due Date	Remarks
Transfer Fee	Franchise Agreement: \$10,000 Development Agreement: \$10,000 per undeveloped franchise right being awarded	Upon transfer	There are other conditions that you and the proposed transferee must meet for us to approve any proposed transfer/assignment, and you and/or your assignee will be solely responsible for any third-party broker costs associated with any assignment you propose.
Ongoing Training and Special Assistance	Our then-current training fee (the "Training Fee") Currently, \$750 per day plus out-of-pocket costs and expenses, but could increase if our costs increase	As incurred	We reserve the right to charge our then-current Training Fee, as applicable, in the following circumstances: (i) any additional training you request that we provide to you (whether on-site or at our corporate training location once initial training is completed; (ii) for any replacement personnel or replacement training is needed; and (iii) in the event we require you to attend and/or otherwise complete training as condition to curing an existing or prior breach under your Franchise Agreement with us ("Remedial Training"). You will also be responsible for any costs and expenses that you and/or your owners and other trainees associated with attending or otherwise participating in any training we require in connection with the Franchised Business, regardless of whether or not we collect any kind of training fee.
Alternate or New Product and/or Supplier/Provider Evaluation and Testing	Costs of testing or evaluation	When billed	Covers costs of testing new products or inspecting new suppliers that you propose in accordance with the alternate supplier/product procedure outlined in Item 8 of this Disclosure Document
Relocation Fee	Costs we incur	As incurred	Due only if you ask to relocate your franchised Studio.
Costs to Maintain Studio	Costs we incur	Five days after billing	Due only if you do not maintain or upgrade the Studio as required, and we choose to do so
Administrative Fee	\$250 per enforcement effort (i.e., written or verbal notification and follow up), and \$250 per week for each week that the issue remains unresolved	On demand	We may assess an administrative fee to compensate us for our time.

Type of Fee	Amount	Due Date	Remarks
Audit	Cost of inspection or audit	As incurred	Due only if you fail to report or understate Royalty by 2% or more See Note 4.
Interest	Lesser of 1.5% per month or highest commercial contract interest rate law allows	15 days after billing	Due on all overdue amounts more than seven days late See Note 5.
Management Fee	20% of all Gross Sales generated by the Franchised Business (in addition to the other amounts due to us under your Franchise Agreement)	As incurred	Payable only if we or our designee manages Studio after your (or your managing owner's) death or disability, after your default or abandonment, or after termination
Costs and Attorneys' Fees	Will vary under circumstances	As incurred	You must reimburse us for our attorneys' fees and any court costs that we are forced to incur in connection with enforcing or protecting our rights under your Franchise Agreement, including the costs associated with a collection action for amounts that are past due.
Indemnification	Will vary under circumstances	As incurred	You must reimburse us if we are held liable for claims from your Studio's operation, your business, breach of agreement or non-compliance with any law or regulation

Explanatory Notes to Item 6 Chart Above:

Generally. Except as otherwise stated in this Item, all fees listed in this Item 6 Chart are imposed by, and payable to, us and are uniformly imposed on all of the franchisees in our System. These fees are payable in U.S. dollars and are non-refundable unless otherwise stated in this Item. Unless otherwise stated, the fees outlined in the Chart above apply to the Franchise Agreement only (and not the Development Agreement).

Royalty Fee and Other Fees. Your Royalty Fee, as well as any other fees payable to us or our affiliates under the Franchise Agreement, may be collected by us via EFT from the bank account you are required to designate solely for use in connection with your Franchised Business (your "EFT Account"). You must provide us with the details of your EFT Account prior to opening and execute all documents necessary to authorize us to make withdrawals from this account throughout the term of your Franchise Agreement, including our then-current EFT Withdrawal Authorization form that is attached as an Exhibit to our current form of Franchise Agreement. You must provide us with advance written notice of any change to the information related to your EFT Account. We reserve the right to change the frequency of your payments from monthly to weekly upon 30 days' notice to you.

Definition of Gross Sales. The term "Gross Sales" means the total revenues you derive, directly or indirectly from all business conducted upon, from or in connection with the Studio, including the full redemption value of any gift certificate or coupon sold for use at the Studio (fees retained by or paid to third party sellers of such gift certificates or coupons are not excluded from this calculation), and all income and revenue of every other kind and nature related to the Business operation, whether for cash or credit and regardless of collection in the case of credit less sales taxes or similar taxes imposed by governmental authorities.

Fund Contributions. As of the Issue Date, we have established a Fund and commenced collecting Fund Contributions, you will be required to pay the contribution we designate in writing (consistent with the limitations described in the Chart above). The Fund may be used for (among other things) product and technology development;

signage; creation, production and distribution of marketing, advertising, public relations and other materials in any medium, including the internet; social media; administration expenses; brand/image campaigns; media; national, regional and other marketing programs; activities to promote current and/or future Studios; agency and consulting services; research; and any expenses approved by us and associated with your Studio. We have sole discretion over all matters relating to the Fund.

Right to Inspect/Audit. We have the right to inspect your books and other financial information associated with your Franchised Business during the term of the Franchise Agreement. If we conduct an audit and it reveals that you have underreported your Gross Sales by two percent (2%) or more, than we may require you to (a) pay the costs we incur in connection with conducting the audit of your Franchised Business (including any fees paid to auditors and/or attorneys), and/or (b) provide us with annual audited financial statements regarding the operation of your Franchised Business.

Interest on Late Payments. Interest begins to accrue on the due date of any payment that has not been timely received or is not paid in full.

ITEM 7
ESTIMATED INITIAL INVESTMENT
YOUR ESTIMATED INITIAL INVESTMENT

Franchise Agreement

Type of expenditure	Amount	Method of payment	When due	To whom payment is to be made
Initial Franchise Fee ⁽¹⁾	\$59,900	Lump sum	See Item 5	Us
Training-Related Costs and Expenses ⁽²⁾	\$0 - \$4,000	As agreed	As incurred	Third parties
Initial Proprietary Marketing Spend	\$25,000	As agreed	As directed by Franchisor	Third party vendors and suppliers
Real estate services and costs ⁽³⁾	\$3,000 - \$17,500	Installments	As agreed	Third-Party Landlord
Construction and leasehold improvements ⁽⁴⁾	\$20,000 to \$105,000	As agreed	As incurred	Contractors and other suppliers
Furniture, fixtures and equipment ⁽⁵⁾	\$10,000 to \$28,000	As agreed	As incurred	Outside suppliers
Signage (interior and exterior)	\$6,000 to \$15,000	As agreed	As incurred	Outside suppliers
Opening inventory and supplies ⁽⁶⁾	\$2,000 to \$5,000	As agreed	As incurred	Outside suppliers and us
Insurance	\$1,000 to \$3,600	As agreed	As incurred	Insurance company
Licenses, Permits, and Professional Fees	\$17,500 to \$30,000	As incurred	As agreed	Government agencies
Audio-Visual (AV) Package and Related Information	\$15,000 to \$20,000	As incurred	As incurred	Third parties

Type of expenditure	Amount	Method of payment	When due	To whom payment is to be made
Technology (IT)				
Staffing	\$10,000 to \$25,000	As incurred	As incurred	Employees
Utilities	\$2,500 to \$3,500	As incurred	As incurred	Third parties
Additional Funds – 3 Months ⁽⁷⁾	\$10,000 to \$35,000	As incurred	As incurred	Third parties
Total⁽⁸⁾	\$181,900 to \$376,500			

Explanatory Notes to Chart A in Item 7:

Generally. All fees are uniformly imposed by and are payable to us, unless otherwise noted. No other fees or payments are to be paid to us, nor do we impose or collect any other fees or payments for any third party. Except for the security deposit (which typically is refundable if you comply with the lease during its term), none of these expenditures is refundable.

Note 1. *Initial Franchise Fee.* Your Initial Franchise Fee is due upon execution of your Franchise Agreement with us and is deemed non-refundable and fully earned upon payment. Please see Item 5 of this Disclosure Document for more information about the Initial Franchise Fee.

Note 2. *Costs and Expenses Associated with Completing Initial Training.* There is no fee for the initial training program. However, you will be responsible for travel costs and lodging to Des Moines, Iowa. These estimates assume two (2) people are attending the initial training. The low end assumes a local franchisee who is within reasonable distance from the location and does not need lodging expenses. The high range assumes purchase of two (2) plane tickets and hotel expenses.

Note 3. *Real Estate Cost and Security Deposit.* A standard Farrell’s Studio is typically located in a shopping mall, strip center or free-standing building with approximately 2,800 to 3,500 square feet of space. Real Estate costs depends on geographic location, size, local rental rates, businesses in the area, site profile, and other factors and could be considerably higher in large metropolitan areas. This estimate includes a security deposit equal to approximately one month’s rent, but a landlord might require you to pay a security deposit that is more than one month’s rent. We anticipate that you will lease the Studio’s location. If you elect to purchase real estate, your costs will be substantially higher than the estimates in this chart.

Note 4. *Construction and Leasehold Improvements.* The estimate is to improve a 2,800 to 3,500 square foot property and includes amounts for interior construction, remodeling, HVAC, Electrical, Plumbing, walls, millwork, interior finishes, floor coverings and decorating costs. Your costs might be more or less than this estimate depending on your Studios geographic location, size, existing conditions, and landlord contribution towards improvements. This estimate assumes the landlord will cover some, and in some cases might cover all, of these improvement costs.

Note 5. *Furniture, Fixtures, and Equipment.* This estimate includes but is not limited to items like gym flooring and equipment, ceiling fans, mirrors, mats, ropes, strength training bands, free-standing training bags, office furniture, reception desk, retail displays and other Furnishings, Fixtures and Equipment approved by Franchisor. Actual cost of the FF&E items depends on the size of the space and applicable sales taxes and shipping costs, which are not included in the estimates. All FFE items must be purchased thru Franchisor, our affiliates or approved vendors and suppliers that meet our specifications, which may change for time to time. Our estimate assumes the purchase of the FF&E items.

Note 6. *Opening Inventory and Supplies.* This includes costs for an initial inventory of items for your Studio’s retail product area and an initial supply of Course manuals. It also includes amounts for various office and cleaning supplies.

Note 7. *Additional Funds.* This estimates the funds needed to cover your initial expenses for the first three months of

operation (other than the items identified separately in the table). It includes funds needed to support operational costs including but not limited to payroll, rent, utilities, insurance, taxes, loan payments, advertising, supplies, and inventory other miscellaneous costs. This also includes Technology Fees for 4-5 months prior to opening, as well as ongoing 3 months of operation. This estimate does not include draw or salary for yourself. This is only an estimate, and additional working capital for a longer time period. This three-month period is not intended, and should not be interpreted, to identify a point at which your Studio will break even. The amount of additional funds will depend on many factors including but not limited to level of pre-sales, local economic conditions, competition, local cost factors, your marketing and business skills and the sales level you achieve. There is no guarantee that the working capital estimate will be adequate or that an additional investment by you will not be necessary during the initial period and afterwards.

Note 8. *Total Estimated Initial Investment.* In compiling the Additional Funds and all other estimated ranges in Chart 7(A) above, we relied on the experience of (i) our affiliates and/or principal(s) in developing and operating similar businesses in Iowa since as early as 1989, (ii) our System franchisees in developing their respective franchised Studios, to the extent such information is reported to us by the System franchisee owner and/or any of our Approved Suppliers, and (iii) information we have received from our Approved Suppliers and other third-party providers as of the Issue Date. You should review these figures carefully with a business advisor before deciding to acquire the franchise. We do not offer financing directly or indirectly for any part of the initial investment. The availability and terms of financing depend on many factors, including the availability of financing generally, your creditworthiness and collateral, and lending policies of financial institutions from which you request a loan.

Development Agreement (3-Pack as an Example)

Type of Expenditure	Amount	Method Of Payment	When Due	To Whom Payment is to be Made
Development Fee ²	\$135,000	Lump sum, in cash, certified check or bank wire	At signing of the Development Agreement.	Us
Initial Investment to Open Initial Franchised Business ³	\$122,000 to \$316,600	See Chart A of this Item 7.		
Total Estimated Initial Investment	\$257,000 to \$451,600	This is the total estimated initial investment to enter into a Development Agreement for the right to develop a total of three (3) Franchised Businesses, as well as the costs to open and commence operating your initial Franchised Business (as described more fully in Chart A of this Item 7). See Note 3.		

Explanatory Notes to Chart B of this Item 7:

General. All amounts payable to us are nonrefundable, unless otherwise noted. Amounts payable to suppliers/vendors are refunded according to arrangements you make with the vendor, if any. These figures are estimates of the range of your initial costs in the first three (3) months of operating the Initial Franchised Business you are granted under your Development Agreement only.

Development Fee. The Development Fee is non-refundable. The Development Fee is described in greater detail in Item 5 of this Disclosure Document, and this Development Fee is for the right to open and operate a total of three Franchised Businesses (provided you comply with your development obligations under the Development Agreement). If you choose to open more than three Franchised Businesses, your Development Fee will be calculated as follows: (i) \$110,000 if you are awarded the right to develop two (2) Franchised Businesses; (ii) \$45,000 per Franchised Business if you are awarded the right to develop between three (3) and five (5) Franchised Businesses; (iii) \$40,000 per Franchised Business if you are awarded the right to develop between six (6) and nine (9) Franchised Businesses and (iv) \$35,000 per Franchised Business if you are awarded the right to develop 10 or more Franchised Businesses.

Initial Investment for Initial Franchised Studio. This figure represents the total estimated initial investment required to open and commence operating the first Franchised Business you agreed to develop under your Development Agreement. You will be required to enter into our then-current form of franchise agreement for the initial Franchised Business you open under your Development Agreement, most likely once you have found a Premises for the business that we approve. The range includes all the items outlined in Chart 7.A. of this Item, except for the \$59,900 Initial

Franchise Fee (because you are not required to pay any Initial Franchise Fee for those Franchised Businesses you open under the Development Agreement). It does not include any of the costs you will incur in opening the additional Franchised Business(es) that you are granted the right to open and operate under your Development Agreement.

ITEM 8 RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

Approved Products and Services

You must operate all aspects of your Franchised Business in strict conformance with the methods, standards and specifications of our System. Our methods, standards, and specifications will be communicated to you in writing through our confidential Manuals and other proprietary guidelines and writings that we prepare for your use in connection with the Franchised Business and System. We may periodically change our System standards and specifications from time to time, as we deem appropriate or necessary in our sole discretion, which we will notify you of in writing, and you will be solely responsible for costs associated with complying with any modifications to the System.

You may only market, offer, sell and provide the Approved Services and Approved Products to the prospective and existing clients of your Franchised Business. We will provide you with a list of our then-current Approved Services and Approved Products, along with their standards and specifications, as part of the Manuals or otherwise in writing prior to the opening of your Franchised Business. We may update or modify this list in writing at any time.

Approved Suppliers

We have the right to require you to purchase any items or services necessary to operate your Franchised Business from a supplier that we approve or designate (each, an “Approved Supplier”), which may include us or our Affiliate. We will provide you with a list of our Approved Suppliers in writing as part of the Manuals or otherwise in writing, and we may update or modify this list as we deem appropriate. Many of the products, supplies and services needed in connection with establishing your Franchised Business, such as supplies, signs, equipment and other items and services, must meet our specifications for appearance, quality, performance and functionality, among other things.

We currently have one or more Approved Suppliers for each of the following services or items that must be purchased for use in connection with your Franchised Business (each, a “Required Item”): (i) certain of the Approved Products, including (a) initial and ongoing marketing materials, including those services and collateral on which you must expend your Local Advertising Requirement and Initial Proprietary Marketing Spend; (b) the software designed to provide POS and CRM functions with respect to a Franchised Business’s operations, as well as all other Required Software, certain inventory and supplies for use in connection with in connection with your Studio; (c) inventory that is utilized in connection with the Studio such as kickboxing bags, gloves, wraps, manuals, fitness monitoring equipment, body composition analyzer, defibrillator, licenses to play music, resistance bands, medicine balls, and mats; and (d) supplements, branded merchandise and/or other retail inventory items that a Franchised Business is authorized to offer and sell at retail and/or must otherwise use in connection with the operation of the Franchised Business.

As of the Issue Date, our affiliate may serve as an Approved Supplier for certain of the inventory items described in subparts (c) and (d) in the above paragraph. We are the Approved Supplier for (a) any technology and IT-related services we determine to provide as part of your then-current Technology Fee, and (b) any training we provide as consideration for any additional Training Fee you pay to us.

In the future, we reserve the right to designate us or any affiliate of ours as the Approved Supplier for any additional or other item or service that you are required to purchase and/or utilize in connection with your Franchised Business. This includes any proprietary products we develop or have developed for use in your Franchised Business, including private-label products that bear our Proprietary Marks.

Other than us and FED, none of our officers own an interest in any Approved Supplier as of the Issue Date.

Alternative Product and Alternate Supplier Approval

All products and services for which we have not established approved or designated suppliers must meet our System Standards and specifications, which may include brand and model requirements. We issue and modify System Standards and specifications based the experience of our principals and affiliates in operating Farrell’s Studios. Standards and specifications may impose minimum requirements for production, performance, reputation, prices, quality, design, and appearance. Our Operations Manual or other communications will identify our standards and

specifications for you and, where appropriate, you may provide those standards and specifications to suppliers. However, our criteria for approving suppliers is not available to franchisees.

We may, but are not obligated to, grant your request to: (i) offer any products or services in connection with your Franchised Business that are not Approved Products and Services (“Alternative Product”); or (ii) purchase any item or service we require you to purchase from an Approved Supplier from an alternative supplier (“Alternative Supplier”).

We may provide our standards and specifications for our Approved Products and Services directly to our Approved Suppliers, and may provide these standards and specifications to an alternative supplier you propose if: (i) we approve the supplier in writing as outlined more fully in this Item; and (ii) the alternative supplier agrees to sign our prescribed form of non-disclosure agreement with respect to any confidential information we disclose.

If you wish to purchase an item or service for which we have established approved or designated suppliers from an unapproved source, you must provide us sufficient information, specifications, and samples for us to determine whether the product or service complies with our standards and specifications and that the supplier meets our criteria. If we choose to consider your proposed supplier, we may charge you a reasonable fee and will decide within a reasonable time (no more than 30 days). We may condition our approval of a supplier on requirements relating to product quality, prices, consistency, warranty, reliability, financial capability, labor relations, customer relations, frequency of delivery, concentration of purchases, standards of service (including prompt attention to complaints), and/or other criteria. We may inspect the proposed supplier’s facilities and require the proposed supplier to deliver product samples or items, at our option, either directly to us or to any third-party we designate for testing. We may periodically re-inspect the facilities and products of any approved supplier and revoke our approval of any supplier, product or service that does not continue to meet our criteria by notifying you and/or the supplier. We have no obligation to consider requests for alternate supplier approval.

Insurance

You must acquire and maintain insurance coverage for the Studio in the amounts, and covering the risks, that we periodically specify. Currently, we specify the following types and amounts of insurance:

- “All risk” property insurance with contents coverage and business interruption coverage;
- Crime insurance with a minimum coverage of \$10,000 per occurrence;
- General liability insurance with a minimum liability coverage of \$1,000,000 per occurrence and an aggregate limit of \$2,000,000;
- Professional liability insurance for personal trainers with a minimum coverage of \$1,000,000 per occurrence;
- Automobile liability insurance with hired and non-owned liability CSL of at least \$1,000,000 and if applicable for owned automobiles;
- Umbrella liability with a minimum coverage of \$2,000,000 per occurrence and an aggregate limit of \$2,000,000; and
- Workers’ compensation insurance as required by state law.

Your insurance carriers must be licensed to do business in the state in which the Studio is located and be rated A or higher by A.M Best and Company, Inc. (or such similar criteria as Franchisor periodically specifies). All liability policies must contain a separate endorsement naming us and our affiliates as additional insureds. All insurance policies must include a waiver of subrogation in favor of us and our affiliates, and must include a 30-day notice of cancellation directed to both you and to us or the person we designate. These insurance policies must be in effect before you open the Studio for business. We may periodically increase the amounts of coverage required under these insurance policies and/or require different or additional insurance coverage at any time to reflect inflation, identification of new risks, changes in law or standards of liability, higher damage awards or relevant changes in circumstances. These are minimum requirements only and you should consult with your own insurance advisor to determine whether they are appropriate and sufficient for your business and to protect your assets.

Proprietary Marketing and Promotional Material

You must participate in all advertising and sales promotions we design to promote and enhance the collective success of all Franchised Businesses operating under the System. In all aspects of these programs, including without limitation,

the type/quantity/timing/placement and choice of media, and market areas and advertising agencies, the System standards and specifications established by us will be final and binding upon you. We may also request that you purchase and/or make copies of (at your expense) and subsequently use certain other advertising or promotional materials that we designate for use in connection with the Franchised Business.

Before using them, you must send us, for our approval, samples of all advertising, promotional and marketing materials for the Studio that we have not prepared or previously approved within the last six months. If you do not receive written notice of disapproval from us within 15 days after we receive the materials, they are deemed approved. You may not use any advertising, promotional or marketing materials that we have disapproved.

Studio Location (Premise) and Lease

You must send us for our approval any lease or sublease for the Studio's site before you sign it. We may condition our approval of any such location on you and your landlord's execution of our prescribed form of Collateral Assignment of Lease (attached as an Exhibit to our current form of Franchise Agreement). You may not relocate the Studio without our approval. The Studio must be designed and built out according to our specifications and according to applicable law and building code requirements. You must submit all construction and remodeling plans and specifications to us for our approval before beginning build-out for the Studio and all revised or "as built" plans and specifications during construction and development. Our review is limited to ensuring your compliance with our then-current System design requirements. Our review is not designed to assess compliance with federal, state, or local laws and regulations, including the ADA, as compliance with those laws is your responsibility.

We may have an Approved Supplier for site selection that we recommend to you. As of the Issuance Date, however, we do not require that you use this supplier (but reserve the right to do so).

Revenue Derived from Franchisee Purchases and Leases

We and/or our affiliates may derive revenue or other material consideration based on your purchases and leases to the extent that you purchase or lease products or services from us or our affiliates. We and/or our affiliates also have arrangements with certain suppliers whereby we or our affiliates receive rebates from franchisee purchase or leases calculated as a percentage of sales.

During our fiscal year ending on December 31, 2022, we derived \$18,621 as a result of required franchisee purchases or leases, or approximately 1% of our total revenue of \$1,243,203. During the fiscal year ending on December 31, 2022, our affiliate, Farrell's eXtreme Distribution, LLC, derived \$33,143 as a result of franchisees purchases or leases.

Estimated Proportion of Required Purchases and Leases to all Purchases and Leases

We estimate that approximately 60% to 80% of your expenditures for leases and purchases in establishing your Studio, and approximately 60% to 80% of your total annual operating expenses on an ongoing basis will be for goods and services, that are subject to sourcing restrictions (that is, for which suppliers must be approved by us, or which must meet our standards or specifications).

Description of Purchasing Cooperatives; Purchasing Arrangements

There currently are no purchasing or distribution cooperatives. We and our affiliates currently negotiate purchase arrangements with suppliers (including price terms) for the items and services described earlier in this Item that you may obtain only from designated sources.

We may establish further strategic alliances or preferred vendor programs with suppliers that are willing to supply some products, equipment, or services to some or all of the Franchised Businesses in our System. We may: (i) limit the number of Approved Suppliers with whom you may deal; (ii) designate sources that you must use for some or all products, equipment and services; and (iii) refuse to approve proposals from franchisees to add new suppliers if we believe that approval would not be in the best interests of the System.

We and/or our affiliates (if and when formed) may receive payments or other compensation from Approved Suppliers or any other suppliers on account of these suppliers' dealings with us, you, or other Franchised Businesses in the System, such as rebates, commissions or other forms of compensation. We may use any amounts that we receive from suppliers for any purpose that we deem appropriate. We and/or our affiliates may also negotiate supply contracts with our suppliers under which we are able to purchase products, equipment, supplies, services, and other items at a price that will benefit us and potentially our franchisees.

We do not provide material benefits to you (for example, renewal or granting additional franchises) based on your

purchase of particular products or services or use of particular suppliers

Computer System: Hardware and Software

You must lease or purchase the computer hardware and software necessary to operate the POS System you must purchase from our Approved Supplier and use in connection with your Franchised Business. You may be required to process credit cards through a supplier or vendor we may designate. You must comply with all data and customer protection laws, including the Payment Card Industry (“PCI”) Data Security Standard and maintain PCI compliance throughout the term of your Franchise Agreement.

You must pay the monthly and initial fees associated with our current POS System and will be responsible for the costs of maintaining the computer hardware and software used in connection with your Franchised Business (collectively, the “Systems Hardware and Software”).

You must purchase any and all computer hardware, software and peripherals in accordance with our System standards and specifications. We may require you to purchase any of these items from one of our Approved Suppliers. Your Systems Hardware and Software must have network access through a wireless provider. We may require you to purchase any of these items from one of our Approved Suppliers.

**ITEM 9
FRANCHISEE’S OBLIGATIONS**

This table lists your principal obligations under the franchise and other agreements. It will help you find more detailed information about your obligations in these agreements and in other items of this disclosure document.

Obligation	Section in Franchise Agreement	Section in Development Agreement	Disclosure Document Item
a. Site selection and acquisition/lease	Sections 2, 5 and 6	Section 8	Items 5, 7, 8, 11, and 12
b. Pre-opening purchases/leases	Sections 5 and 6	Section 8	Items 5, 7, 8, and 11
c. Site development and other pre-opening requirements	Sections 2, 5 and 6	Section 3	Items 5, 7, 8, and 11
d. Initial and ongoing training	Sections 5 and 6	Not Applicable	Items 6, 7, and 11
e. Opening	Sections 5 and 6	Section 3, Exhibit B	Items 8, 11 and 12
f. Fees	Sections 3, 4, 9 and 13(E)	Section 9	Items 5, 6, 7 and 8
g. Compliance with standards and policies/operating manual	Sections 5 and 6	Section 3	Items 8 and 11
h. Trademarks and proprietary information	Section 7	Section 13	Items 13 and 14
i. Restrictions on products/services offered	Sections 5 and 6	Not Applicable	Items 11, 12, and 16

Obligation	Section in Franchise Agreement	Section in Development Agreement	Disclosure Document Item
j. Warranty and customer service requirements	Section 6	Not Applicable	Not Applicable
k. Territorial development and sales quotas	Sections 2 and 6	Section 1, 3 and Exhibit B	Item 12
l. On-going product/service purchases	Sections 5 and 6	Not Applicable	Items 6 and 8
m. Maintenance, appearance and remodeling requirements	Section 6	Not Applicable	Items 8, 11, 16, and 17
n. Insurance	Section 11	Not Applicable	Item 7
o. Advertising	Sections 4, 6, and 10	Not Applicable	Items 5, 6, 7, 8, and 11
p. Indemnification	Section 11	Not Applicable	Item 6
q. Owner's participation/management/staffing	Section 6	Section 7	Items 11 and 15
r. Records and reports	Sections 4, 6 and 10	Not Applicable	Item 6
s. Inspections and audits	Section 5 and 10	Not Applicable	Item 6
t. Transfer	Section 13	Section 16	Items 6 and 17
u. Renewal	Section 3	Not Applicable	Items 6 and 17
v. Post-termination obligations	Sections 14 and 16	Section 14 and 15	Item 17
w. Non-competition covenants	Section 14	Section 11	Items 15 and 17
x. Dispute resolution	Sections 19 and 21	Sections 21, 22	Item 17
y. Guaranty and Assumption of Obligations	Exhibit B	Attachment	Item 15

**ITEM 10
FINANCING**

We do not offer direct or indirect financing. We do not guarantee your note, lease, or obligation.

**ITEM 11
FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING**

Except as listed below, Farrell's exTreme Bodyshaping, Inc. is not required to provide you with any assistance.

A. Pre-Opening Assistance

Before you open your franchised Studio:

1. We will provide you or, if you are an entity, those of your principals whom we designate as the principal franchisee-operator(s) (“Designated Operator”), as well as your Designated Manager (if appointed) with the respective initial training that such individuals are required to attend and complete prior to opening your Franchised Business. We will typically commence providing the instruction associated with the Initial Training Program to you and your designated trainees within 60 days of the date you execute your Franchise Agreement, but that timing will be subject to the availability and schedules of our training personnel. We will provide this Initial Training Program at our corporate headquarters or other training facility we designate, and this initial training (as well as other training provided by us in connection with your Studio) is described more fully below in this Item under the heading “Training.” (Franchise Agreement, Section 5). Other than the training obligations set forth in Item 11, you will be responsible for hiring and training all other Studio employees.

2. If the Premises for your Studio has not been identified at the time the Franchise Agreement is signed, we will work with you to designate a geographical area within which you must secure a Premises for your Studio (“Site Selection Area”). (Franchise Agreement, Section 2). We will also comply with our obligations with respect to site selection assistance and site approval as set forth more fully below in this Item under the heading “Site Selection Assistance and Time to Open.”

3. Prior to you attending your required initial training, we will loan you one copy of the Manual, which contains mandatory and suggested specifications, standards and procedures. The Manual is confidential and remains our property. We may modify the Manual. (Franchise Agreement, Section 5). The Table of Contents for the current Operations Manual, which consists of approximately 42 pages, is attached to this Disclosure Document as Exhibit D.

4. Within thirty (30) calendar days of execution of your Franchise Agreement, we will provide you (through the Manual or otherwise) with specifications for the layout and design of the Studio (Franchise Agreement, Section 5).

5. Within thirty (30) calendar days of execution of your Franchise Agreement, we will provide you (through the Manual or otherwise) with (i) a list of the fitness equipment and gear, standard fixtures, furnishings, supplies, and signs to be used in the Studio, as well as certain other Required Items, and (ii) a list of Approved Suppliers, as applicable, for those required items (Franchise Agreement, Section 5).

6. We will license you the use of the then-current Proprietary Marks that we determine appropriate (Franchise Agreement, Sections 2(A) and 7).

7. We will authorize you to sell memberships, rights to attend Courses, and other rights to participate in the services at the Studio (so-called “pre-sale”) if you meet our requirements. We will not authorize your pre-sale activities unless: (a) you expect to open the Studio for business within the around 90 days (3 months) from the date of your expected commencement of pre-sale activities; (b) you (or your managing owner) have completed to our satisfaction the General Business Training described below; and (c) you have secured all financing and permits necessary to develop and fully equip the Studio. You are responsible for ensuring that your membership agreements and pre-sale activities comply with all applicable laws. (Franchise Agreement – Section 6(I)).

8. We will consult and advise you on the advertising, marketing and promotion associated with your pre-opening sales plan and approved Opening Support Program, as we and/or our Approved Supplier determine appropriate. (Franchise Agreement, Sections 5 and 9).

9. If you enter a Development Agreement, we will designate your Development Area. (Development Agreement, Section 1 and Exhibit A).

B. Site Selection Assistance and Time to Open

Site Selection Assistance

You must assume all costs, liabilities, expenses and responsibility in connection with locating, obtaining and developing a Studio for your Franchised Business, as well as constructing, equipping, remodeling and/or building out the Studio for use as a Franchised Business, all in accordance with our System standards and specifications. If the Premises for your Studio has not been identified at the time the Franchise Agreement is signed, we will assign you a Designated Proprietary Market Area as previously disclosed in this Item. (Franchise Agreement, Section 6(A)).

We may provide you with our current written site selection guidelines, to the extent such guidelines are in place, and any other site selection counseling and assistance we determine is appropriate, as well as the contact information of any local real estate broker that we have an existing relationship with and that is familiar with our confidential site selection/evaluation criteria, if we know any such brokers in or around the Designated Proprietary Market Area you are assigned. (Franchise Agreement, Section 2). We do not generally own the premises that System franchisees use for their Studio. As of the Issue Date, we have an Approved Supplier to provide site selection services.

Our guidelines for site selection may require that you conduct, at your expense, an evaluation of the demographics of the market area for the location. Ideally, the Premises of your Studio will be a major, national-tenant, anchored commercial retail center that meets our then-current requirements for population density, demographics, available parking, traffic flow and entrance/exit from the site. Our standard franchise offering assumes and expects a franchised Studio size of approximately 2,800 to 3,500 square feet. You are solely responsible for obtaining all required construction/build-out licenses and ensuring the Premises comply with all local ordinances and building codes. (Franchise Agreement, Section 6). As of the Issue Date, we do not have an Approved Supplier that we require you use for site selection services – but we may recommend one (1) or more such providers.

If you locate a site, we will approve or disapprove of the site within 30 days after we receive any and all reasonably-requested information regarding your proposed site from you. (Franchise Agreement, Section 5(E)). We use a software program to evaluate the demographics of a market area for site selection approval. If we cannot agree on a site, we may extend the time for you to obtain a site, or we may terminate the Franchise Agreement.

We must also have the opportunity to review your lease or purchase agreement for a proposed location before you enter into such an agreement. We may condition our approval on a number of conditions, including the inclusion of the terms outlined in Section 5 of the Franchise Agreement in the lease for the location, and receiving a written representation from the landlord of the Studio that you will have the right to operate the Studio, including offering and selling the Approved Products and Services, throughout the term of your Franchise Agreement. (Franchise Agreement, Section 5).

You must secure Premises that we approve within six (6) months of executing your Franchise Agreement for that Franchised Business or we may terminate that Franchise Agreement. (Franchise Agreement, Sections 1 and 6(A)).

Time to Open: Franchise Agreement

We will authorize the opening of your Studio when all of your pre-opening obligations have been fulfilled, all required pre-opening training has been completed by at least one (1) Authorized Instructor to be able to provide the Approved Services from your Studio, all amounts due us have been paid, all copies of all insurance policies (and payment of premiums) and all other required documents have been received by us, and all permits have been approved. (Franchise Agreement, Section 6).

The typical length of time between the signing of the Franchise Agreement and the time you open your Studio is approximately nine months. Your total timeframe may be shorter or longer depending on the time necessary to obtain an acceptable Premises, to obtain financing, to obtain the permits and licenses for the construction and operation of the Franchised Business, to complete construction or remodeling as it may be affected by weather conditions, shortages, delivery schedules and other similar factors, to complete the interior and exterior of the Franchised Business, including decorating, purchasing and installing fixtures, equipment and signs, and to complete preparation for operating the Franchised Business, including purchasing any inventory or supplies needed prior to opening.

You are required to open your Franchised Business within nine (9) months of executing your Franchise Agreement, but we may agree in writing to provide you with an additional three (3) months to open your Studio if you have already secured an approved Studio and are otherwise making diligent and continuous efforts to buildout and otherwise prepare your Franchised Business for opening throughout the six (6) month period following the execution of your Franchise Agreement. If you do not open your Studio within the time period set forth in the Franchise Agreement, we will have the option to terminate your Franchise Agreement. (Franchise Agreement, Section 6).

Time to Open: Development Agreement (if applicable)

If you have entered into a Development Agreement to develop multiple Franchised Businesses, your Development Agreement will include a Development Schedule containing a deadline by which you must have each of your Franchised Businesses open and operating. (Development Agreement, Exhibit B). We will approve sites for additional Franchised Businesses developed under your Development Agreement using our then-current site selection criteria.

C. Our Obligations During the Operation of the Franchised Business

Except as listed below, we are not required to provide you with any assistance.

During the operation of the franchised business:

1. We will specify or approve certain equipment and suppliers to be used in the franchised business (Franchise Agreement, Section 5).
2. We will provide additional training to you and any of your personnel at your request, subject to the availability of suitable trainers and payment of required fees as applicable. This additional training may include Instructor Bootcamp and sales training for new and current staff. You are responsible for any and all fees and costs associated with such additional training (Franchise Agreement, Section 5).
3. If you do not obtain and maintain appropriate insurance coverage, we may procure the coverage on your behalf. We will pass the cost onto you. (Franchise Agreement, Section 11)
4. We may institute various programs for auditing customer satisfaction and/or other quality control measures (Franchise Agreement, Section 5).
5. We will maintain and administer the marketing fund (the “Fund”) as described more fully under the “Advertising and Marketing” heading below (Franchise Agreement, Section 9.1).
6. We will provide such continuing advice as we deem necessary and appropriate. (Franchise Agreement, Section 4.G.)

D. Advertising and Proprietary Marketing

Advertising Generally

You are responsible for local marketing activities to attract members to your Studio. We require you to submit samples of all advertising and promotional materials (and any use of the Proprietary Marks and/or other forms of commercial identification) for any media, including the Internet, World Wide Web or otherwise. You must first obtain our advanced written approval before employing any form of co-branding, or advertising with other brands, products or services. (Franchise Agreement, Section 9(E))

You must strictly follow the social media guidelines, code of conduct, and etiquette as set forth in the Manual regarding social media activities. Any use of Social Media by you pertaining to the Studio must be in good taste, consistent with our System standards for both Brand and Methodology, and not linked to controversial, unethical, immoral, illegal or inappropriate content. You will promptly modify or remove any online communication pertaining to the Studio that does not comply with the Franchise Agreement or the Manual. (Franchise Agreement, Section 9).

Initial Marketing Spend

You will be required to expend a minimum of \$25,000 (your “Initial Marketing Spend”) on certain sales and promotional activities that we designate or approve as part of your pre-opening campaign to generate Studio interest and membership sales. As of the Issue Date, we typically require you conduct these activities in the eight (8) weeks prior to the “soft opening” of your franchised Studio through the full opening of your Studio (usually four weeks after your soft opening). You may be required to expend all or some portion of these funds on products/services received from an Approved Supplier we designate or approve, and all materials used in connection with your Initial Marketing Spend must be approved by us if not previously designated for use. (Franchise Agreement, Section 9).

Local Advertising Requirement (or “LAR”)

You must expend a minimum amount on the local advertising, marketing and promotion of the Franchised Business within your Designated Territory. As of the Issue Date, your LAR amounts to 1% of the Gross Sales generated by your Franchised Business. This is the minimum amount you must currently expend on advertising, marketing and promoting your Franchised Business. We reserve the right to (a) modify or otherwise designate the Approved Supplier from which you must acquire services/products to promote your Franchised Business as part of your LAR, and/or (b) request that you provide us with invoices detailing the expenditures you may each month on advertising and marketing (to ensure compliance and consistency with your financial reporting). (Franchise Agreement, Section 9).

Brand Development Fund

We have established the Fund as previously disclosed in Item 6 of this Disclosure Document to promote the brand, Proprietary Marks, System, Studios and/or Approved Services how we determine appropriate in our discretion. You are required to contribute up to three percent (3%) of the Gross Sales of your franchised Studio to the Fund. (Franchise Agreement, Sections 5 and 9).

The Fund is solely administered by us, as we deem appropriate. With that said, we may also establish a fund committee (the “Fund Committee”) to help advise on matters related to the Fund. In the event we establish the Fund Committee, the Fund will still be administered by us with the Fund Committee serving in an advisory capacity only. The Fund will be maintained and operated by us to meet the costs of conducting regional and national advertising and promotional efforts, other brand development activities, as well as related technology used to implement these advertising and brand development activities (i.e., digital marketing platform, System web portal) that we determine beneficial to the System. The Fund Committee, if established, will serve in an advisory capacity only. We will direct all public relations, advertising and promotions with sole discretion over the message, creative concepts, materials and media used in the programs and the placement and allocation thereof. We have the power to form, change or dissolve the Fund and/or the Fund Committee. We will pay for these activities from the Fund. The Fund contributions may be used for traditional and digital advertising activities, such as website development, social media, public relations, advertising campaigns (television, radio, print or other media), or other promotions which will raise awareness of our brand.

We are not obligated to ensure that Fund activities or dollars are spent equally, on a pro rata basis, either on your Studio, or all Studios in an area. A brief statement regarding the availability of System franchises may be included in advertising and other items produced using the Fund, but we will not otherwise use the Fund to pay for franchise sales or solicitations.

Reasonable disbursements from the Fund will be made solely for the payment of expenses incurred in connection with the general promotion of the Proprietary Marks and the System, including the cost of formulating, developing and implementing advertising and promotional campaigns; and the reasonable costs of administering the Fund, including accounting expenses and the actual costs of salaries and fringe benefits paid to our employees engaged in administration of the Fund. The Fund is not a trust or escrow account, and we have no fiduciary obligations regarding the Fund. We are not required to audit our Fund expenditures, but we reserve the right to do so and cover the costs associated with the audit from the Fund. Otherwise, we will prepare and make available to our franchisees, upon request, a basic accounting of the Fund for a given fiscal year after 120 days have passed since that year end. Any company-owned or affiliate-owned Studios we may open will contribute to the Fund at the rate provided in our Franchise Disclosure Document. Should the advertising contribution for the System decrease at any time, we have the right to reduce our contribution from company-owned or affiliate-owned Studios to the rate specified for franchised locations. We are not required to spend all Fund contributions in the fiscal year they are received. (Franchise Agreement, Sections 5 and 9).

You agree to participate in all Fund programs. The Fund may furnish you with marketing, advertising and promotional materials; however, we may require that you pay the cost of producing, shipping and handling for such materials.

During our fiscal year ended December 31, 2022, we expended 100% of the Fund on marketing services via FACEBOOK and other providers.

E. Training

Initial Training Programs

Lance Farrell, our founder, and Todd Dorr, Director of Programming and Training, supervises all aspects of all our training programs. Lance has worked with us since our inception, and has substantive experience in the health and fitness field since he entered those fields in or around 1980. Todd has 25 years of experience in the industry and around 17 years of experience with the company. Other individuals also assist with training, and they generally have at least two (2) years’ experience in their appropriate subject areas. Training is scheduled on a bi-monthly basis or other interval we set forth in our then-current Manuals. Training occurs at our company headquarters and/or at one (1) of our other affiliate-owned Studios that we have designated for training (each, a “Corporate Training Location”).

We use manuals (including the Operations Manual), videos, web-based training and handouts in our training programs for operators of Farrell’s Studios. We do not charge any fees for the initial (pre-opening) training program, but you must pay our then-current Training Fee for any additional or supplemental training we provide. You also must pay your personnel’s travel, living and other expenses and compensation incurred while attending any training programs

or working at Farrell’s Studios that is part of their development.

General Business Training

After you sign a franchise agreement and secure a location, but before you begin soliciting customers for the Studio or conducting pre-sales, you (or your managing owner) must attend and complete our initial training program on the general business aspects of operating a Farrell’s Studio (“General Business Training”). General Business Training may include classroom training of which a portion of it may be video based, instruction at designated facilities, hands-on training at an operating System Studio, remote training (including via video recording, Internet access), and/or self-study programs (including online LMS training on topics related to marketing, social media, and small business operations. Quizzes to test proficiency are included with many LMS programs). We will provide General Business Training for no additional fee for three people associated with your Studio, including you (or your managing owner) and others whom you choose.

You (or your managing owner) and any other personnel you choose must complete the General Business Training program to our satisfaction. The following chart describes our current General Business Training program.

**TRAINING PROGRAM
For General Business Training**

Subject	Hours of Classroom Training	Hours of On-The-Job Training	Location
Point-of-sale system/Extranet	6	0	Farrell’s Studio in Des Moines and/or Extranet and FXBu Tools
Phone skills and system	2	0	Farrell’s Studio in Des Moines and/or Extranet and FXBu Tools
Proprietary Marketing and advertising	4	0	Farrell’s Studio in Des Moines and/or Extranet and FXBu Tools
Sales training	24	0	Farrell’s Studio in Des Moines and/or Extranet and FXBu Tools*
Total Hours	36	0	

*You and/or your designee will also need to attend regular sales coaching meetings or calls for new franchisees prior to opening your location. You will be provided with a schedule of those calls after you have completed General Business Training.

Basic Instructional Training

After you sign a franchise agreement and secure a location, but prior to opening of your franchised Studio, you or your designee will complete our initial training program on instructing the various courses, including “on-the-job” instruction of classes and coaching, that Farrell’s Studios offer (the “Basic Instructional Training”). You (or your managing owner) and all other individuals who will instruct any class at the Studio (together with you or your managing owner, “Instructors”) must attend and complete Basic Instructional Training to our satisfaction before you open the Studio for business.

Basic Instructional Training may include classroom training of which a portion of it may be video based, hands-on training at an operating System Studio, remote training (including via video recording, DVD or Internet access) and self-study programs. As part of the Basic Instructional Training, we may require Instructors to conduct Courses and perform other work without compensation from us or our affiliate at an operating Farrell’s Studio that we specify. The following chart describes our current Basic Instructional Training program:

**TRAINING PROGRAM
For Basic Instructional Training**

Subject	Hours of Classroom Training	Hours of On- The- Job Training	Location
Kickboxing	12	12	Farrell’s Studio in Des Moines and/or Extranet and FXBu Tools
Strength training	10	10	Farrell’s Studio in Des Moines and/or Extranet and FXBu Tools
Coaching	1	0	Farrell’s Studio in Des Moines and/or Extranet and FXBu Tools
Total Hours	23	22	

Instructor Certification Training

Before you open the Studio for business, you (or your managing owner) or another Authorized Instructor that works at your Studio must successfully fulfill all of our required fitness, skill, and instructional proficiencies, and maintain or perform the other training, tasks, and other conditions that we periodically specify to achieve and retain at least an initial trainee certification designation. This will typically take place at our program for Basic Instructional Training, unless you or your managing owner is already certified as an Authorized Instructor from a previous Farrell’s location.

Supplemental and Refresher Training

We may require you (or your managing owner) and/or previously trained and experienced Studio personnel (including Instructors) to attend and satisfactorily complete various training courses, programs and conventions that we choose to provide periodically at the times and locations that we designate. We may charge reasonable fees for these training courses, programs and conventions. We currently require Instructors to attend refresher training in the form of certification seminars that we (or our designees) conduct on a semi-annual basis. Otherwise, we currently have no plans to conduct any specific additional or refresher training programs.

We may offer, and require you and your Designated Manager, as well as your head Authorized Instructor, to attend, additional training programs and/or refresher courses, as we deem necessary in our sole discretion (“Additional Training”). While you have the option to attend any Additional Training we offer, subject to the availability of our classes, we may require that you and your Designated Manager attend up to five (5) days of Additional Training each year at our headquarters or other location we designate. You will be required to pay our then-current Training Fee for any Additional Training you and your employees request to attend and any Remedial Training that we require. You will also be solely responsible for all expenses incurred in attending Additional Training. (Franchise Agreement, Section 5(C))

We may provide you with continuing consultation and advice, as we deem necessary in our sole discretion, regarding the management and operation of the Franchised Business. We may provide this assistance by telephone, facsimile, intranet communication, Skype®, Zoom® or comparable communication method/channel, as we deem advisable and subject to the availability of our personnel. Certain of this advice and consultation may be provided based on certain reports, guest satisfaction surveys and other brand quality measurements we impose in connection with the operation of your Franchised Business, and such advice/consultation will be subject to your timely provision of any reports we require you to submit. (Franchise Agreement, Section 5(G))

We may also provide you with additional on-site assistance and/or training, subject to the availability of our field representatives and, upon our request, payment of our then-current Training Fee in connection with any: (i) additional training or on-site assistance that you request we provide; (ii) Remedial Training you or your personnel are required to attend; and/or (iii) training that we provide to any replacement personnel, including any Corporate Training that such personnel must receive prior to undertaking any corresponding duties or responsibilities at your Center. (Franchise Agreement, Section 5);

F. Computer System - Hardware and Software

You must obtain and use the computer hardware and software that we periodically specify, including hardware components, dedicated telephone and power lines, modems, printers, software licenses, and other computer-related accessories and peripheral equipment (the “Computer System”). You currently will use the Computer System to access the Extranet and to input and access information about your members, sales and operations. The Extranet also will function as a web-based point-of-sale system for all transactions at the Studio. The Computer System will store some Data and other data and information about the Studio’s members, finances and operations based on information you input.

The Computer System's required hardware components include a computer/processor, iPad/monitor, scanner, credit card reader, and receipt and other printers, which hardware items are generally available from a number of retailers. We estimate that it will cost about \$2,500 to buy these Computer System's components when you develop the Studio.

The Computer System's required software currently includes third-party accounting software and our prescribed customer relationship management ("CRM") system platform(s) from a supplier or manufacturer we designate that, as of the Issue Date, contains the point-of-sale ("POS") software that includes point-of-sale software and links our then-current Required Software for accounting.

You will pay us our then-current Technology Fee (currently, \$599 per month) on a monthly basis for use of the CRM platform, which we collect from all Studios and pass through to the vendor. You may need to acquire any other software downloads necessary for your Computer System to access the primary software over the Extranet. Besides the monthly Technology Fee, you are also required to pay our then-current Required Software Fee (currently, \$150/month) to our Third Party affiliate for the fitness monitoring software you utilize at your Franchised Business. As of the Issue Date, you may be required to enter into our Approved Supplier's agreement for certain Required Software described in Item 6 of this Disclosure Document.

No party has any obligation to provide, any other maintenance, repairs, updating, upgrading or ongoing support contracts for the Computer System. Because of varying market conditions and retailers who provide the Computer System's components, we are unable to estimate the annual cost of any optional maintenance, updating, upgrading or support contracts beyond the ongoing Technology and Required Software Fees.

We may periodically modify specifications for and components of the Computer System. Our modification of specifications for the Computer System, and/or other technological developments or events, may require you to purchase, lease and/or license new or modified computer hardware, software and other components and to obtain service and support for the Computer System, including all related costs. Within 60 days after we deliver notice to you, you must obtain any further Computer System components that we designate and ensure that your Computer System, as modified, is functioning properly. No contract limits the frequency or cost of these obligations. We and our affiliates may condition any license of required or recommended proprietary software to you, and/or your use of technology developed or maintained by or for us (including the Extranet), on your signing a software license agreement or similar document, or otherwise agreeing to the terms (for example, by acknowledging your consent to and accepting the terms of a click-through license agreement), that we and our affiliates periodically specify to regulate your use of, and our (or our affiliate's) and your respective rights and responsibilities for, the software or technology.

We require you to enter into any maintenance, updating, upgrading, or support contracts related to the POS System or other Computer System components, we estimate that the costs associated with such contracts and any upgrades to your Computer System components will be between \$500 and \$1,500 (on average) per year. Otherwise, we are not in position to estimate other future costs of the Computer System or required service or support that you may incur for additions, modifications, or required service and support of the Computer System during the franchise term. We will have unlimited, independent access to all of the information and data in the Computer System. There are no contractual limits imposed on our access to your computer information.

ITEM 12 TERRITORY

Approved Premises and Relocation

You will operate the Studio at a specific location approved by us (referred to as your "Premises").

You will not be permitted to relocate your Studio without our prior written approval, which may be withheld in our discretion. You will be assessed a relocation fee at the time you submit the proposed location for your relocated Studio. Generally, we do not approve requests to relocate your Studio after a site selection has been made and you have opened for business unless (a) it is due to extreme or unusual events beyond your control, and (b) you are not in default of your Franchise Agreement. If we approve your relocation request, we retain the right to approve your new site location in the same manner and under the same terms that are applied to your first site selection.

Designated Territory

Once you have secured your Premises, we may award you a Designated Territory within which you will have certain territorial rights.

Your Designated Territory will typically be the geographic area comprised of a radius around the Premises of your

franchised Studio that is approximately three (3) miles, provided your Premises is located in a rural or suburban area. If your Studio is located in an urban area, such as a city, major metropolitan downtown area or similarly situated/populated central business district (a “Central Business District”), then your Designated Territory may be limited to a five (5) block radius around the Premises or the perimeter of any larger building in which the Premises is located. We may also determine the boundaries of a given Designated Territory so that it contains a certain population or subset of population demographics.

We will determine and designate your Designated Territory as we deem appropriate in our discretion and, regardless of how we demarcate your territory, we do not have a minimum Designated Territory that a new Franchised Business or other Studio must be awarded.

If we determine to base your Designated Territory on population or other demographics at some point in the future, then we expect and intend that the sources we use to determine the population within your Designated Territory will be supplied by (a) the territory mapping software we determine to license or otherwise use, or (B) publicly available population information (such as data published by the U.S. Census Bureau or other governmental agencies and commercial sources).

The size of your Designated Territory will likely vary in size and shape from the Designated Territory awarded to other System franchisees or Studios due to various factors, including without limitation, the location and demographics (including market saturation thresholds and competition count) surrounding your Premises. The boundaries of your Designated Territory may be described in terms of zip codes, streets, landmarks (both natural and man-made) or county lines, or otherwise delineated on a map.

If and when you are granted a Designated Territory, then we will not open or locate, or license any third party the right to open or locate, another Studio utilizing the Proprietary Marks and System from a physical location within that Designated Territory, until such time that your Franchise Agreement expires or is terminated (subject to the next paragraph in this Item).

With that said, Franchisor does reserve the right to locate a Studio at certain “Non-Traditional Sites” even if those sites are located within your Designated Territory and, as such, we must include the following disclosure in this Item: You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

Except as expressly provided in the Franchise Agreement, you will have no right to exclude, control or impose conditions on the location, operation or otherwise of present or future Studios, using any of the other brands or Proprietary Marks that we now, or in the future, may offer, and we may operate or license Studios or distribution channels of any type, licensed, franchised or company-owned, regardless of their location or proximity to the premises and whether or not they provide services similar to those that you offer. You do not have any rights with respect to other and/or related businesses, products and/or services, in which we may be involved, now or in the future.

Solicitation and Related Rights Within and Outside a Studio’s Designated Territory

While you and other System Studios will be permitted to have Approved Services provided to potential and existing clients that visit or otherwise reach out to your Studio, you will not be permitted to actively solicit or recruit clients outside your Designated Territory unless we provide our prior written consent. You will not be permitted to advertise and promote your Franchised Business via advertising that is directed at those outside your Designated Territory without our prior written consent, which we will not unreasonably withhold provided (a) the area you wish to advertise in is contiguous to your Designated Territory, and (b) that area has not been granted to any third party in connection with a Studio (or Development Agreement) of any kind.

We reserve the right to “occupy” any social media websites/pages and be the sole provider of information regarding the Studio on such websites/pages (e.g., a system-wide Facebook page). At our request, you will promptly modify or remove any online communication pertaining to the Studio that does not comply with the Franchise Agreement or the Manual. You are not prohibited from obtaining members over the Internet provided your Internet presence and content comply with the requirements of the Franchise Agreement.

Development Agreement and Development Area

If you are granted the right to open three or more Franchised Businesses under our form of Development Agreement, then we will provide you with a Development Area upon execution of this agreement.

The size of your Development Area will substantially vary from other System developers based on: (i) the number of

Franchised Businesses we grant you the right to open and operate; and (ii) the location and demographics of the general area where we mutually agree you will be opening these locations. The boundaries of your Development Area may be described in terms of zip codes, streets, landmarks (both natural and man-made) or county lines, or otherwise delineated on a map attached to the Data Sheet.

Each Franchised Business you timely open and commence operating under our then-current form of franchise agreement will be operated: (i) from a distinct site located within the Development Area; and (ii) within its own Designated Territory that we will define once the site for that Franchised Business has been approved. We will approve sites for additional Franchised Businesses developed under your Development Agreement using our then-current site selection criteria.

We will not open or operate, or license a third party the right to own or operate, a Studio utilizing the Proprietary Marks and System from a physical location within the Development Area until the earlier of: (i) the date we define the Designated Territory of the final Franchised Business you were granted the right to operate under the Development Agreement; or (ii) the expiration or termination of the Development Agreement for any reason.

With that said, we do reserve the right to locate Studios at certain “Non-Traditional Sites” within your Development Area and, for this reason, we must provide the following disclosure:

You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

Upon the occurrence of any one of the events referenced in subparts (i) and (ii) in the preceding paragraph, your territorial rights within the Development Area will be terminated, except that each Franchised Business that you have opened and are continuously operating as of the date of such occurrence will continue to enjoy the territorial rights within their respective Designated Territories awarded in connection with those Studios and agreed to by Franchisor in the applicable and governing form of franchise agreement for each such Studio.

You must comply with your development obligations under the Development Agreement, including your Development Schedule, in order to maintain your exclusive rights within the Development Area. If you do not comply with your Development Schedule, we may terminate your Development Agreement and any further development rights you have under that agreement. Otherwise, we will not modify the size of your Development Area except by mutual written agreement signed by both parties.

Reserved Rights Under Both Franchise Agreement and Development Agreement

We and our affiliates reserve the exclusive right to conduct the following activities under the Franchise Agreement and/or Development Agreement (as appropriate): (i) establish and operate, and license any third party the right to establish and operate, other Studios and Franchised Businesses using the Proprietary Marks and System from any physical location outside of your Designated Territory(ies) and, if applicable, Development Area; (ii) market, offer and sell products and services that are similar to the products and services offered by the Franchised Business under a different trademark or trademarks at any location, within or outside the Designated Territory(ies) and, if applicable, the Development Area; (iii) use the Proprietary Marks and System, as well as other such marks we designate, to distribute any Approved Products and/or Services in any alternative channel of distribution, within or outside the Designated Territory(ies) and, if applicable, Development Area (including the Internet, mail order, catalog sales, toll-free numbers, wholesale stores, etc.), as further described below; (iv) to (a) acquire, merge with, be acquired by, or otherwise affiliate with, any other company, and (b) have us or any successor/acquiring entity own and operate, and franchise or license others to own and operate, any business of any kind, including, without limitation, any business that offers products or services the same as or similar to the Approved Products and Services (but under different marks), within or outside your Designated Territory(ies) and, if applicable, Development Area; (v) market, offer and provide the Approved Services directly to personnel in their respective residence, office or other location of choice and not from a Studio location, anywhere inside or outside of the Designated Territory; (vi) own and operate Studios in “Non-Traditional Locations” including, but not limited to, airports, malls, any captive venue that requires a ticket or other membership to access, military bases, academic institutions, hospitals, sports arenas and stadia, train stations, casinos, both within or outside your Designated Territory(ies) and, if applicable, Development Area; and (vii) use the Proprietary Marks and System, and license others to use the Proprietary Marks and System, to engage in any other activities not expressly prohibited in your Franchise Agreement and, if applicable, your Development Agreement.

Neither the Franchise Agreement nor Development Agreement grants you any right to engage in any of the activities outlined in the preceding paragraphs under this subheading in Item 12, or to share in any of the proceeds received by

us, our affiliates or any third party from these activities, unless we otherwise agree in writing. Further, we have no obligation to provide you any compensation for soliciting or accepting orders (via alternate channels of distribution) within your Designated Territory and, if applicable, Development Area.

Internet Sales / Alternative Channels of Commerce

We may sell products and services to clientele located anywhere, even if such products and services are similar to those services/products that System Studios are authorized to offer and sell from their respective Premises. We may use the Internet or other alternative channels of commerce to sell Franchisor’s brand products and services. You may only sell the products and services from your approved Studio location, and may only use the internet or alternative channels of commerce to offer or sell the products and services, as permitted by us. We may require you to submit samples of all advertising and promotional materials (and any use of the Proprietary Marks and/or other forms of commercial identification) for any media, including the Internet, World Wide Web or otherwise.



Additional Disclosures

Neither the Franchise Agreement nor the Development Agreement provides you with any right or option to open and operate additional Franchised Businesses (other than as specifically provided for in your Development Agreement if you are granted multi-unit development rights). Regardless, each Franchised Business you are granted the right to open and operate must be governed by its own specific form of Franchise Agreement.

We have not established other franchises or company-owned outlets or another distribution channel offering or selling similar products or services under a different trademark. Neither we nor our affiliates have established, nor do we presently intend to establish, other franchised or company-owned businesses that are similar to the Franchised Business and that provide the Approved Products and Services under a different trade name or trademark, but we and our affiliate(s) reserve the right to do so in the future without your consent.

**ITEM 13
TRADEMARKS**

We grant you a limited, non-exclusive license to use our then-current Proprietary Marks in connection with the operation of your Franchised Business only at your Premises and within your Designated Territory, provided you use these Proprietary Marks as outlined in your Franchise Agreement(s) and our Manuals.

MARK	REGISTRATION NUMBER	REGISTRATION DATE
	5123371	1/17/17
	667286	9/6/19
FARRELL’S EXTREME BODYSHAPING (standard character)	3817655	7/13/10
FXB (standard character)	3671680	8/25/09
FARRELL’S (standard character)	3649762	7/9/09
EXTREME BODYSHAPING (standard character)	3814145	7/6/10

MARK	REGISTRATION NUMBER	REGISTRATION DATE
FARRELL'S INFINITE TRANSFORMATION (standard character)	3668536	10/18/09
MOTIVATION TO TRANSFORMATION (standard character)	4715760	4/7/2015
LIFE AT LEVEL 10 (standard character)	4353871	6/18/13
RESULTS ARE TYPICAL (standard character)	3837871	8/24/10
THE EXTREME IS IN THE RESULTS (standard character)	5391895	1/30/18

We have, and expect and intend to continue, filing the necessary documents with the USPTO necessary to maintain the registrations issued for the Proprietary Marks above for so long as we determine to license such a mark for use in connection with the operation of a Franchised Business.

As of the Issuance Date, there are no agreements that limit our right to use or sublicense any of the Proprietary Marks. There are no currently effective material determinations of the PTO, the Trademark Trial and Appeal Board, or any state trademark administrator or court, and no pending infringement, opposition, or cancellation proceedings or material federal or state court litigation, involving the principal Proprietary Marks. We do not know of either superior prior rights or infringing uses that could materially affect your use of the Proprietary Marks in any state.

You must follow our rules and other System Standards when using the Proprietary Marks. If we believe at any time that it is advisable for us and/or you to modify, discontinue using and/or replace any Proprietary Mark, and/or use one or more additional or substitute trademarks or service marks, you must comply with our directions within a reasonable time after receiving notice. We need not reimburse you for your expenses in complying with these directions (such as costs that you incur in changing the signs or replacing supplies for the Studio), for any loss of revenue due to any modified or discontinued Proprietary Mark, or for your expenses of promoting a modified or substitute trademark or service mark.

You may use only the Proprietary Marks that we designate, must use them only in the manner that we authorize and permit, and must use them with the symbols, “®”, “™”, or “SM”, as appropriate. You may use the Proprietary Marks only for the operation and promotion of the Studio and only in the manner we prescribe. You may not contest ownership or validity of the Proprietary Marks or any registration of the Proprietary Marks or our right to use or to sublicense the use of the Proprietary Marks. You must sign all documents that we require in order to protect the Proprietary Marks and to maintain their validity and enforceability.

You may not use the Proprietary Marks or any part of the Proprietary Marks in your legal name, and you may not use them to incur any obligation or indebtedness on our behalf.

You may not use the Proprietary Marks or any part or derivative of the Proprietary Mark on the Internet, except as expressly permitted in writing. This prohibition includes use of the Proprietary Marks or any derivative of the Proprietary Marks as part of any URL or domain name, as well as their registration as part of any user name on any gaming website or social networking web site, whether or not such social media platform is used for commercial gain, or as part of any unauthorized email address.

You must notify us immediately of any actual or apparent infringement of or challenge to your use of any Proprietary Mark or of any person's claim of any rights in any Proprietary Mark (or any identical or confusingly similar trademark) or claim of unfair competition relating to any Proprietary Mark. We may take any action that we deem appropriate (including no action) and control exclusively any litigation, PTO proceeding or other administrative proceeding arising from any infringement, challenge or claim or otherwise concerning any Proprietary Mark. You must sign any

documents and take any other reasonable actions that, in our attorney’s opinion, are necessary or advisable to protect and maintain our interests in any litigation or USPTO or other proceeding or otherwise to protect and maintain our interests in the Proprietary Marks.

We will reimburse you for all damages and expenses you incur in any trademark infringement proceeding disputing your authorized use of any Proprietary Mark if you have timely notified us of, and complied with our directions in responding to, the proceeding. At our option, we and/or our affiliate(s) may defend and control the defense of any proceeding arising from or relating to your use of any Proprietary Mark.

You must use the Proprietary Marks as the sole trade identification of the Franchised Business, but you may not use any Proprietary Mark or part of any Proprietary Mark as part of your corporate or other business entity name in any modified form. You may not use any Proprietary Mark in connection with the sale of any unauthorized products or services, or in any other manner that we do not authorize in writing. You must obtain a fictitious or assumed name registration if required by your state or local law.

You must notify us if you apply for your own trademark or service mark registrations. You must not register or seek to register as a trademark or service mark, either with the USPTO or any state or foreign country, any of the Proprietary Marks or a trademark or service mark that is confusingly similar to any of our Proprietary Marks.

You may not establish, create or operate an Internet site or website using any domain name containing the words “Farrell’s,” “Extreme” or the term “Bodyshaping” – or any variation of these terms – without our prior written consent. You may not use the Proprietary Marks as part of any advertisement on the Internet without our permission.

If have the right to modify or discontinue use of any of our Proprietary Marks, and to adopt and implement the use of new Proprietary Marks, in our sole discretion. You must comply with all changes within a reasonable time after delivery of written notice. We are not required to reimburse you for any costs associated with making the change.

ITEM 14

PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION

We have no registered copyrights, nor are there any patents or pending patent applications that are material to the franchise. However, we claim copyrights on certain forms, advertisements, promotional materials, software source code and other Confidential Information as defined below.

To our knowledge, there currently are no effective determinations of the U.S. Copyright Office or any court regarding any of the copyrighted materials. There are no agreements in effect which significantly limit our right to use or license the copyrighted materials. Finally, there are no infringing uses actually known to us that could materially affect your use of the copyrighted materials in any state. No agreement requires us to protect or defend any copyrights or you in connection with any copyrights.

We may revise our System and any of our copyrighted materials in our discretion, and may require that you cease using any outdated copyrighted material. You will be responsible for printing any revised or new advertising, marketing or other business materials.

The franchise grants you a license to use the proprietary information in the Manual. The Manuals are described in Item 11. Item 11 also describes the limitations on the use of the Manual by you and your employees.

In general, our proprietary information includes “Confidential Information” as defined in our current Franchise Agreement, some of which is contained in our Manual, and includes, among other things, all information (current and future) relating to the operation of the Studio or the System, including, among other things, all: (i) manuals, training, techniques, processes, policies, procedures, systems, data and know how regarding the development, marketing, operation and franchising of the Studios; (ii) designs, specifications and information about products and services and (iii) all information regarding members and suppliers, including any statistical and/or financial information and all lists. We disclose to you Confidential Information needed for the operation of a Studio, and you may learn additional information during the term of your franchise. We have all rights to the Confidential Information and your only interest in the Confidential Information is the right to use it under your Franchise Agreement.

Both during and after the term of your Franchise Agreement, you must use the Confidential Information only for the operation of your Studio under a Franchise Agreement with us; maintain the confidentiality of the Confidential Information; not make or distribute, or permit to be made or distributed, any unauthorized copies of any portion of the Confidential Information; and (iii) follow all prescribed procedures for prevention of unauthorized use or disclosure of the Confidential Information.

We have the right to use and authorize others to use all ideas, techniques, methods and processes relating to the Studio that you or your employees conceive or develop. You also agree to fully and promptly disclose all ideas, techniques and other similar information relating to the franchise business that are conceived or developed by you and/or your employees. We will have a perpetual right to use, as well as authorize others to use, those ideas and related work product without compensation or other obligations.

We and/or our affiliates/principals have developed certain trade secrets and other confidential information, including methods of business management, sales and promotion techniques, and know-how, knowledge of, and experience in, operating a Franchised Business. We will provide our trade secrets and other confidential information to you during training, the Manuals, and as a result of the assistance we furnish you during the term of the franchise. You may only use the trade secrets and other confidential information for the purpose of operating your Franchised Business. You may only divulge trade secrets and/or other confidential information to employees who must have access to it to operate the Franchised Business. You are responsible for enforcing the confidentiality provisions as to your employees.

Certain individuals with access to trade secrets or other confidential information, including your shareholders (and members of their immediate families and households), officers, directors, partners, members, if you are a corporation, limited liability company or other business entity, and your managers, executives, employees and staff may be required to sign nondisclosure and non-competition agreements in a form the same as or similar to the Nondisclosure and Non-Competition Agreement attached to the Franchise Agreement. We will be a third-party beneficiary with the right to enforce those agreements.

All ideas, concepts, techniques or materials concerning the franchised business and/or the System, whether or not protectable intellectual property and whether created by or for you or your owners or personnel, must be promptly disclosed to us and will be deemed our sole and exclusive property and a part of the System that we may choose to adopt and/or disclose to other franchisees, and you agree to assign to us all right, title and interest in any intellectual property so developed without additional compensation to you. Likewise, we will disclose to you concepts and developments of other franchisees that we make part of the System. You must also assist us in obtaining intellectual property rights in any concept or development if requested.

Your use of the Manuals, trade secrets or any other Confidential Information – all of which you must acknowledge are owned by us (subject to applicable laws) – in an unauthorized manner is a default of the Franchise Agreement that may result in automatic termination of the Franchise Agreement.

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

Franchised Studio Management Generally

While we recommend that you personally participate and manage the day-to-day operations of your Franchised Business, you may hire a Designated Manager to manage daily operations with our approval. Both you and your Designated Manager will be required to complete the Initial Training Program to our satisfaction (prior to undertaking any management responsibilities).

We will not unreasonably withhold our approval of any Designated Manager you propose, provided the Designated Manager has completed our Initial Training Program and otherwise demonstrated that he/she has a good handle on our System standards and specifications for daily operations of a Studio. If the franchisee is a business entity, we do not require the Designated Manager to own an interest in the entity, but the Designated Manager must sign our prescribed form of Confidentiality and Non-Competition Agreement.

Your Franchised Business must, at all times, be managed and staffed with at least one (1) individual who has successfully completed our Initial Training Program. In the event that you operate more than one Franchised Business, you must have a properly trained Designated Manager at each Studio you own and operate. You must keep us informed at all times of the identity of any personnel acting as Designated Manager, and obtain our approval before substituting a new Designated Manager at any of your locations.

You must also ensure that there is at least one individual, whether that is you, a Designated Manager or other authorized Instructor, that has completed the required Instructor Certification training programming, is on-site at the Premises of the Franchised Business and providing the Approved Services whenever classes or other services are being provided to Studio clientele. Only authorized Instructors may conduct classes or provide any other kind of

fitness instruction that is part of the Approved Services.

It is important to note that we are not your employer and that you will have the right to control all decisions related to recruiting, hiring or firing any personnel, including personnel or subcontractors that must be independently licensed to perform certain of the Approved Services in connection with a Studio. Please note that nothing in this Disclosure Document or any agreement you enter into with us will create any type of employer or joint employer relationship between (a) you and/or your personnel, and (b) us.

If you are an individual, then your spouse will also be required to sign the Franchise Agreement or, in the alternative, the form of Personal Guaranty attached to the Franchise Agreement as an Exhibit (the “Guaranty”). If you are a business entity (limited liability company, corporation, partnership, etc.), then (a) each of your shareholders/members/partners (the “Owners”), as applicable, must sign the Guaranty, and (b) at our option, the spouses of each such Owner must sign the Guaranty.

Development Operations under Development Agreement

Under a Development Agreement, you must designate and retain an individual throughout the term of the Development Agreement to act on behalf of you in all transactions concerning your obligations under the Development Agreement (the “Representative”). If you are an individual, you must perform all obligations of the Representative.

The Representative must use reasonable efforts to do the following, during the entire period he serves in that capacity: (1) maintain a direct or indirect ownership interest in the Franchised Business; (2) devote substantial time and reasonable efforts to the supervision and conduct of the Franchised Business and execute the Development Agreement as one of the Principals; and (3) meet our standards and criteria for a Representative as set forth in the Manuals or otherwise in writing by us.

If the Representative or any designee is not able to continue to serve in the capacity of Representative or no longer qualifies, you must promptly notify Franchisor and designate a replacement.

ITEM 16 RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

You must offer for sale and sell, only and all those Approved Products and Approved Services and deal only with those suppliers that we authorize or require, and have authorized (See Item 8). Failure to comply with our purchasing restrictions may result in the termination of your Franchise Agreement. We may supplement, revise and/or modify our Approved Products and Services as we deem appropriate from time to time, as well as our System standards and specifications associated with the provision of these products/services. These changes will be outlined in our Manuals or otherwise in writing, and there are no contractual limitations on our right to make these types of changes.

If we discontinue any Approved Product or Approved Service offered by the Franchised Business, then you must cease offering or selling such product/service within a reasonable time, unless such product/service represents a health or safety hazard (in which case you must immediately comply upon receipt of notice from us). You may not use the location of your Franchised Business for any other business purpose other than the operation of your Franchised Business.

You may not advertise, offer for sale or sell, any products and/or services that we have not authorized. We reserve the right to change the types of authorized products and services at any time in our discretion. You agree to promptly undertake all changes as we require from time to time, without limit, except we will not require you to thoroughly modernize or remodel the Studio any more often than once every 5 years. You will not make any material alterations to your Studio or its appearance as originally approved by us without our prior written approval.

You must refrain from any merchandising, advertising, or promotional practice that is unethical or may be injurious to our business and/or other franchised businesses or to the goodwill associated with the Proprietary Marks. Subject to the conditions set forth above, we do not impose any restrictions with regards to the customers to whom you may sell goods and services. (Franchise Agreement, Section 4.2).

ITEM 17 RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION

THE FRANCHISE RELATIONSHIP

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

Franchise Agreement

Provision	Section in Franchise Agreement	Summary
a. Length of the franchise term	Section 3	10 years.
b. Renewal or extension of the term	Section 3	You have the right to renew the franchise for two (2) consecutive, renewal term(s) of five (5) years.
c. Requirements for franchisee to renew or extend	Section 3	Sign then current franchise agreement and releases (if state law allows; see Exhibit H) and pay successor franchise fee. “Renewal” means signing our then current franchise agreement for the five-year successor franchise term, which could contain materially different terms and conditions than your original contract/Franchise Agreement (including fees and territory).
d. Termination by franchisee	Not provision	Not applicable.
e. Termination by franchisor without cause	No provision	Not applicable.
f. Termination by franchisor with cause	Section 15	We can terminate for cause.
g. “Cause” defined <input type="checkbox"/> curable defaults	Sections 15B and 15C	You have 48 hours to cure health, safety or sanitation law violations or operating unsafely; 10 days to cure monetary defaults and failure to maintain insurance; and 30 days to cure other defaults not listed in (h) below. We also may assume Studio’s management if you default.
h. “Cause” defined <input type="checkbox"/> non- curable defaults	Section 15	Material misrepresentations or omissions, failing to complete mandatory training satisfactorily, failing to obtain our site approval within three months after signing the Franchise Agreement, failing to open on time, abandonment or failing to operate for three or more consecutive days, losing rights to Studio, conviction of or pleading no contest to a felony, interference with inspections, dishonest, unethical or illegal conduct, unauthorized transfer, termination of another agreement with us or our affiliate (other than development rights agreement), breach of non-compete, unauthorized use or disclosure of the Operations Manual or confidential information, failure to pay taxes, understating Merchandise Gross Sales or Service Gross Sales, repeated defaults (even if cured), and bankruptcy-related events.
i. Franchisee’s obligations on termination/nonrenewal	Section 16	Pay outstanding amounts, stop using Proprietary Marks and our other intellectual property, deliver advertising material, signs and other proprietary items to us, de-identify, stop using and maintain confidentiality of all confidential information and data and return Operations Manual and other confidential materials, and allow us to notify

Provision	Section in Franchise Agreement	Summary
		members and customers (also see (o) and (r) below).
j. Assignment of contract by franchisor	Section 13	No restriction on our right to assign or transfer ownership interests without your approval.
k. "Transfer" by franchisee <input type="checkbox"/> defined	Sections 13	Includes transfer of interest in Franchise Agreement, the Studio or its profits or losses, all or substantially all of the Operating Assets, or any ownership interest in you or your owner (if that owner is an entity). If a business entity owns an interest in you, individual(s) must own that business entity.
l. Franchisor approval of transfer by franchisee	Section 13	No transfer without our prior written consent.
m. Conditions for franchisor approval of transfer	Section 13	We will approve transfer of non-controlling interest in you if transferee (and each owner) qualifies and is not (and has no affiliate which is) in a competitive business. We will approve control transfer if transferee (and each owner) qualifies; you pay us and our affiliates all amounts due, submit all reports and are otherwise not in violation of any provision; transferee, its owners and affiliates are not in a competitive business; training completed; transferee signs our then current franchise agreement and other documents (which may have materially different terms); transfer fee paid; transferee agrees to upgrade and remodel; you (and transferring owners) sign general release (if state law allows; see Exhibit H); we determine that sale terms will not adversely affect Studio's operation; you subordinate amounts due to you; and you stop using Proprietary Marks and our other intellectual property (also see (r) below).
n. Franchisor's right of first refusal to acquire franchisee's business	Section 13	We may match any offer for your Studio or Operating Assets or controlling ownership interest in you.
o. Franchisor's option to purchase franchisee's business	Section 16	We may buy Studio's assets at fair market value after Franchise Agreement is terminated or expires.
p. Death or disability of franchisee	Section 13	Must transfer to approved party within nine months. We may operate Studio if it is not being properly managed.
q. Non-competition covenants during the term of the franchise	Section 14	No interest in a competitive business anywhere.
r. Non-competition covenants after the franchise is terminated or expires	Section 14	For two years after Franchise Agreement expires or terminates, no owning interest in or performing services for competitive business within Territory or three miles from any other Farrell's Studio (same restrictions apply after transfer).

Provision	Section in Franchise Agreement	Summary
s. Modification of the agreement	Section 18	No modifications without signed writing, but we may change Operations Manual and System Standards.
t. Integration/merger clause	Sections 18 and 23	Only the terms of the Franchise Agreement and other related written agreements are binding (subject to state law). Any representations or promises outside of the disclosure document and franchise agreement may not be enforceable. Notwithstanding the foregoing, nothing in this or any related agreement is intended to disclaim the express representations made in the Franchise Disclosure Document, its exhibits and amendments.
u. Dispute resolution by arbitration or mediation	Sections 21	All disputes are subject to mediation, at our option, that must be conducted at or near our then-current headquarters (currently, in Iowa). (subject to state law).
v. Choice of forum	Section 21	All disputes, claims and causes of action must be initiated in the state or federal court that is closest to our then-current headquarters. (subject to state law).
w. Choice of law	Section 21	Except for other federal trademark law, Iowa law governs (subject to state law).

Development Agreement

Provision	Section in Development Agreement	Summary
a. Length of the franchise term	Section 1B	10 years.
b. Renewal or extension of the term	Not Applicable	Not Applicable
c. Requirements for franchisee to renew or extend	Not Applicable	Not Applicable
d. Termination by franchisee	Not Applicable	Not Applicable
e. Termination by franchisor without cause	Not Applicable	Not Applicable
f. Termination by franchisor with cause	Section 14	We can terminate for cause.
g. "Cause" defined <input type="checkbox"/> curable defaults	Section 14	We may terminate your Development Agreement after providing notice and a 30-day cure period (unless a different cure period is specified below)

Provision	Section in Development Agreement	Summary
		<p>if: you fail to meet the Development Schedule; you fail to develop, open, and operate each Business and execute each Franchise Agreement in compliance with the Development Agreement; you fail to designate a qualified replacement Representative; you misappropriate or misuse the Proprietary Marks or impair the goodwill of the Proprietary Marks or System; fail to make monetary payment under the Development Agreement or any Franchise Agreement to us or our affiliate, and fail to cure within 14 days of receiving written notice from us; fail to correct a deficiency of a health, sanitation, or safety issue identified by a local, state or federal agency or regulatory authority; or you fail to comply with any other material term or material condition of the Development Agreement or any Franchise Agreement.</p>
<p>h. "Cause" defined <input type="checkbox"/> non- curable defaults</p>	<p>Section 14</p>	<p>We may terminate your Development Agreement automatically upon written notice if: you become insolvent or make a general assignment for the benefit of creditors; file a bankruptcy petition or are adjudicated bankrupt; a bill in equity or appointment of receivership is filed in connection with you; a receiver or custodian of your assets of property is appointed; a proceeding for a composition of creditors is initiated against you; a final judgment is entered against you and not satisfied within 30 days; if you are dissolved, execution is levied against you; a suit to foreclose any lien or mortgage against any of your Facilities is levied; the real or personal property of a Studio is sold after being levied upon; you fail to comply with the non-competition covenants of the Development Agreement; you or your principal discloses the contents of the Manuals or other confidential information; an immediate threat or danger to public health or safety results from the operation of a Studio operated by you; you or your Principal has made a material misrepresentation in the franchise application; you fail on 3 or more occasions within a one (1) year period to comply with a provision of the Development Agreement; or you fail to comply with the transfer conditions of the Development Agreement.</p>
<p>i. Franchisee's obligations on termination/nonrenewal</p>	<p>Sections 14 and 15</p>	<p>Upon termination, you have no right to establish or operate any Studio for which an individual Franchise Agreement has not been executed by us and delivered to you at the time of termination. All of your obligations under the Development Agreement which expressly or by their nature survive the expiration or termination of the</p>

Provision	Section in Development Agreement	Summary
		Agreement (including the non-competition covenants of Section 11), continue in full force and effect until they are satisfied or by their nature expire.
j. Assignment of contract by franchisor	Section 16	No restriction on our right to assign or transfer ownership interests without your approval.
k. "Transfer" by franchisee <input type="checkbox"/> defined	Section 16	A transfer includes voluntarily, involuntarily, directly or indirectly, assigning, selling, conveying, pledging, sub-franchising or otherwise transferring any of the rights created by the Development Agreement or any ownership interest in you.
l. Franchisor approval of transfer by franchisee	Section 16	No transfer without our prior written consent.
m. Conditions for franchisor approval of transfer	Section 16	Our conditions for approving a transfer include: all of you and your affiliates' money obligations must be satisfied; you and your affiliates must not be in material default of the Development Agreement or any Franchise Agreement; you must execute a general release in our favor; the transferee must meet our then-current criteria for Developers; the transferee must sign a written assumption agreement assuming your liabilities under the Development Agreement; you must our then-current Transfer Fee; and you must pay any referral fees or commissions that may be due to any franchise broker, sales agent, or any other third party.
n. Franchisor's right of first refusal to acquire franchisee's business	Section 13G	Except in certain circumstances (death/disability or transfer from individual franchisee to business entity), you must provide us with a period of 30 days to match any third-party offer to purchase any ownership interest in the Development Agreement. If we do not exercise this right, then you will have 60 days to effectuate the transfer to the third party that made the offer on those exact terms – if the transfer does not occur or the proposed terms of the offer change in any way, then we will have another 30 days to exercise our right of first refusal.
o. Franchisor's option to purchase franchisee's business	Not Applicable	Not Applicable
p. Death or disability of franchisee	Section 16	<p>You will have a period of 90 days to find a suitable legal representative that we approve to continue the operation of your Franchised Business, provided that person completes our training program and executes either a personal guaranty or a new Development Agreement.</p> <p>During this 90-day period, we may step in and operate the Franchised Business on your behalf</p>

Provision	Section in Development Agreement	Summary
		and pay ourselves a reasonable amount to reimburse our costs associated with this operation on your behalf. We are not under any obligation to step in and operate your business during this period.
q. Non-competition covenants during the term of the franchise	Section 11	Neither you, your principals, guarantors, owners or key employees, nor any immediate family member of you, your principals, guarantors, owners or key employees, may: (i) own, operate, or otherwise be involved with, Competing Business (as defined in the Development Agreement); (ii) employ or seek to employ any employees of us, our affiliates or any other System franchisee/developer or induce such persons to leave their employment; or (iii) divert, or attempt to divert, any prospective customer to a Competing Business.
r. Non-competition covenants after the franchise is terminated or expires	Section 11	<p>For a period of two (2) years after the termination/expiration/ transfer of your Development Agreement, neither you, your principals, guarantors, owners, nor any immediate family member of you, your principals, guarantors, owners, may own, operate or otherwise be involved with any business that competes with us and is involved in the licensing or franchising, or establishing of joint ventures for the operation, of Competing Businesses.</p> <p>For a period of two (2) years after the termination or expiration of your Franchise Agreement, neither you, your principals, guarantors, owners, nor any immediate family member of you, your principals, guarantors, owners, may own, operate or otherwise be involved with and Competing Business: (i) within the Development Area; (ii) within a 25-mile radius of your Development Area or any other Studio that is open or under development as of the date the Franchise Agreement expires or is terminated.</p> <p>During this two-year period, these parties are also prohibited from: (i) soliciting business from customers of your former Facilities; (ii) contacting any of our suppliers/vendors for a competitive business purpose; or (iii) soliciting any employees of us, our affiliates or any other System franchisee or developer to discontinue their employment.</p>
s. Modification of the agreement	Section 23	No modifications without signed writing, but we may change Operations Manual and System Standards.
t. Integration/merger clause	Section 23	The Development Agreement, along with the initial Franchise Agreement signed at the same time, constitutes the entire agreement between the

Provision	Section in Development Agreement	Summary
		parties. Any other promises might not be enforceable. Notwithstanding the foregoing, nothing in this or any related agreement is intended to disclaim the express representations made in the Franchise Disclosure Document, its exhibits and amendments.
u. Dispute resolution by arbitration or mediation	Sections 21	All disputes are subject to mediation, at our option, that must be conducted at or near our then-current headquarters (currently, in Iowa). (subject to state law).
v. Choice of forum	Section 21	All disputes, claims and causes of action must be initiated in the state or federal court that is closest to our then-current headquarters. (subject to state law).
w. Choice of law	Section 21	Iowa law governs, without reference to this state's conflicts of law provisions (subject to state law).

**ITEM 18
PUBLIC FIGURES**

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

**ITEM 19
FINANCIAL PERFORMANCE REPRESENTATIONS**

The FTC’s Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in the disclosure document. Financial performance information that differs from that included in Item 19 may be given only if: (1) a franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

BACKGROUND

This Item 19 presents the average, median and certain other historical Gross Sales performance information reported to us amongst certain franchised Studios over each of the 2021 and 2022 calendar years (each, a “Measurement Period”), that were (i) open and operating as of the start of the Measurement Period at issue (no later than early January 2021); and open continuously (ii) through our most recent fiscal year end, namely December 31, 2022.

We refer to the franchised Studios that meet the criteria above for a given Measurement Period as the “Disclosed Franchised Studios” for that calendar year in Part I of this Item 19. Part I also discloses the Gross Sales information described above for the single Studio that was owned and operated by our affiliate throughout the 2022 calendar year (the “Affiliate Location”).

Specifically, the Chart(s) disclosed below in this Item disclose historical Gross Sales data, as reported to us by the Studio owners, generated amongst the following:

- those Disclosed Franchised Studios that were operated over each Measurement Period utilizing our current System standards and specifications for (a) equipment, (b) marketing and sales programs designed to generate memberships and all required ongoing marketing activities once the franchised Center has commenced operations, and (c) the provision of the Approved Services via the membership and other models with which a new System franchisee will be required to comply (each, a “2.0 Studio”);
- the remaining Franchised Disclosed Studios that operated over each Measurement Period in a

manner that did not meet (or that deviated from) the criteria for a 2.0 Studio – and instead operated using certain older (or “legacy” System standards and/or specifications (each, a “1.0 Model”); and the Affiliate Location.

Part I of this Item displays the annual Gross Sales information reported amongst the 2.0 Studios and 1.0 Studios, respectively, as well as by the Affiliate Location, over each Measurement Period.

Part II details the monthly Gross Sales information reported amongst the 2.0 Studios and 1.0 Studios, respectively, as well as by the Affiliate Location, over each Measurement Period.

Parts I and II of this Item exclude the following: (i) any franchised Studios that were not open and operating as of December 31, 2022 even if they were open and operating at some point during a given Measurement Period (1 Studio with regards to the 2021 Measurement Period, and 4 Studios excluded for the 2022 Measurement Period); (ii) for each Measurement Period, those franchised Studios that had not opened and commenced active operations as of the start of that Measurement Period (1 Studio for 2021 Measurement Period, 1 Studio for 2022 Measurement Period); (iii) and for the 1 affiliate studio for 2021 that was not open the full year due to opening a new location in new market, and 1 affiliate studio in 2022 that came under affiliate ownership within the calendar year. We did not exclude any other franchised Studios that were open and operating as of December 31, 2022.

Written substantiation for the financial performance representation will be made available upon reasonable request.

Some outlets have sold these amounts. Your individual results may differ. There is no assurance that you will sell as much.

Part I: Average, Median and Other Annual Gross Sales Reported for 2021 and 2022 Calendar Years: (i) Amongst the 2.0 Studios (franchised) and (ii) 1.0 Studios (franchised), Respectively; and (iii) the Affiliate Location

	2021	2022	% Change from 2021 to 2022
2.0 Studios (Franchised)			
Average Annual Gross Sales Reported Amongst Subset	\$379,944	\$443,487	18%
Studios in Applicable Subset	13	14	8%
High Reported	\$538,361	\$787,611	46%
Median Reported	\$345,489	\$388,035	12%
Low Reported	\$303,360	\$282,500	-7%
# of Studios that Met or Exceeded Average Reported	5 (or 38%)	6 (or 43%)	20%
	2021	2022	% Change from 2021 to 2022
1.0 Studios (Franchised)			
Average Annual Gross Sales Reported Amongst Subset	\$216,912	\$217,878	-
Studios in Applicable Subset	41	35	-15%
High Reported	\$392,870	\$349,515	-11%
Median Reported	\$202,041	\$205,640	2%
Low Reported	\$104,395	\$104,093	-
# of Studios that Met or Exceeded Average Reported	21 (51%)	17 (49%)	-19%
Affiliate Location			
Gross Sales for this Studio Only	Not in operation for full calendar year 2021	\$297,699	N/A

Part II: Average, Median and Other Monthly Gross Sales Information Reported for the 2021 and 2022 Calendar Years: (i) Amongst the 2.0 Studios and (ii) 1.0 Studios, Respectively; and (iii) the Affiliate Location

	2021	2022	% Change from 2021 to 2022	Q1 2023	% Change Between 2022 and Q1 2023
2.0 Studios (Franchised)					
Average Monthly Gross Sales Reported Amongst Subset	\$31,662	\$36,957	17%	\$37,496	16%
Studios in Applicable Subset	13	14	8%	14	-
High Reported	\$44,863	\$65,634	46%	\$75,206	15%
Median Reported	\$28,791	\$32,336	12%	\$32,229	-
Low Reported	\$25,280	\$23,542	-7%	\$16,182	-31%
# of Studios that Met or Exceeded Average Reported	5 (38%)	6 (43%)	20%	6 (43%)	-
1.0 Studios (Franchised)					
Average Monthly Gross Sales Reported Amongst Subset	\$18,076	\$18,157	-	\$18,647	3%
Studios in Applicable Subset	41	35	-15%	37	6%
High Reported	\$32,739	\$29,126	-11%	\$31,207	7%
Median Reported	\$16,837	\$17,137	2%	\$19,408	13%
Low Reported	\$8,700	\$8,674	-	\$5,833	-33%
# of Studios that Met or Exceeded Average Reported	21 (51%)	17 (49%)	-19%	19 (51%)	12%
Affiliate Location					
Average Monthly Gross Sales for this Studio Only	Not in operation for full calendar year 2021	\$24,808	N/A	\$19,421	-22%

Explanatory Notes to Parts I and II of this Item 19 Above:

Disclosed Studios. This term Disclosed Studios includes all Studio locations that were open and operating over the applicable calendar year at issue.

Gross Sales. For each Disclosed Studio, the term “Gross Sales” means the total sales that the Studio generated from the sale of all Approved Services and Approved Products, including memberships, that a System franchisee will be authorized to offer and sell at his/her Franchised Business. The term “Gross Sales” does not include sales tax that is collected by the Studio owner and paid directly to the appropriate taxing authority.

Average Gross Sales. The Average Gross Sales amongst a given set of Studios is calculated by (a) taking the sum of the Gross Sales generated by all Studios comprising the group at issue, and (b) dividing that figure by the number of

Studios in that group.

Median Gross Sales. The Median Gross Sales amongst a given set of Studios in this Item 19 is determined by: (i) listing the Gross Sales generated by each Studio comprising the group at issue from the smallest to largest (in terms of \$ amount); and (ii) taking the Gross Sales figure that (a) falls directly in the middle (in terms of \$ value) if there are an odd number of Studios in that group, or (b) is the mean between the two (2) middle values (in terms of \$ amount) if there are an even number of Studios in that group.

2.0 vs. 1.0 Model. The term "2.0 Studios" refers to those locations which are operating under the new "Farrell's 2.0" business model, and following brand guidelines for pricing, membership sales packages, enrollment timing, and sales strategy. "1.0 Studios" includes all franchise locations that are not following the new brand guidelines. All new System franchisees and Franchised Businesses will be required to follow the 2.0 System model as of the Issue Date.

Other than the preceding financial performance representation, we do not make any representations about a franchisee's future financial performance or the past financial performance of company-owned or franchised outlets. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting Lance Farrell, our Chief Executive Officer, at 8510 New York Ave, Urbandale, IA 50323, (515) 770- 7295, the Federal Trade Commission, and the appropriate state regulatory agencies.

**ITEM 20
OUTLETS AND FRANCHISEE INFORMATION**

**TABLE NO. 1
System-wide Outlet Summary
For years 2020 to 2022**

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised	2020	65	55	-10
	2021	55	55	0
	2022	55	50	-5
Company-Owned	2020	1	1	0
	2021	1	1	0
	2022	1	2	+1
Total Outlets	2020	66	56	-10
	2021	56	56	0
	2022	56	52	-4

**TABLE NO. 2
Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
For Years 2020 to 2022**

State	Year	Number of Transfers
Colorado	2020	0
	2021	0
	2022	0
Illinois	2020	0
	2021	0
	2022	0
Indiana	2020	1
	2021	1

State	Year	Number of Transfers
	2022	1
Iowa	2020	1
	2021	1
	2022	2
Kansas	2020	0
	2021	0
	2022	0
Minnesota	2020	2
	2021	2
	2022	0
Nebraska	2020	0
	2021	3
	2022	1
South Dakota	2020	0
	2021	0
	2022	0
Wisconsin	2020	1
	2021	0
	2022	0
Total	2020	5
	2021	7
	2022	4

TABLE NO. 3
Status of Franchised Outlets
For years 2019 to 2021

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations—Other Reasons	Outlets at End of the Year
Colorado	2020	3	0	0	0	0	1	2
	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
Florida	2020	0	1	0	0	0	1	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations—Other Reasons	Outlets at End of the Year
Illinois	2020	5	0	0	0	0	1	4
	2021	4	0	0	0	0	0	4
	2022	4	0	0	0	0	0	4
Indiana	2020	3	1	0	0	0	1	3
	2021	3	0	0	0	0	0	3
	2022	3	0	0	0	0	0	3
Iowa	2020	18	0	0	0	0	2	16
	2021	16	1	0	0	0	1	16
	2022	16	0	0	0	1	0	15
Kansas	2020	1	0	0	0	0	1	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
Minnesota	2020	21	0	0	0	0	3	18
	2021	18	0	0	0	0	0	18
	2022	18	1	0	0	0	3	16
Nebraska	2020	8	0	0	0	0	0	8
	2021	8	0	0	0	0	0	8
	2022	8	0	0	0	0	0	8
North Carolina	2020	1	0	0	0	0	1	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
South Dakota	2020	1	0	0	0	0	1	0
	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
Texas	2020	2	1	0	0	0	1	2
	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	2	0
Wisconsin	2020	2	0	0	0	0	0	2
	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
Totals	2020	65	3	0	0	0	13	55
	2021	55	1	0	0	0	1	55
	2022	55	1	0	0	1	5	50

TABLE NO. 4
Status of Company-Owned Outlets For years 2020 to 2022

State	Year	Outlets at Start of the Year	Outlets Opened	Outlets Reacquired From Franchisee	Outlets Closed	Outlets Sold to Franchisee	Outlets at End of the Year
Iowa	2020	1	0	0	0	0	1
	2021	1	0	0	0	0	1
	2022	1	0	1	0	0	2
Totals	2020	1	0	0	0	0	1
	2021	1	0	0	0	0	1
	2022	1	0	1	0	0	2

TABLE NO. 5
Projected Openings as of December 31, 2022

State	Franchise Agreements Signed But Outlets Not Opened	Projected New Franchised Outlets In The Next Fiscal Year	Projected New Company-Owned Outlets In the Next Fiscal Year
Arizona	1	1	0
California	1	0	0
Totals	2	1	0

Exhibit E includes a list of our franchisees as of the issuance date of this disclosure document and the addresses and telephone numbers of their System Studios as of our last fiscal year, December 31, 2022.

Exhibit E also includes the name, city and state, current business telephone number or, if unknown, last known home telephone number of each franchisee who has had an outlet terminated, canceled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during our last fiscal year, December 31, 2022, or who have not communicated with us within 10 weeks of this disclosure document's issuance date. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

In some instances, current and former franchisees sign provisions restricting their ability to speak openly about their experience with us.

As of the Issue Date of this Disclosure Document, there are no trademark-specific franchisee organizations associated the Proprietary Marks or our franchise system that require disclosure in this Item.

ITEM 21
FINANCIAL STATEMENTS

Attached as Exhibit C is a copy of our audited financial statements as of December 31, 2022, December 31, 2021, and December 31, 2020. Our fiscal year end is December 31st.

ITEM 22
CONTRACTS

The following contracts/documents are attached as Exhibits to this Disclosure Document:

- Exhibit B-1 Franchise Agreement
- Exhibit B-2 Development Agreement (Multi-Unit Offering Only)
- Exhibit C Financial Statements
- Exhibit F State-Specific Addenda to the Franchise Agreement and/or Development Agreement
- Exhibit G Sample Release Agreement (not required upon awarding of any franchise rights)

ITEM 23
RECEIPTS

Exhibit H to this Franchise Disclosure Document contains a detachable document, in duplicate, acknowledging receipt of this Franchise Disclosure Document by a prospective franchisee. You should sign both copies of the Receipt. You should retain one signed copy for your records and return the other signed copy to our Lance Farrell, Chief Executive Officer, c/o: Farrell's eXtreme Bodyshaping, Inc., 8510 New York Avenue, Urbandale, Iowa 50322 or via telephone at (515) 770-7295.

EXHIBIT A
To Franchise Disclosure Document

LIST OF STATE ADMINISTRATORS AND AGENTS FOR SERVICE OF PROCESS

LIST OF STATE ADMINISTRATORS

California

Department of Financial Protection & Innovation
320 West 4th Street, Suite 750
Los Angeles, California 90013
(866) 275-2677

Hawaii

Commissioner of Securities of the State of Hawaii
Department of Commerce and Consumer Affairs
Business Registration Division
Securities Compliance Branch
335 Merchant Street, Room 203
Honolulu, Hawaii 96813
(808) 586-2722

Illinois

Office of Attorney General
500 S. Second Street
Springfield, Illinois 62701
(217) 782-4465

Indiana

Franchise Section
Securities Division
302 W. Washington St., Room E-111
Indianapolis, Indiana 46204
(317) 232-6681

Maryland

Office of Attorney General
Securities Division
200 St. Paul Place
Baltimore, Maryland 21202
(410) 576-7042

Michigan

Consumer Protection Division
Antitrust and Franchise Unit
Department of Attorney General
525 W. Ottawa St.
G. Mennen Williams Bldg., 1st Floor
PO Box 30212
Lansing, Michigan 48909
(517) 335-7622

Minnesota

Department of Commerce
85 7th Place East, Suite 280
St. Paul, Minnesota 55101
(651) 539-1500

New York

NYS Department of Law
Investor Protection Bureau
28 Liberty Street, 21st Floor
New York, New York 10005
212-416-8222

North Dakota

North Dakota Securities Department
600 East Boulevard Avenue
State Capitol – 5th Floor Dept. 414
Bismarck, North Dakota 58505-0510
(701) 328-4712

Rhode Island

Securities Division
Department of Business Regulation
1511 Pontiac Avenue
John O. Pastore Complex – Building 68-2
Cranston, Rhode Island 02920
(401) 462-9527

South Dakota

Division of Insurance
Securities Regulation
124 S. Euclid, Suite 104
Pierre, South Dakota 57501
(605) 773-3563

Virginia

State Corporation Commission
Division of Securities and Retail Franchising
1300 Main Street, 14th Floor
Richmond, Virginia 23219
(804) 371-9051

Washington

Department of Financial Institutions
Securities Division
P.O. Box 9033
Olympia, Washington 98507
(360) 902-8760

Wisconsin

Franchise Administrator
Division of Securities
Department of Financial Institutions
345 West Washington Avenue
Madison, Wisconsin 53703
(608) 266-8557

LIST OF AGENTS FOR SERVICE OF PROCESS

STATE	AGENT
Illinois	Office of Attorney General 500 S. Second Street Springfield, Illinois 62701
Indiana	Indiana Secretary of State 201 State House 200 West Washington Street Indianapolis, Indiana 46204
Michigan	Michigan Department of Labor & Economic Growth Commercial Services & Corporations Bureau 611 West Ottawa Street Lansing, Michigan 48909
Minnesota	Minnesota Commissioner of Commerce Department of Commerce 85 7th Place East, Suite 280 St. Paul, Minnesota 55101-2198
Wisconsin	Administrator, Division of Securities Department of Financial Institutions 201 W. Washington Avenue, Suite 300 Madison, Wisconsin 53703

Exhibit B-1
To Franchise Disclosure Document
FRANCHISE AGREEMENT AND RELATED EXHIBITS

FARRELL'S EXTREME BODYSHAPING, INC.
FRANCHISE AGREEMENT

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Exhibit A: Data Sheet

Exhibit B: Form of Personal Guaranty

Exhibit C: Form of Collateral Assignment of Lease

Exhibit D: EFT Withdrawal Authorization Form

Exhibit E: Form of Confidentiality and Non-Competition Agreement (for use by Franchisee for Management Personnel of the Franchised Business and Officers/Directors of the Franchisee)

Exhibit F: Conditional Assignment of Telephone/Facsimile Numbers and Domain Names

FARRELL’S EXTREME BODYSHAPING, INC.

FRANCHISE AGREEMENT

THIS FRANCHISE AGREEMENT (the “Agreement”) is made and entered into on this ___ day of _____, 20___ (“Effective Date,”) by and between: (i) Farrell’s eXtreme Bodyshaping, Inc., an Iowa corporation with its principal place of business at 8510 New York Avenue Urbandale, Iowa 50322 (the “Franchisor”); and (ii) _____, a (resident of) (corporation organized in) (limited liability company organized in) _____ with a business address at _____ (the “Franchisee”).

RECITATIONS

A. Franchisor and its affiliate/principals, as a result of the expenditure of time, skill, effort, and money, have developed and own a unique system (the “System”) related to the establishment, development, opening, and operation of a business that provides various types of personal and group fitness combining kickboxing, strength training, nutrition, and personal coaching that we authorize (collectively, the “Approved Services”), along with certain fitness-related supplies and merchandise that may or may not bear our Proprietary Marks (collectively, the “Approved Products”), with high levels of customer service and attention and in a clean, friendly environment that is welcoming to clientele (each, a “Studio”).

B. Franchisor’s System is comprised of various proprietary and, in some cases, distinguishing elements, including without limitation: proprietary methodology and procedures for the establishment and operation of a Studio, including instruction on fitness and nutritional counseling; site selection guidance and criteria; specifications for the design, layout and construction of the interior of the Studio; standards and specifications for the furniture, fixtures and equipment located within a Studio; established relationships with approved or designated suppliers for certain products and services; and standards and specifications for advertising, bookkeeping, sales and other aspects of operating a Studio. The parties agree and acknowledge that Franchisor may change, improve, further develop, or otherwise modify the System from time to time as it deems appropriate in its discretion. Franchisee hereby acknowledges and agrees that: (i) the System and Franchisor’s related materials contain significant proprietary and confidential information which makes the System unique as a whole; and (ii) the combined methods, information, procedures, and theories that make up the total System or are contained in the relevant manuals that are proprietary and confidential.

C. The System and Studios are identified by the mark FARRELL’S EXTREME BODYSHAPING, as well as certain other trade names, trademarks, service marks and trade dress, all of which Franchisor may modify, update, supplement or substitute in the future (collectively, the “Proprietary Marks”). The parties agree and acknowledge that Franchisor has established substantial goodwill and business value in its Proprietary Marks, expertise, and System.

D. Franchisor is in the business of granting qualified individuals and entities a franchise for the right to independently own and operate a single Studio utilizing the Proprietary Marks and System at a location that Franchisor approves in writing.

E. Franchisee recognizes the benefits derived from being identified with Franchisor, appreciates and acknowledges the distinctive and valuable significance to the public of the System and the Proprietary Marks, and understands and acknowledges the importance of Franchisor’s high and uniform standards of quality, appearance, and service to the value of the System.

F. Franchisee desires to acquire a non-exclusive franchise for the right to operate a single FARRELL’S EXTREME BODYSHAPING Studio from an approved location, and has submitted an application to obtain such a franchise from Franchisor.

G. Franchisor is willing to grant Franchisee the right to operate a Studio based on the representations contained in the franchise application and subject to the terms and conditions set forth in this Agreement.

AGREEMENT

NOW THEREFORE, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and sufficiency of which is hereby mutually acknowledged, the parties hereto, intending to be legally bound, do hereby agree as follows:

1. PREAMBLES, ACKNOWLEDGEMENTS AND REPRESENTATIONS OF FRANCHISEE

A. Franchisee acknowledges and represents that Franchisor, itself or through any officer, director, employee, or agent, has not made, and Franchisee has not received or relied upon, any oral, written, visual, express, or implied information, representations, warranties, guarantees, or promises regarding the amount of sales levels or income Franchisee might expect to earn from the franchise granted hereby, except as set forth in the Franchise Disclosure Document.

B. The business venture contemplated by this Agreement involves business risks.

C. Franchisee's success will be largely dependent upon Franchisee's ability as an independent businessperson.

D. Franchisee has received, read, and does understand this Agreement and any attachments.

E. Franchisee understands and agrees that the fitness industry is highly competitive with constantly changing market conditions.

F. Franchisee acknowledges and agrees that Franchisor has fully and adequately explained each provision of this Agreement to Franchisee's satisfaction.

G. Franchisee has consulted with Franchisee's own advisors with respect to the legal, financial, and other aspects of this Agreement, the business franchised hereby, and the prospects for such business. Franchisee either has consulted with such advisors or has deliberately declined to do so.

H. Any written inquiries made to Franchisor by Franchisee pertaining to the nature of this franchise were answered in writing to the satisfaction of Franchisee.

I. Franchisee has had the opportunity and adequate time to independently investigate, analyze, and construe both the franchise being offered hereunder and the terms and provisions of this Agreement utilizing the services of legal counsel, accountants, and other advisors (if Franchisee so elects).

J. Any and all applications, financial statements, and representations submitted to Franchisor by Franchisee, whether oral or in writing, were complete and accurate when submitted and are complete and accurate as of the date of execution of this Agreement unless the same has been otherwise amended in writing. Franchisee states that he/she is not presently involved in any business activity that could be considered competitive in nature, unless heretofore disclosed to Franchisor in writing.

K. Franchisee agrees not to contest, directly or indirectly, Franchisor's ownership, title, right, or interest in its names or Proprietary Marks, trade secrets, methods, procedures, know-how, or advertising techniques which are part of Franchisor's business, or contest Franchisor's sole right to register, use, or license others to use such names or Proprietary Marks, trade secrets, methods, procedures, or techniques.

L. Franchisee's signature to this Agreement has not been induced by any representation inconsistent with the terms of this Agreement or inconsistent with the Franchise Disclosure Document given to Franchisee by Franchisor.

M. Franchisee represents and warrants that Franchisee is not a party to or subject to any order or decree of any court or government agency which would limit or interfere in any way with the performance by Franchisee of the obligations under this Agreement and that Franchisee is not a party, and has not within the last ten (10) years been a party, to any litigation, bankruptcy, or legal proceedings other than those heretofore disclosed to Franchisor in writing.

N. Franchisee agrees and acknowledges that it is solely responsible for ensuring that: (i) it acquires and maintains all business licenses, permits and approvals, including those that are specifically required to offer and provide the Approved Services necessary to operate the Franchised Business at the Premises (defined below) and within the Designated Territory (defined below); and (ii) the Franchised Business is otherwise operated in full compliance with all federal, state and local laws and regulations where the Franchisee is located.

O. Franchisee agrees and acknowledges that: (i) Franchisor may enter into franchise agreements with other franchisees that may contain provisions, conditions, and obligations that differ from those contained in this Agreement,

including without limitation, franchise agreements for the operation of a System Studio; and (ii) the existence of different forms of agreement and the fact that Franchisor and other franchisees may have different rights and obligations does not affect the parties' duty to comply with the terms of this Agreement.

2. GRANT OF FRANCHISE

A. **Grant of Franchise.** Franchisor hereby grants Franchisee, subject to the terms, conditions, and obligations of this Agreement, a non-exclusive right and license to use the Proprietary Marks and receive the other benefits of the System in connection with the establishment and operation of a single franchised Studio (the "Franchised Business").

B. **Approved Premises; Site Selection Area.** The Franchised Business must be operated from a single location that Franchisor reviews and approves (the "Premises"). If the parties have not agreed on a Premises as of the date this Agreement is executed, Franchisor will designate a general marketing area (the "Site Selection Area") on the data sheet attached to this Agreement as Exhibit A (the "Data Sheet") wherein Franchisee must locate and secure the Premises as detailed more fully in Section 6(A) of this Agreement. Franchisee acknowledges and agrees that: (i) it does not have any territorial rights within the Site Selection Area; (ii) Franchisor may permit other new franchisees to search for the location of their franchised Studio within the same Site Selection Area that is assigned to Franchisee under this Agreement if Franchisor determines in its discretion that the Site Selection Area is large enough to contain additional franchises; and (iii) potential locations for each franchised Studio, and resulting Designated Territories (as defined below), within the Site Selection Area will be reviewed and rejected/granted on a first-to-propose basis.

C. **Relocation of Premises.** Once the Franchisor approves the Premises of the Franchised Business, the location will be set forth in the Data Sheet. Franchisee may only use the Premises to operate the Franchised Business. Franchisee may not relocate the Franchised Business to any location other than the Premises without Franchisor's prior written consent, which Franchisor will not unreasonably withhold, provided: (i) Franchisee secures an alternate location for the Franchised Business within the Designated Territory (as defined below) that meets Franchisor's then-current site selection criteria for the premises of a FARRELL'S EXTREME BODYSHAPING Studio; and (ii) Franchisee pays Franchisor a relocation fee prior to Franchisor's approval of the relocation.

D. **Designated Territory.** Upon locating and securing a Premises, Franchisor will designate a geographical area surrounding the Premises wherein Franchisor will not open or operate, or license a third party the right to open or operate, another Studio utilizing the System and Proprietary Marks from a physical location within that area (the "Designated Territory"). The boundaries of the Designated Territory, once determined by Franchisor, will be described in the Data Sheet. Franchisee acknowledges that it does not have any other territorial rights within the Designated Territory.

1. Franchisee may not solicit prospective customers of the Designated Territory, unless (a) these prospective customers do not reside within the territory granted to another franchisee or other System Studio location, and (b) Franchisee obtains Franchisor's prior written consent.

2. Franchisee may not actively advertise the Franchised Business outside of the Designated Territory, unless (a) the area wherein Franchisee wishes to advertise is contiguous to the Designated Territory and is not granted to another franchisee or other System Studio location, and (b) Franchisee obtains Franchisor's prior written consent.

E. **Rights Not Granted.** Franchisee acknowledges and agrees that this Agreement does not afford Franchisee any rights or options to open any additional Studios and that Franchisee does not have any right to sub-license or sub-franchise any of the rights granted hereunder. Franchisee may not use the Proprietary Marks or System for any purpose other than promoting and operating the Franchised Business at the Premises and within the Designated Territory. Franchisor will have sole discretion as to whether it decides to grant Franchisee the right to open any additional Studios, each of which will be governed by a separate form of Franchisor's then-current franchise agreement.

F. **Reservation of Rights.** Notwithstanding anything contained in this Agreement, Franchisor and its affiliates hereby reserve the exclusive right to: (i) establish and operate, and license any third party the right to establish and operate, other Studios and Franchised Businesses using the Proprietary Marks and System at any location outside of the Designated Territory; (ii) market, offer and sell products and services that are similar to the products and services offered by the Franchised Business under a different trademark or trademarks at any location, within or outside of the Designated Territory; (iii) use the Proprietary Marks and System, other such marks Franchisor designates, to distribute the Approved Products and/or Approved Services in any alternative channel of distribution, within or outside of the

Designated Territory (including without limitation the Internet, DVDs and/or digital media featuring Approved Services instruction, mail order, catalog sales, wholesale stores, etc.); (iv) to acquire, merge with, or otherwise affiliate with, and after that own and operate, and franchise or license others to own and operate, any business of any kind, including, without limitation, any business that offers products or services the same as or similar to the Approved Products and/or Approved Services (but under different marks), within or outside the Designated Territory; and (v) use, and license others the right to use, the Proprietary Marks and System to engage in any other activity not expressly prohibited by this Agreement.

G. **Modification of System.** Franchisor reserves the right to supplement, revise or otherwise modify the System or any aspect/component thereof, and Franchisee agrees to promptly accept and comply with any such addition, subtraction, revision, modification or change and make such reasonable expenditures as may be necessary to comply with any change that Franchisor makes to the System. Any change or modification that Franchisor makes to the System will not materially alter Franchisee's fundamental rights under this Agreement. Moreover, Franchisor will provide Franchisee with a reasonable amount of time to comply with any change or modification to the System once Franchisee has been notified of such change/modification in writing (via the Operations Manual or otherwise).

3. TERM AND RENEWAL

A. **Term.** Unless previously terminated pursuant to this Agreement, the term of this Agreement shall be for a period of ten (10) years ("Initial Term") commencing as of the Effective Date.

B. **Renewal.** Franchisee may submit a request to renew this Agreement for up to two (2) additional, consecutive terms of five (5) years each, and must provide each request to renew no less than six (6) months and no more than twelve (12) months prior to the end of the then-current term. Failure to provide such notice to Franchisor will be deemed an indication that Franchisee does not wish to renew the franchise relationship. Franchisor shall not unreasonably withhold its approval of such requests for renewal, provided Franchisee complies with the following conditions:

1. Franchisee must not have: (i) any uncured material defaults under this Agreement (including any monetary defaults) or any other agreement between Franchisee and Franchisor or the landlord of the Premises, either at time of Franchisee's renewal request or at the time of renewal; and (ii) received more than three (3) separate, written notices of material default from Franchisor with respect to this Agreement in the 12-month period preceding the renewal request date or renewal date.

2. Franchisee must execute Franchisor's then-current form of franchise agreement, which may contain materially different terms and conditions from those contained in this Agreement, within thirty (30) days of the date Franchisee is provided with Franchisor's then-current form of franchise agreement.

3. Franchisee pays Franchisor a renewal fee amounting to Seven Thousand Five Hundred Dollars (\$7,500.00) at least ninety (90) days prior to the expiration of the then-current term. Franchisee will not be required to pay an additional Initial Franchisee Fee (as defined in Section 4) upon renewal.

4. Franchisee executes a general release under seal, in a form satisfactory to Franchisor, of any and all claims it may have against Franchisor and its officers, directors, shareholders, and employees in their corporate and individual capacities, including without limitation, all claims arising under any federal, state, or local law, rule, or ordinance.

5. Franchisee must have participated in and supported the training procedures, purchasing, marketing, advertising, promotional, and other operational and training programs recommended or provided by Franchisor to the satisfaction of Franchisor.

6. Franchisee or transferee agrees, at its sole cost and expense, to re-image, renovate, refurbish, and modernize the Premises and Studio within the time frame required by Franchisor, including the design, equipment, signs, interior and exterior décor items, displays, inventory assortment and depth, fixtures, furnishings, trade dress, color scheme, presentation of trademarks and service marks, supplies, and other products and materials, as necessary to meet Franchisor's then-current System standards, specifications, and design criteria for a newly opened System Studio.

4. FEES AND PAYMENTS

A. **Fees.** In consideration of the rights and license granted herein, Franchisee shall pay the following amounts:

1. Upon execution of this Agreement, Franchisee must pay Franchisor an initial franchise fee of Fifty-Nine Thousand Nine Hundred Dollars (\$59,900.00) (the “Initial Franchise Fee”), which fee shall be deemed fully earned and non-refundable under any circumstances upon payment.

2. Monthly (or other frequency Franchisor designates), when the Franchised Business is open and operating (and/or required to be open and operating under this Agreement), Franchisee must pay Franchisor an ongoing royalty fee amounting to the greater of: (i) our Minimum Royalty; or (ii) seven and a half percent (7.5%) of the Gross Sales (as defined in Section 4(D)) generated by the Franchised Business in the preceding monthly period (the “Royalty Fee”). If you fail to timely pay your Royalty Fees, then we may increase your Royalty Fee by 1% (resulting in a Royalty Fee amounting to 8.5%) of the Gross Sales of your Franchised Business throughout the balance of the term of this Agreement.

3. Franchisor has established a brand development fund (the “Fund”) in connection with the System as described more fully in Section 9(E) of this Agreement, Franchisor may require Franchisee to make a monthly contribution to this Fund starting as soon as the business commences operation, amounting to up to three percent (3%) of the Gross Sales (as defined in this Section 4(D) below) generated by the Franchised Business in the preceding calendar month.

4. In connection with the required computer software to be used in connection with the point-of-sale system at the Studio (the “POS System”), Franchisee is required to pay the then-current software licensing fee associated with that POS System to the supplier that Franchisor designates.

5. Franchisee must pay Franchisor (or its designee) the then-current technology fee (the “Technology Fee”) associated with the technology items and services that Franchisor determines to provide and cover as part of the System license.

6. Franchisee will be required to expend a minimum of one (1%) percent of Gross Sales of the Franchised Business each month on the local advertisement, promotion and marketing of the Franchised Business as described more fully in Section 9(D) of this Agreement (the “Local Advertising Requirement” or “LAR”). Franchisor has the right to increase Franchisee’s LAR to an amount equal to up to two (2%) percent of Gross Sales generated by the Franchised Business. The parties agree and acknowledge that Franchisor may collect any portion of this Local Advertising Requirement for any required advertising/marketing services that Franchisee is required to utilize.

7. Franchisee will be required to pay Franchisor \$250 for each default Franchisor issues to Franchisee and pay \$250 per week for each week such default remains unresolved.

8. All other training/tuition fees, software licensing/support fees and evaluation fees, as well as all amounts necessary to purchase marketing materials, inventory or other items from Franchisor or its affiliates (including the “Required Software” described in the FDD), must be paid by Franchisee on an ongoing basis, as described more fully in this Agreement.

B. Method of Payment. With the exception of the Initial Franchise Fee, Franchisee shall pay all fees and other amounts due to Franchisor and/or its affiliates under this Agreement through an electronic funds transfer program (the “EFT Program”), under which Franchisor automatically deducts all payments owed to Franchisor under this Agreement, or any other agreement between Franchisee and Franchisor or its affiliates, from the bank account Franchisee provides to Franchisor for use in connection with EFT Program (the “EFT Account”). Franchisee shall immediately deposit all revenues from operation of the Franchised Business into this bank account immediately upon receipt, including cash, checks, and credit card receipts. At least ten (10) days prior to opening the Franchised Business, Franchisee shall provide Franchisor with: (i) Franchisee’s bank name, address and account number; and (ii) a voided check from such bank account. Contemporaneous with the execution of this Agreement, Franchisee shall sign and provide to Franchisor and Franchisee’s bank, all documents, including Franchisor’s form of EFT Authorization Form attached as Exhibit D to this Agreement, necessary to effectuate the EFT Program and Franchisor’s ability to withdraw funds from such bank account via electronic funds transfer. Franchisee shall immediately notify Franchisor of any change in Franchisee’s banking relationship, including any change to the EFT Account.

C. Access to Computer System. Franchisor may, without notice to Franchisee, have the right to independently and remotely access and view Franchisee’s computer system used in connection with the Franchised Business (the “Computer System”) via the Internet, other electronic means or by visiting the Studio, in order to obtain Gross Sales, tenant occupancy rates and other available information that Franchisor reasonably requests about the Franchised Business. Franchisee hereby consents to Franchisor using and disclosing to third parties (including, without limitation,

prospective franchisees, financial institutions, legal and financial advisors), for any purpose or as may be required by law, any financial or other information contained in or resulting from information, data, materials, statements and reports received by Franchisor or disclosed to Franchisor in accordance with this Agreement. Franchisee must obtain and use the Computer System hardware, software and other components that Franchisor prescribed for use in connection with the Franchised Business, and utilize and participate in any intranet/extranet that Franchisor establishes in connection with the System. Franchisor may require Franchisee to use a Computer System and/or related software that is administered through Franchisor and that provides Franchisor with automatic access to all data and reports that might be created by such Computer System and/or software.

D. **Gross Sales.** “Gross Sales” means the total revenue generated by the Franchised Business, including all revenue you derive, directly or indirectly from all business conducted upon, from or in connection with the Studio, including the full redemption value of any gift certificate or coupon sold for use at the Studio (fees retained by or paid to third party sellers of such gift certificates or coupons are not excluded from this calculation), and all income and revenue of every other kind and nature related to the Franchised Business operation, whether for cash or credit and regardless of collection in the case of credit less sales taxes or similar taxes imposed by governmental authorities. “Gross Sales” does not include (a) any sales tax and equivalent taxes that are collected by Franchisee for or on behalf of any governmental taxing authority and paid thereto, or (b) the value of any allowance issued or granted to any client of the Franchised Business that is credited in *bona fide* good faith by Franchisee in full or partial satisfaction of the price of the Approved Products or Approved Services.

E. **Gross Sales Reports; Right to Modify Payment Interval.** Prior to or at the same time Franchisee makes each Royalty payment, Franchisee must send Franchisor a signed Gross Sales report (a “Gross Sales Report”) detailing the following information: (i) Gross Sales of the Franchised Business from the preceding calendar month; (ii) Franchisee’s calculated Royalty Fee based on the Gross Sales from the preceding monthly period and Fund Contribution (if appropriate) based on the Gross Sales from that same period and (iii) any other information Franchisor may require for that reporting period. Franchisor may, as it deems necessary in its sole discretion, change the form and content of the Gross Sales Reports from time to time.

1. The parties agree and acknowledge that Franchisor may require Franchisee to use a Computer System and/or software in connection with the Franchised Business that provides Franchisor with automatic access to Gross Sales Reports and any other data/reports generated by such Computer System and/or software, but in no event shall such access by Franchisor affect Franchisee’s obligation to provide all reports required under this Franchise Agreement unless Franchisor agrees otherwise in writing.

2. The parties agree and acknowledge that Franchisor may modify the interval at which it collects Franchisee’s Royalty Fee, Fund Contribution and other recurring fees under this Agreement upon written notice (i.e., Franchisor may provide Franchisee with notice that it will be collecting these fees on a weekly or bi-weekly rather than monthly basis). In such event, Franchisee’s reporting obligations may also be modified by Franchisor accordingly.

F. **Late Payments.** If any payment due under this Agreement is not received by Franchisor by the scheduled date due, Franchisee shall be in default under this Agreement. If any payment is overdue, Franchisee shall pay interest to the Franchisor, in addition to the overdue amount, at a rate amounts to the greater of (i) one and one-half percent (1.5%) per month, or (ii) the highest rate permitted under applicable law for this type of commercial relationship, which shall begin from the date of non-payment or underpayment and continue until the amount at issue is fully paid. Entitlement to collect such interest shall be in addition to any and all other remedies Franchisor may have.

G. **Taxes Owed by Franchisee.** No payments to be made to Franchisor by Franchisee, whether for royalties, advertising, merchandise, special programs, or otherwise, may be reduced on account of the imposition by any federal, state, or local authority of any tax, charge, or assessment, or by any claim Franchisee may have against Franchisor. All taxes, charges, or assessments shall be paid by Franchisee to the taxing authorities when due, in addition to the amounts due to Franchisor.

H. **Security Interest.** Franchisee hereby grants to Franchisor a security interest in all of Franchisee’s interests in the real estate where the franchise is located (if Franchisee purchases its Premises), as well as all improvements to that real estate. Franchisee further grants to Franchisor a security interest in all furniture, furnishings, equipment, fixtures, inventory, and supplies located at or used in connection with the Franchised Business, whether now or hereafter leased or acquired, together with all attachments, accessions, accessories, additions, substitutions, and replacements therefore, as well as all cash and non-cash proceeds derived from insurance, the disposition of any such collateral to secure payment and performance of all debts, liabilities, and obligations of any kind of Franchisee to

Franchisor under this Agreement, whenever and however incurred, any promissory note given by Franchisee to Franchisor, or any other agreement between them. Franchisee hereby authorizes Franchisor to file and record all financing statements, financing statement amendments, continuation financing statements, fixture filings, and other documents necessary or desirable to evidence, perfect, and continue the priority of the security interests granted herein. Franchisee agrees and understands that it must promptly execute and deliver any such documents to Franchisor upon request.

1. Notwithstanding anything contained in Section 4(H) of the Franchise Agreement to the contrary, Franchisee does not grant Franchisor any security interest in any real property associated with the Franchised Business if such real property is being leased by the Franchisee.

2. The parties agree that Franchisor will not execute on any security interest granted to Franchisor under Section 4(H) of the Franchise Agreement unless Franchisee fails to cure a material default under the Franchise Agreement within the applicable time period for cure after Franchisor has provided Franchisee with proper notice of such default(s).

I. **Inability to Operate Franchised Business.** If Franchisee is unable to operate the Franchised Business due to damage or loss to the Premises caused or created by a casualty, act of God, condemnation, or other condition over which Franchisee has no control, then Franchisor will waive the Royalty Fee due under this Agreement for a period of time that Franchisor reasonably determines is necessary for the Franchised Business to repair the damage/loss to the Premises and resume operations (or relocate the Franchised Business to a different approved location within the Designated Territory), with said waiver period not to exceed ninety (90) days commencing from the date Franchisee gives Franchisor notice of the damage or loss.

5. DUTIES OF FRANCHISOR

A. **Initial Training Program.** Franchisor shall offer and make available an initial training program (the “Initial Training Program”) for Franchisee and up to two (2) additional people designated by Franchisee, provided: (i) both individual trainees attend at the same time;

1. One of the trainees must be Franchisee (or one of Franchisee’s principals responsible for the Franchised Business if Franchisee is an entity) and, if applicable, the other attendee must be Franchisee’s designated manager that will be responsible for the day to day management of the Franchised Business (the “Designated Manager”).

2. The Initial Training Program will be provided in two (2) modules, namely: (i) “classroom” training that Franchisee and its required trainees must attend in-person at Franchisor’s corporate headquarters (or other location that Franchisor designated), unless Franchisor agrees in writing to provide certain portions of this training via Zoom or other interactive technology, and successfully complete this training to Franchisor’s satisfaction (the “General Business Training”); and (ii) up to five (5) days of training and assistance that Franchisor will provide to Franchisee and its required trainees on-site at the Premises of the Franchised Business prior to the grand opening of the Franchised Business (the “On-Site Module”).

3. Both of the modules described in this Section (each, a “Module”) will be provided subject to the schedules and availability of Franchisor’s training personnel.

4. Franchisor will provide the On-Site Module to additional owners of Franchisee or managers of the Franchised Business (subject to the availability of Franchisor’s staff), but Franchisee reserves the right to charge Franchisee its then-current training fee for individuals that attends in addition to the first two (2) people (as well as any expenses incurred).

B. **Replacement Personnel Training.** Franchisor will also provide the Initial Training Program to any replacement personnel or those who attend but fail to complete the program as well, provided Franchisee pays Franchisor’s then-current Initial Training Fee, as well as any costs and expenses incurred by Franchisor’s personnel in providing the On-Site Module of the program. The parties agree and acknowledge that any new Designated Manager of Franchisee must complete the appropriate Module(s) of the Initial Training Program within sixty (60) days of hire (and must be trained by a person who has completed our Initial Training Program before he/she takes over any management responsibility with respect to the Franchised Business).

C. **Additional and Refresher Training.** Franchisor may, as it deems appropriate in its discretion, develop additional and refresher training courses, and require Franchisee and its management to attend such courses. Franchisor may require Franchisee and its designated attendees to pay its then-current training tuition fee in connection

with attending additional/refresher training (in addition to Franchisee's obligation to pay for any expenses incurred by Franchisor and its personnel in providing such training). Franchisor will not require Franchisee and its management to attend more than five (5) days of additional/refresher training each year.

D. **Manuals.** Franchisor will provided access to, or otherwise loan, Franchisee one (1) copy of its proprietary and confidential operations manual prior to the opening of the Franchised Business, as well as any other instructional manuals as Franchisor deems appropriate (collectively, the "Manuals"). Franchisor will also loan Franchisee a list of: (i) exercise bikes, fitness equipment and gear, standard fixtures, furnishings, supplies, and signs to be used in the Studio and other items that Franchisee is required to purchase or lease in connection with the establishment and ongoing operation of the Franchised Business (collectively, the "Required Items"); (ii) a list of all suppliers from which Franchisee must purchase or lease any Required Items, which may be Franchisor or its affiliates (collectively, the "Approved Suppliers"); and (iii) a list of the Approved Products and Approved Services that Franchisee is authorized to offer, sell or provide at and from the Franchised Business. The foregoing lists may be provided as part of the Manuals or otherwise in writing prior to opening, and Franchisor has the right to revise, supplement or otherwise modify these lists and the Manuals at any time upon written notice to you. Franchisor may also establish and maintain a website portal or other online site that System Studio owners will have access to (each, a "System Site"), and which may be used for the purposes of (a) providing updates, supplements and supplemental information that will constitute part of one (1) or more Manuals, (b) providing webinars and other training, including portions of our Initial Training Program, (c) providing advertising templates or other marketing/promotional materials, as well as information related thereto, and (d) otherwise communicate with our franchisees regarding the brand, System and/or specific operational/promotional aspects of a Franchised Business all of which Franchisee must strictly comply with promptly after such content is posted or otherwise listed on a System Site. In the event Franchisee or its personnel saves or prints out a hard copy of any Manual, then such electronic/hard versions of said Manual must be immediately returned upon expiration or termination of this Agreement for any reason (and never used for any competitive purpose). The provisions of this Section shall survive the term of this Agreement.

E. **Site Selection Assistance.** Franchisor will provide Franchisee with site selection assistance and guidance with regards to Franchisee's selection of a Premises for the Franchised Business, including Franchisor's then-current site selection criteria, as it deems appropriate in its sole discretion. Franchisor may require that Franchisee use an Approved Supplier for site selection assistance. Franchisor will also review and approve of any location the Franchisee proposes for the Franchised Business. Franchisor must approve of Franchisee's proposed location, as well as the lease for the Premises (the "Lease") or purchase agreement for the location, prior to Franchisee entering into any such agreement for that location to serve as the Premises of the Franchised Business. Franchisor may condition its approval of any Lease for the proposed Premises on the landlord's execution of Franchisor's form of Consent and Agreement of Landlord attached to this Agreement at Exhibit C. Franchisor will use reasonable efforts to review and approve of any proposed Premises location and corresponding Lease within thirty (30) days of receiving all reasonably requested information from Franchisee.

F. **Initial Marketing Spend Assistance.** Franchisor may assist Franchisee, as it deems appropriate in its discretion, in developing and conducting the Grand Opening Advertising Program (as defined and described more fully in Section 9 of this Agreement), which program shall be conducted at Franchisee's expense.

G. **Continuing Assistance.** Franchisor may, as it deems appropriate and advisable in its sole discretion, provide continuing advisory assistance in the operation of the Franchised Business (after the On-Site Module has been provided). Franchisor's determination not to provide any particular service, either initial or continuing, shall not excuse Franchisee from any of its obligations under this Agreement. Franchisor may provide such assistance via telephone, fax, intranet communication, Zoom® or any other communication channel Franchisor deems appropriate, subject to the availability and schedules of Franchisor's personnel. In the event Franchisee requests that Franchisor provide any type of assistance or training on-site at the Franchised Business, then Franchisee may be required to pay Franchisor's then-current training tuition fee in connection with such training (in addition to reimbursing Franchisor for any costs/expenses that Franchisor's personnel incurs in connection with providing such assistance).

H. **Review of Advertising Materials.** Franchisor will review and approve/reject any advertising or marketing materials proposed by Franchisee in connection with the Franchised Business as described more fully in Section 9 of this Agreement.

I. **Website and Email Addresses.** For so long as Franchisor has an active website containing content designed to promote the Franchisor's brand, System and Proprietary Marks (collectively, the "Website"), Franchisor will list the contact information of the Franchised Business on this Website, provided Franchisee: (i) pays Franchisor (or its designee) the then-current Technology Fee; and (ii) has not breached this Agreement and failed to cure such breach

within the applicable time period set forth herein (if any). Franchisor may also provide Franchisee with one or more email address(es), as it deems appropriate in its discretion, which Franchisee must use only in connection with the Franchised Business.

J. **Private Label Products.** Franchisor may directly, or indirectly through Franchisor's affiliates or designated vendors, develop and provide Franchisee with private label products or other merchandise bearing the Proprietary Marks to be sold at the Franchised Business. Franchisee may be required to purchase these items from Franchisor or any other Approved Supplier(s) that Franchisor designates.

K. **Inspections of the Franchised Business and Premises.** Franchisor will, as it deems appropriate in its sole discretion, conduct inspections and/or audits of the Franchised Business and Premises to ensure that Franchisee is operating its Franchised Business in compliance with the terms of this Agreement, the Manuals and the System standards and specifications. Such inspections may include inspections of the Premises, taking photographs and/or videotape of the Studio's common area, taking samples of any Approved Products for sale at the Studio, interviewing and surveying Franchisee's personnel and customers, inspecting any and all books and records, and conducting mystery shop services. Franchisor is not responsible for ensuring that the Franchised Business is being operated in compliance with all applicable laws and regulations.

L. **Administration of Fund.** Franchisor will administer the Fund as it deems advisable to the System in its sole discretion as described more fully in Section 9 of this Agreement.

M. **No Assumption of Liability.** Franchisor shall not, by virtue of any approvals or advice provided to the Franchisee under this Agreement, including site selection or other approval provided under this Section 5, assume any responsibility or liability to Franchisee or to any third party to which it would not otherwise be responsible or liable. Franchisee acknowledges that any assistance (including site selection and project oversight) provided by Franchisor or its nominee in relation to the selection or development of the Premises is only for the purpose of determining compliance with System standards and does not constitute a representation, warranty, or guarantee, express, implied or collateral, regarding the choice and location of the Premises, that the development of the Premises is free of error, nor that the Franchised Business is likely to achieve any level of volume, profit or success.

N. **Delegation of Duties.** Franchisee acknowledges and agrees that any designee, employee, or agent of Franchisor may perform any duty or obligation imposed on Franchisor by the Agreement, as Franchisor may direct.

O. **Pre-Opening Obligations Acknowledgement.** If Franchisee believes Franchisor has failed to provide adequate pre-opening services as provided in this Agreement, Franchisee shall notify Franchisor in writing within thirty (30) days following the opening of the Franchised Business. Absent such notice to Franchisor, Franchisee acknowledges, agrees and grants that Franchisor fully complied with all of its pre-opening and opening obligations set forth in this Agreement.

P. **Annual Conference.** Franchisor may establish and conduct an annual conference for System Studio owners and operators, and may require Franchisee and its Designated Manager to attend this conference for no more than five (5) days each year. Franchisee will be solely responsible for all expenses incurred in attending the annual conference (including any employee wages).

6. DUTIES OF FRANCHISEE

A. **Secure a Premises.** Franchisee must secure a Premises within the Designated Territory within six (6) months of executing this Agreement, unless Franchisor agrees to an extension of time in writing. If Franchisor has designated an Approved Supplier for site selection assistance, then Franchisor may require that Franchisee use this Approved Supplier. If Franchisee is entering into a Lease for the proposed Premises, the form of Lease must be approved by Franchisor and Franchisee must ensure that both Franchisee and the party leasing the Premises to Franchisee under the Lease execute the form of Collateral Assignment of Lease attached to this Agreement as Exhibit C prior to, or at the same time, the Lease is executed.

B. **Access to Franchisor for Inspection of Premises.** Upon the surrender of the Premises, Franchisee must conduct a physical inventory so that there is an accurate accounting of inventory, fixtures, furniture, supplies and equipment on hand, and shall provide a signed copy of this physical inventory to Franchisor as of the date of surrender of the Premises. Franchisor shall have the right to enter the Premises at its convenience and conduct said physical inventory on its own.

C. **Compliance with Lease.** Franchisee must comply with both the Lease and any additional leasehold covenants and regulations of the building in which the Premises is located. In the event the landlord of the Premises terminates the Lease due to Franchisee's default thereunder, this termination will also constitute a material breach of this Agreement by Franchisee. In the event Franchisor provides appropriate notice as described in Section 6(A) above and assumes control of the Premises and the operation of the former Franchised Business upon the termination or expiration of the Lease, the future operation of that Studio by Franchisor shall not be as an agent of Franchisee and Franchisor shall not be required to account to Franchisee as a result thereof.

D. **Construction and Build-Out.** Franchisee must complete all construction and build-out of the Premises in a manner consistent with Franchisor's System standards, specifications and any agreed-upon plans and open the Franchised Business to the public no later than nine (9) months after the date this Agreement is executed. Franchisor may require that Franchisee use an Approved Supplier for pre-opening project and construction management services. Franchisor must provide its prior written consent before Franchisee may open the Franchised Business, and Franchisor reserves the right to inspect the construction and/or build-out of the Franchised Business at any reasonable time prior to the opening date. Should Franchisee fail to open the Franchised Business for operation within the prescribed period (or, if applicable, within any extended period of time Franchisor approves in writing), this Agreement will be deemed terminated upon written notice from Franchisor to Franchisee without the necessity of further action or documentation by either party.

The parties further agree and acknowledge that if Franchisee is opening and operating the Franchised Business pursuant to its development obligations under an Area Development Agreement that Franchisee (or its affiliate) has entered into with Franchisor (an "ADA"), then that ADA will control the timeline wherein Franchisee must open and commence operating the Franchised Business (in the event there is an inconsistency between the ADA and this Agreement). Franchisee must open and commence operations of the Franchised Business within the time period prescribed in the development schedule set forth in the ADA (regardless of when Franchisee executes this Agreement).

E. **Required Licenses and Permits.** Prior to opening, Franchisee must obtain and maintain (throughout the term of this Agreement) all required licenses, permits and approvals to establish, open and operate the Franchised Business at the Premises in the Designated Territory, including all required licenses and permits related to the offer, provision and/or sale of the Approved Services and Approved Products that Franchisor authorizes Franchisee to provide at the Franchised Business. Certain states may require that Franchisee file and post a bond, or otherwise obtain special permit(s), if it is determined that the Franchised Business constitutes a "Health Club" under the applicable laws of where the Franchised Business is located.

F. **Approved Services and Approved Products.** Franchisee must only offer and sell only the Approved Services and Approved Products at the Franchised Business. Franchisee may not offer or provide any other products/services and must not deviate from Franchisor's System standards and specification related to the manner in which the Approved Services and Approved Products are offered and sold, unless Franchisor provides its prior written consent. Franchisor has the right to add additional, delete or otherwise modify certain of the Approved Products and Approved Services from time to time in the Manuals and otherwise in writing, as it deems appropriate in its sole discretion. In the event of a dispute between Franchisee and Franchisor concerning Franchisee's right to carry any particular product or to offer any specific service, Franchisee will immediately remove the disputed products from inventory, remove the disputed service from those services offered at the Premises, or, if the same are not already in inventory or such services not yet being offered, will defer offering for sale such products and services pending resolution of the dispute. Franchisee shall accept as payment for services or products any such indication of prepayment or credit, no matter where such credit was issued or such prepayment was made. If Franchisee offers and/or sells any products at or from the Franchised Business that Franchisee has obtained from a supplier other than the Approved Suppliers, Franchisee will be charged a fee of Fifty Dollars (\$50) per day until Franchisee ceases offering and/or selling such products.

G. **Other Devices Prohibited at Premises.** Franchisee is specifically prohibited from installing, displaying, or maintaining any vending machines, gaming machines, automatic teller machines, internet kiosks, public telephones (or payphones), or any other electrical or mechanical device in the Studio other than those Franchisor prescribes or approves.

H. **Fixtures, Furniture, Signs and Inventory.** Franchisee must maintain at all times during the term of this Agreement and any renewals hereof, at Franchisee's expense, the Premises and all fixtures, furnishings, signs, artwork, décor items and inventory therein as necessary to comply with Franchisor's standards and specifications as prescribed in the Manuals or otherwise in writing. Franchisee must also make such additions, alterations, repairs, and

replacements to the foregoing as Franchisor requires. Franchisor will not require Franchisee to make material renovations or refurbishments to the Premises of the Franchised Business more than once every five (5) years, unless such renovation/refurbishment is in connection with a renewal or transfer of this Agreement. The parties agree and acknowledge, however, that the limitation set forth in the preceding sentence will not apply to any request to modify the Proprietary Marks as provided for in this Agreement.

I. **Compliance with Applicable Laws.** Franchisee must at all times conduct and operate the Franchised Business in accordance with all federal, state, and local laws, ordinances, and regulations applicable thereto, including any laws and regulations related to providing fitness services, including personal and group fitness training, fitness counseling and nutritional counseling, and certification/licensing of personal trainers. Franchisee will have sole authority and control over the day-to-day operations of the Franchised Business and Franchisee's employees and/or independent contractors. Franchisee agrees to be solely responsible for all employment decisions and to comply with all state, federal, and local hiring laws and functions of the Franchised Business, including without limitation, those related to hiring, firing, training, wage and hour requirements, compensation, promotion, record-keeping, supervision, and discipline of employees, paid or unpaid, full or part-time. At no time will Franchisee or Franchisee's employees be deemed to be employees of Franchisor or Franchisor's affiliates.

J. **Required Items.** Franchisee must: (i) purchase any and all Required Items that Franchisor designates for use in connection with the Franchised Business, including without limitation, all products, supplies, inventory, fixtures, Computer System, parts, and materials required for the operation of the Franchised Business; (ii) ensure that all Required Items meet Franchisor's standards and specifications; and (iii) purchase all items Franchisor specifies from the Approved Supplier(s) that Franchise designates, which may include Franchisor or its affiliate(s). Franchisee agrees and acknowledges that Franchisor and/or its affiliates may derive revenue from the offer and sale of Required Items.

K. **Alternative Product/Service and/or Alternative Supplier Approval.** If Franchisee wishes to use or offer any unapproved item, including any unapproved service or product, and/or acquire approved items from an unapproved supplier, Franchisee must provide Franchisor the name, address and telephone number of the proposed supplier, a description of the item Franchisee wishes to purchase, and the purchase price of the item, to the extent known. Franchisee must then follow Franchisor's then-current procedure for evaluating and approving such request and pay Franchisor's then-current product/supplier evaluation fee (the "Evaluation Fee"), if any. At Franchisor's request, Franchisee must also provide Franchisor, for testing purposes, a sample of the item Franchisee wishes to purchase. If Franchisor incurs any costs in connection with testing a particular product or evaluating an unapproved supplier at Franchisee's request, Franchisee must reimburse Franchisor for Franchisor's reasonable testing costs, regardless of whether Franchisor subsequently approves the item or supplier. Franchisor will use commercially reasonable efforts to notify Franchisee in writing whether or not Franchisee's request is approved or denied within thirty (30) days of: (i) Franchisor's receipt of all supporting information from Franchisee regarding Franchisee's request under this Section; and (ii) if applicable, Franchisor's completion of any inspection or testing associated with Franchisee's request. If Franchisor does not provide written approval within this time period, then Franchisee's request will be deemed denied. Franchisor may, but is not obligated to, provide Franchisee's proposed supplier with its specifications for the item that Franchisee wishes the third-party to supply, provided that third-party executes Franchisor's prescribed form of non-disclosure agreement. Each supplier that Franchisor approves must comply with Franchisor's usual and customary requirements regarding insurance, indemnification and non-disclosure. If Franchisor approves any supplier, Franchisee may enter into supply contracts with such third party, but under no circumstances will Franchisor guarantee Franchisee's performance of any supply contract. Franchisor may re-inspect and revoke Franchisor's approval of particular products or suppliers when Franchisor determines, in Franchisor's sole discretion, that such products or suppliers no longer meet Franchisor's standards. Upon receipt of written notice of such revocation, Franchisee must cease purchasing products from such supplier. Nothing in this Section shall be construed to require Franchisor to approve any particular supplier. Franchisor may base Franchisor's approval of any such proposed item or supplier on considerations relating not only directly to the item or supplier itself, but also indirectly to the uniformity, efficiency, and quality of operation Franchisor deems necessary or desirable in Franchisor's System as a whole. Franchisor has the right to receive payments from suppliers on account of their dealings with Franchisee and other franchisees and to use all amounts Franchisor receives without restriction (unless instructed otherwise by the supplier) for any purposes Franchisor deems appropriate.

L. **Computer Issues.** Franchisee acknowledges and agrees that Franchisee is solely responsible for protecting itself from computer viruses, bugs, power disruptions, communication line disruptions, internet access failures, internet content failures, date-related problems, and attacks by hackers and other unauthorized intruders.

M. **Promotional Materials Display; Promotional Events.**

1. Franchisee must openly and prominently display franchise promotional materials provided or designated by Franchisor and participate in any ongoing System-wide sales, specials or other promotions that Franchisor designates.
2. In the event Franchisor arranges for to participate in a promotional exhibition, show or other event to be held within the Territory (or in close proximity to the Territory where prospective customers of the Franchised Business may be located or visiting) that is designed to promote the Proprietary Marks, System, brand and/or Franchised Business, then Franchisee (or a trainer working at the Franchised Business) may be required by Franchisor to participate in such events up to one (1) time every two (2) months (for a period of up to 5 days), provided reasonable advance written notice is provided.

N. **Initial Training Program and Other Training/Conference Attendance.** Franchisee and each of its management personnel must attend and successfully complete all training and annual conferences that are prescribed by Franchisor under this Agreement and the Operations Manual.

1. Franchisee and its required trainees (including Designated Manager(s) if selected) must complete the General Business Training portion of the Initial Training Program and the instructor certification training prior to opening, and must pay Franchisor's then-current training tuition fee for any additional persons (other than the first two (2) individuals) that also wish to attend the General Business Training and/or On-Site Module of the Initial Training Program.
2. Franchisee and its required trainees must be on-site at the Franchised Business when Franchisor's training personnel provides the On-Site Module at the Premises, and must actively participate in and complete such On-Site Module.
3. Franchisee must also cover all costs associated with personnel of Franchisee attending any and all portions of the Initial Training Program.
4. Franchisee must also complete any additional or refresher training the Franchisor is permitted to require Franchisee to attend each year, and Franchisee must attend Franchisor's annual conference if such a conference is conducted by Franchisor.
5. Any failure to attend and complete the Initial Training Program or other training/conferences described in this Section will be a material default of this Agreement and grounds for termination if not cured within the appropriate cure period set forth in this Agreement (if any).

O. **Training of Employees.** Franchisee or at least one (1) of Franchisee's personnel that has successfully completed the entire Initial Training Program must conduct training classes for, and properly train, all of Franchisee's employees on sales, advertising, maintenance of the Premises, the POS and computer system, as well as any other information that is relevant to each employee's role with the Franchised Business, including Franchisor's standards and specifications for operating the Franchised Business, as Franchisor may set forth in the Manuals or otherwise in writing. Further, at least one (1) person that has completed the Initial Training Program must manage the Franchised Business at all times.

P. **Hours of Operation.** Franchisee shall keep the Franchised Business open and in normal operation for such minimum hours and days as Franchisor may prescribe in the Manuals or otherwise in writing, and must ensure that the Franchised Business is sufficiently staffed.

Q. **Image.** Franchisee shall maintain the image of the Franchised Business at all times in accordance with Franchisor's standards and specifications, including: (i) ensuring that the Premises is maintained in a clean and orderly manner; and (ii) ensuring that all equipment, furniture and fixtures remain in good, clean condition and is properly displayed. Franchisor may require Franchisee to refurbish, renovate and/or otherwise substantively modify the interior of the Franchised Business, including the furniture, fixtures and equipment used at the Premises, no more than once every five (5) years (unless the change is required in connection with a renewal or transfer of this Agreement) so that the Premises and Franchised Business conform with Franchisor's then-current System standards and specifications for a new franchised System Studio.

R. **Customer Lists and Data/Agreements.** Franchisee must (i) maintain a list of all of its current and former customers, as well as their purchase history associated therewith, at the Premises; and (ii) make such lists and contracts available for Franchisor's inspection upon request. Franchisee must promptly return this information, which is deemed "Confidential Information" and Franchisor's exclusive property hereunder, to Franchisor upon expiration or

termination of this Agreement for any reason. Franchisee acknowledges that Franchisor may have automatic access to any or all of this information via the Computer System and related software that Franchisor requires for use in connection with the Franchised Business.

S. **Promotional/Maximum Prices; Pricing Guidelines.** To the extent permitted under applicable law, Franchisee must follow Franchisor's general pricing guidelines, including any promotional or maximum prices set by Franchisor for any Approved Product or Approved Service. As an independent contractor, however, Franchisee may exercise flexibility in meeting competition with respect to the pricing of certain Approved Products and Approved Services offered at the Franchised Business. Franchisor may request information from Franchisee that has been used to substantiate any reduction in pricing made by Franchisee to meet market conditions.

T. **Operation of Franchised Business and Customer Service.** Franchisee shall manage and operate the Franchised Business in an ethical and honorable manner, and must ensure that all those working at the Franchised Business provide courteous and professional services to customers and always keep its customers' interests in mind while protecting the goodwill of the Proprietary Marks, System and the Franchised Business. Franchisee must handle all customer complaints and requests for returns and adjustments in a manner consistent with Franchisor's standards and specifications, and in a manner that will not detract from the name and goodwill enjoyed by Franchisor. Franchisee must consider and act promptly with respect to handling of customer complaints, and implement complaint response procedures that Franchisor outlines in the Manuals or otherwise in writing.

U. **Access to Studio.** To determine whether Franchisee is complying with this Agreement, Manuals and the System, Franchisor and its designated agents or representatives may at all times and without prior written notice to Franchisee: (i) inspect the Premises; (ii) observe and monitor the operation of the Franchised Business for consecutive or intermittent periods as Franchisor deems necessary; (iii) interview or survey personnel and customers of the Franchised Business; and (iv) inspect, audit and/or copy any books, records, and agreements relating to the operation of the Franchised Business, including all financial information. Franchisee agrees to cooperate with Franchisor fully in connection with these undertakings by Franchisor (if taken). If Franchisor exercises any of these rights, Franchisor will not interfere unreasonably with the operation of the Franchised Business.

V. **Personal Participation by Franchisee.** Franchisee must personally participate in the direct management operation of the Franchised Business on a full-time basis, unless Franchisee engages a Designated Manager that Franchisor approves in writing to manage the day-to-day operations of the Franchised Business when Franchisee is not present. If Franchisee designates a manager at any time, that manager must successfully complete the Initial Training Program prior to assuming any management responsibilities in connection with the Franchised Business. Regardless, Franchisee is solely responsible for all aspects of the operation of the Franchised Business and ensuring that all the terms, conditions, and requirements contained in this Agreement and in the Manuals are met and kept.

W. **Credit Cards.** Franchisee must accept credit cards at the Premises to facilitate sales, including Visa, MasterCard, American Express and Discover and any other major credit cards designated by Franchisor.

X. **Payments to Franchisor.** Franchisee agrees to promptly pay Franchisor all payment and contributions that are due to Franchisor, its affiliates or any Approved Supplier.

Y. **Employment Decisions.** Franchisee agrees to be solely responsible for all employment decisions and to comply with all state, federal, and local hiring laws and functions of the Franchised Business, including without limitation, those related to hiring, firing, training, wage and hour requirements, compensation, promotion, record-keeping, supervision, and discipline of employees, paid or unpaid, full or part-time. Franchisee's employees must be competent, conscientious, and properly trained.

Z. **Bookkeeping Software.** Franchisor may require Franchisee to use a third-party provider (other than QuickBooks) for bookkeeping services if Franchisee (i) fails to timely and accurately provide any and all required reports under this Agreement and/or Development Agreement, or (ii) underreports the Gross Sales of the Studio at any time.

7. PROPRIETARY MARKS AND OTHER INTELLECTUAL PROPERTY RIGHTS

A. **Ownership of Proprietary Marks.** Franchisee acknowledges the exclusive ownership and/or right to use the Proprietary Marks by Franchisor, and Franchisee agrees that during the term of this Agreement and after its expiration or termination Franchisee will not directly or indirectly contest or aid in contesting the validity of the Proprietary Marks or the ownership or rights of the Proprietary Marks by Franchisor. Furthermore, Franchisee intends and hereby concedes that any commercial use Franchisee may make of the Proprietary Marks shall contribute and

inure to the commercial use and benefit of Franchisor, which Franchisor may claim to strengthen and further secure ownership of the Proprietary Marks.

B. **Permitted Use.** It is understood and agreed that the use by Franchisee of Franchisor's Proprietary Marks applies only in connection with the operation of the Franchised Business at the Premises, and includes only such Proprietary Marks as are now designated, or which may hereafter be designated in the Manuals or otherwise in writing as part of the System (which might or might not be all of the Proprietary Marks pertaining to the System owned by the Franchisor), and does not include any other mark, name, or indicia of origin of Franchisor now existing or which may hereafter be adopted or acquired by Franchisor.

C. **Use of Proprietary Marks in Advertising and Signage.** To develop and maintain high, uniform standards of quality and service and thereby protect Franchisor's reputation and goodwill, as well as that of the System, Franchisee agrees to:

1. Operate and advertise the Franchised Business only under the Proprietary Marks authorized by Franchisor as specified in this Agreement or the Manuals;

2. Maintain and display signage and advertising bearing the Proprietary Marks that reflects the current commercial image of the System and, upon notice from Franchisor, to immediately discard and cease use of Proprietary Marks or other imagery that has become obsolete and no longer authorized by Franchisor.

3. Upon Franchisor's request, Franchisee hereby covenants and agrees that it will affix in a conspicuous location in or upon the Premises, a sign containing the following notice: "This business is owned and operated independently by (*name of franchisee*) who is an authorized licensed user of the trademark, FARRELL'S EXTREME BODYSHAPING [or other then-current primary mark we designate to identify your Franchised Business], under a license agreement with Farrell's eXtreme Bodyshaping, Inc."

D. **Proprietary Marks are Sole Property of Franchisor.** Franchisee acknowledges that the Proprietary Marks, System, Manual, and all other information and items delivered to Franchisee by Franchisor pursuant to this Agreement or in furtherance of the System, including without limitation, video and audio tapes or disks, information communicated by electronic means, and intellectual property, are the sole and exclusive property of Franchisor, and Franchisee's right to use the same are contingent upon Franchisee's continued full and timely performance under this Agreement. Franchisee acknowledges it acquires no rights, interests, or claims to any of said property, except for Franchisee's rights to use the same under this Agreement for the term hereof and strictly in the manner prescribed. Franchisee agrees that it will not, during the term of this Agreement or any time thereafter, contest or challenge the sole and exclusive proprietary rights of Franchisor (and, if appropriate, Franchisor's affiliates) to the Proprietary Marks, System, Manuals, and other information, intellectual property, and items delivered or provided or to which Franchisee obtains access under this Agreement, nor shall Franchisee claim any proprietary interest in such property. Franchisee agrees that it will not adopt, display, attempt to register or otherwise use any names, marks, insignias, or symbols in any business that are or may be confusingly similar to the Proprietary Marks licensed under this Agreement.

E. **Legal Action Involving Proprietary Marks.** Furthermore, Franchisee agrees to cooperate with and assist Franchisor in connection with any legal action brought by or against either of them regarding the protection and preservation of the Proprietary Marks, System, or the Manuals and other information and intellectual property delivered to Franchisee or used by Franchisee under this Agreement.

I. **Modification or Substitution of Marks by Franchisor.** If in Franchisor's reasonable determination, the use of Proprietary Marks in connection with the System will infringe or potentially infringe upon the rights of any third party, weakens or impairs Franchisor's rights in the Proprietary Marks, or it otherwise becomes advisable at any time in Franchisor's sole discretion for Franchisor to modify, discontinue, or to use one (1) or more additional or substitute trade or service Proprietary Marks then upon notice from Franchisor, Franchisee will terminate or modify, within a reasonable time, such use in the manner prescribed by Franchisor. If Franchisor changes the Proprietary Marks in any manner, Franchisor will not reimburse Franchisee for any out-of-pocket expenses that Franchisee incurs to implement such modifications or substitutions. Franchisor is not obligated to reimburse Franchisee for any loss of goodwill or revenue associated with any modified or discontinued Proprietary Mark, nor is Franchisor responsible for reimbursing Franchisee for any other costs or damages. Franchisee agrees not to make any changes or amendments whatsoever in or to the use of the Proprietary Marks unless directed by Franchisor in writing.

J. **Cease Use of Marks on Termination/Non-Renewal.** Upon termination or expiration and non-renewal of this Agreement, Franchisee agrees to immediately cease use, in any manner whatsoever, of any of the Proprietary Marks or any other Proprietary Marks or trade names that may be confusingly similar to the Proprietary Marks.

K. **Telephone Numbers Advertised in Connection with the Marks.** Franchisee acknowledges that there will be substantial confusion among the public if, after the termination or expiration and non-renewal of this Agreement, Franchisee continues to use advertisements and/or the telephone number listed in the telephone directory that contains all or some salient portion of any Proprietary Mark (including the name FARRELL) or any name or mark similar to the Proprietary Marks. Effective upon the termination or expiration and non-renewal of this Agreement, Franchisee shall and must direct the telephone company servicing Franchisee, per Franchisor's request, to disconnect the telephone number used in connection with the Franchised Business or transfer such number to Franchisor or to any person or location of Franchisor's choosing. If Franchisee fails to take these steps, Franchisee shall be deemed to have hereby irrevocably appointed Franchisor as Franchisee's attorney-in-fact for purposes of directing and accomplishing such transfer. Franchisee understands and agrees that, notwithstanding any billing arrangements with any telephone company or yellow pages directory company, Franchisor will be deemed for purposes hereof to be the subscriber of such telephone numbers, with full authority to instruct the applicable telephone or yellow pages directory company as to the use and disposition of telephone listings and numbers. Franchisee hereby agrees to release, indemnify, and hold such companies harmless from any damages or loss as a result of following Franchisor's instructions.

L. **Use of Proprietary Marks.** Franchisee understands and agrees that its right to use the Proprietary Marks is non-exclusive, that Franchisor in its sole discretion has the right to grant licenses to others to use the Proprietary Marks and obtain the benefits of the System in addition to the licenses and rights granted to Franchisee under this Agreement, and that Franchisor may develop and license other trademarks or service marks in conjunction with systems other than the System on any terms and conditions as Franchisor may deem advisable where Franchisee will have no right or interest in any such other trademarks, licenses, or systems.

N. **Acknowledgements.** With respect to Franchisee's use of the Proprietary Marks pursuant to this Agreement, Franchisee acknowledges and agrees that:

1. Franchisee shall not use the Proprietary Marks as part of Franchisee's corporate or any other business name, domain name, e-mail address or any social media or social networking profile/page;
2. Franchisee shall not hold out or otherwise use the Proprietary Marks to perform any activity or incur any obligation or indebtedness in such a manner as might in any way make Franchisor liable therefor without Franchisor's prior written consent; and
3. Franchisee shall execute any documents and provide such other assistance deemed necessary by Franchisor or its counsel to obtain protection for Proprietary Marks or to maintain the continued validity of such Proprietary Marks.

O. **No Use Outside Scope.** Franchisee acknowledges that the use of the Proprietary Marks outside the scope of this license without Franchisor's prior written consent is an infringement of Franchisor's exclusive right to use the Proprietary Marks and, during the term of this Agreement and after the expiration or termination hereof, Franchisee covenants not to directly or indirectly commit an act of infringement, contest or aid in contesting the validity or ownership of Franchisor's Proprietary Marks, or take any other action in derogation thereof.

P. **Notification of Infringement.** Franchisee shall notify Franchisor within three (3) calendar days of any suspected infringement of, or challenge to, the validity of the ownership of, or Franchisor's right to use, the Proprietary Marks licensed hereunder. Franchisee will not communicate with any persons other than Franchisor or Franchisor's legal counsel in connection with any such infringement, challenge, or claim. Franchisee acknowledges that Franchisor has the right to control any administrative proceeding or litigation involving the Proprietary Marks. In the event Franchisor undertakes the defense or prosecution of any litigation relating to the Proprietary Marks, Franchisee agrees to execute any and all documents and to do such acts and things as may be necessary in the opinion of counsel for Franchisor to carry out such defense or prosecution.

Q. **Indemnification Regarding Marks.** Franchisor will indemnify and defend Franchisee against any third-party claim brought against Franchisee that arises solely out of Franchisee's authorized use of the Proprietary Marks licensed under this Agreement in connection with the Franchised Business, provided: (i) such use is in full compliance with Franchisor's standards and specifications; and (ii) Franchisee notifies Franchisor in writing of this third-party claim within three (3) calendar days of receiving notice or otherwise learning of the claim. Franchisor will have

complete control over the defense and, if appropriate, settlement negotiations and resolution regarding the claims described in this Section, including the right to select legal counsel Franchisor deems appropriate. Franchisee must fully cooperate with Franchisor in connection with Franchisor's defense or settlement of any third-party claim that Franchisor determines to take control of under this Section 7. Notwithstanding anything in this Section to the contrary, Franchisor's liability under this Section shall be limited to no more than the Initial Franchise Fee paid under this Agreement. Franchisor will not reimburse Franchisee for its expenses and legal fees for separate, independent legal counsel, unless Franchisor approves of Franchisee's use of such counsel in writing prior to Franchisee engaging counsel. Franchisor will not reimburse Franchisee for disputes where Franchisor challenges Franchisee's use of the Proprietary Marks.

R. **Other Obligations of Franchisee.** In addition to all other obligations of Franchisee with respect to the Proprietary Marks licensed herein, Franchisee agrees:

1. To feature and use the Proprietary Marks solely in the manner prescribed by Franchisor and not use the Proprietary Marks on the Internet or otherwise online, except as approved in writing by Franchisor; and
2. To observe all such requirements with respect to service mark, trademark and copyright notices, fictitious name registrations, and the display of the legal name or other identification of Franchisee as Franchisor may direct in writing from time to time.

8. OPERATIONS MANUALS AND CONFIDENTIAL/CONFIDENTIAL INFORMATION

A. **Compliance with Manuals.** In order to protect the reputation and goodwill of Franchisor and the System, and to maintain uniform standards of operation under Franchisor's Proprietary Marks, Franchisee shall conduct the Franchised Business in strict accordance with Franchisor's Manuals.

B. **Control of Studio.** Franchisee acknowledges the Manuals provided by Franchisor to Franchisee is intended to protect Franchisor's standards, systems, names, and marks and is not intended to control day-to-day operation of Franchisee's business. Franchisee further acknowledges and agrees that Franchisee's Business will be under the control of the Franchisee at all times. Franchisee will be responsible for the day-to-day operation of the business.

C. **Confidential Information.** In connection with the operation of the Franchised Business, Franchisee will from time to time become acquainted with, work with, and even generate certain information, procedures, techniques, data, and materials that are and, by this Agreement, will become proprietary to Franchisor. Franchisee and all persons signing this Agreement agree to keep confidential any of Franchisor's trade secrets or proprietary information as defined below and will not use such for its or their own purpose or supply or divulge same to any person, firm, association, or corporation except as reasonably necessary to operate the Franchised Business.

D. **Trade Secrets and Confidential Information.** The confidentiality requirements set forth in the preceding paragraph will remain in full force and effect during the term of this Agreement and in perpetuity after its termination or expiration and non-renewal. Franchisor's trade secrets and proprietary/confidential information include the following:

1. The Manuals;
2. Any information or materials, whether technical or non-technical, that is used in connection with or otherwise related to the establishment and operation of franchised or other System Studio or the System generally that is not commonly known by, or available to, the public, including without limitation: (i) information and materials related to the architectural plans, design, layout, equipping, build-out and/or construction of a Studio; (ii) methodology, protocol and System standards/specifications for the promotion, offer, sale and provision of any Approved Services or Approved Products; (iii) information related to Franchisor's relationship with existing or prospective Approved Suppliers or other third-party vendors (whether or not Franchisee is required to use such vendors); (iv) the class reservations and payments system, as well as Computer System and related software generally, that has been customized in any manner for use by Franchisor and/or a Studio; (v) marketing and advertising materials, as well as any other items that display the Proprietary Marks in any manner, as well as Franchisor's designated marketing/advertising/promotional campaigns; and (vi) any passwords, logins or other keys necessary to access Franchisee's POS system, reservation system, Computer System or related software used in connection with the Franchised Business; and
3. Any other information that may be imparted to Franchisee from time to time and designated by Franchisor as confidential (collectively, the "Confidential Information").

E. **Confidential Information as Property of Franchisor.** Franchisee acknowledges and agrees that the Confidential Information and any business goodwill of the Franchise are Franchisor's sole and exclusive property and that Franchisee will preserve the confidentiality thereof. Upon the termination or expiration and non-renewal of this Agreement, all items, records, documentation, and recordings incorporating any Confidential Information will be immediately turned over by Franchisee, at Franchisee's sole expense, to Franchisor or to Franchisor's authorized representative.

F. **Information Not Proprietary.** Excepted from Confidential Information for purposes of non-disclosure to any third parties by Franchisee and/or its Restricted Persons (as defined in Section 8(H) below) is information that:

1. Becomes publicly known through no wrongful act of Franchisee or Restricted Persons; or
2. Is known by Franchisee or Restricted Persons without any confidential restriction at the time of the receipt of such information from Franchisor or becomes rightfully known to them without confidential restriction from a source other than Franchisor.

G. **Reasonable Efforts to Maintain Confidentiality.** Franchisee shall at all times treat the Confidential Information as confidential and shall use all reasonable efforts to keep such information secret and confidential, including without limitation, all logins/passwords/keys necessary to access any component of the Computer System or related software used in connection with the Franchised Business. The Manuals must remain at the Premises and be kept in a secure location, under lock and key, except when it is being studied by Franchisee or Franchisee's employees. Franchisee shall not, at any time without Franchisor's prior written consent, copy, scan, duplicate, record, distribute, disseminate, or otherwise make the Manuals available to any unauthorized person or entity, in whole or in part.

H. **Prevention of Unauthorized Use or Disclosure.** Franchisee shall adopt and implement all reasonable procedures as Franchisor may prescribe from time to time to prevent the unauthorized use or disclosure of any of the Confidential Information. Franchisee must ensure and require that all of its officers, agents, directors, shareholders, trustees, beneficiaries, partners, employees, and independent contractors who may obtain or who are likely to obtain knowledge concerning the Confidential Information (collectively, "Restricted Persons") execute Franchisor's prescribed form of confidentiality agreement that will be in substantially the same form attached to this Agreement as Exhibit E (the "Confidentiality and Non-Competition Agreement"). Franchisee must obtain a signed copy of the Confidentiality and Non-Competition Agreement from any such person prior to, or at the same time of, that person undertaking its role and/or employment or association with Franchisee or the Franchised Business. Franchisee's spouse or significant other shall also be bound by the same requirement and shall sign the same Confidentiality and Non-Competition Agreement. Franchisee must provide Franchisor with a copy of each signed Confidentiality and Non-Competition Agreement within ten (10) days of Franchisor's request.

I. **Loan of Manuals.** Franchisor will loan or provide online access to one (1) copy of the Manuals to Franchisee. The Manuals shall at all times remain the sole property of Franchisor and any and all copies (hard copies or electronic files) of the Manuals must be returned to Franchisor upon termination or expiration and non-renewal of this Agreement.

I. **Modification of Manuals.** In order for Franchisee to benefit from new knowledge, information, methods, and technology adopted and used by Franchisor in the operation of the System, Franchisor may from time to time revise the Manuals, and Franchisee agrees to adhere to and abide by all such revisions (at its expense). Franchisee agrees at all times to keep its copy of the Manuals current and up-to-date. In the event of any dispute as to the contents of Franchisee's Manual, the terms of the master copy of the Manuals maintained by Franchisor at its home office shall be controlling. Franchisor may provide any supplements, updates or revisions to the Manuals via the Internet, email, the System-wide intranet/extranet or any other electronic or traditional mediums it deems appropriate.

J. **Improvements.** Franchisee agrees to disclose promptly to Franchisor any and all inventions, discoveries, and improvements, whether or not patentable or copyrightable, that are conceived or made by Franchisee or its employees or agents that are in any way related to the establishment or operation of the Franchised Business (collectively, the "Improvements"), all of which shall be automatically and without further action owned by Franchisor without compensation to Franchisee (including all intellectual property rights therein). Whenever requested to do so by Franchisor, Franchisee will execute any and all applications, assignments, or other instruments that Franchisor may deem necessary to apply for and obtain intellectual property protection or to otherwise protect Franchisor's interest therein. These obligations shall continue beyond the termination or expiration of this Agreement. If a court should determine that Franchisor cannot automatically own certain of the Improvements that may be developed, then

Franchisee hereby agrees to grant Franchisor a perpetual, royalty-free worldwide license to use and sublicense others to use such Improvements.

9. ADVERTISING

A. **Designated Advertising Materials and Promotional Programs.** Franchisor may from time to time develop and create advertising and sales promotion programs designed to promote and enhance the collective success of all or some of the FARRELL'S EXTREME BODYSHAPING Studios operating under the System. Franchisee must participate in all such advertising and sales promotion programs in accordance with the terms and conditions established by Franchisor for each program. In all aspects of these programs, including without limitation, the type/quantity/timing/placement and choice of media, and market areas and advertising agencies, the System standards and specifications established by Franchisor shall be final and binding upon Franchisee. Franchisor may also request that Franchisee purchase and/or make copies of (and Franchisee's expense) and subsequently use certain other advertising or promotional materials that Franchisor designates for use in connection with the Franchised Business.

B. **Approval for all Advertising/Promotional Materials.** All advertising and promotion by Franchisee in any medium must be conducted in a professional manner and shall conform to Franchisor's standards and requirements as set forth in the Manuals or otherwise. Franchisee shall obtain Franchisor's approval of all advertising and promotional plans and materials twenty (20) days prior to use if such plans and materials have not been prepared by Franchisor or previously approved by Franchisor during the six (6) months prior to their proposed use. Franchisee must submit unapproved plans and materials to Franchisor, and Franchisor will have fifteen (15) days to notify Franchisee of its approval or disapproval of such materials. If Franchisor does not provide its specific approval of the proposed materials within this fifteen (15) day period, the proposed materials will be deemed rejected. Any plans and materials that Franchisee submits to Franchisor for its review will become Franchisor's property and there will be no restriction on Franchisor's use or dissemination of such materials. Once approved, Franchisee may use the proposed materials for a period of ninety (90) days, unless Franchisor prescribes a different time period for use or requires Franchisee to discontinue using the previously-approved materials in writing. Franchisor may revoke its approval of any previously-approved advertising materials upon notice to Franchisee. Franchisor reserves the right to require Franchisee to include certain language on all advertising to be used locally by Franchisee or to be used by a Cooperative, including, but not limited to, the phrase "Franchises Available" and references to Franchisor's telephone number and/or website.

C. **Grand Opening Advertising.** Franchisee must spend a minimum of \$25,000 to promote and advertise the grand opening of the Franchised Business within the Designated Territory, which must be paid to our Approved Supplier on the date when Franchisee signs the lease for the Premises (the "Grand Opening Advertising"). If Franchisor collects any portion of the Grand Opening Advertising, it will only do so in order to pay its out-of-pocket costs to implement the Grand Opening Advertising campaign on Franchisee's behalf.

D. **Local Advertising Requirement.** In addition to Grand Opening Advertising, Franchisee must expend a minimum of one percent (1%) of Gross Sales of each month beginning from the time the Franchised Business is open and operating on advertising and marketing the Franchised Business within the Designated Territory as a Local Advertising Requirement.

1. Franchisee agrees and acknowledges that Franchisor may collect portions of the Local Advertising Requirement to cover the costs/fees associated with any local advertising and/or marketing services that Franchisee is required to utilize in connection with the Franchised Business, and such payments may be collected (as incurred) in the same manner as the Royalty or as otherwise designated by Franchisor.

2. Upon Franchisor's request, Franchisee must provide Franchisor with invoices or other proof of its monthly expenditures on local advertising and marketing.

3. Franchisee must ensure that: (i) the Franchised Business has a dedicated phone line for use in connection with the Franchised Business only (and no other business, including any other System Studio); and (ii) the Franchised Business is listed in the appropriate Internet-based directories that Franchisor designates.

4. Franchisee may not advertise and promote the Franchised Business outside of the Designated Territory, unless (a) the geographic area wherein Franchisee wishes to advertise is contiguous to the Designated Territory and that area has not been granted to any other System Studio location or System franchisee/developer, or (b) Franchisor otherwise provides its prior written consent in writing.

E. **Brand Fund.** Franchisor has established a System-wide creative brand Fund designed to promote the System, Proprietary Marks and Franchisor's brand generally. Franchisor may require Franchisee to contribute to this Fund on

a monthly basis in an amount equal to up to three percent (3%) of the Gross Sales of the Franchised Business as described in Section 4. The Fund will be maintained and administered by Franchisor or Franchisor's designee as follows:

1. Franchisor will use Fund and all contributions to it and any earnings on it, exclusively for preparing, directing, conducting, placing, and administering advertising, marketing, public relations, and/or promotional programs and materials, and any other activities, that Franchisor believes would enhance the image of the System, Proprietary Marks, and Approved Products or Approved Services.
2. Franchisor is not obligated to spend monies from the Fund in any particular Franchisee's market in proportion to the payments to the Fund made by the Franchisee in that market. Franchisor does not represent that it will spend any particular amount of advertising funds locally, regionally, or nationally.
3. The Fund may be used to meet any and all costs of maintaining, administering, directing and preparing advertising, marketing and promotional materials. This includes, among other things, direct mail advertising, marketing surveys and other public relations activities, developing and maintaining the Franchisor's Website (and the interior pages thereof), employing advertising and public relations agencies, purchasing promotional items, and providing other marketing materials and services to the System Studios operating under the System. These costs may include the proportionate salary share of Franchisor's employees that devote time and render services for advertising and promotion or the administration of the Fund, including administrative costs, salaries, and overhead expenses related to administering the Fund and its programs. Franchisor may use Fund Contributions to defray the operating costs in a manner that corresponds to the amount of work and activity these individuals expend on the administration and/or activities covered by the Fund.
4. Franchisor will administratively segregate all contributions to the Fund on its books and records. All such payments to the Fund may be deposited in Franchisor's general operating account, may be commingled with Franchisor's general operating funds, and may be deemed an asset of Franchisor, subject to Franchisor's obligation to expend the monies in the Fund in accordance with the terms hereof. Franchisor may, in its sole discretion, elect to accumulate monies in the Fund for such periods of time, as it deems necessary or appropriate, with no obligation to expend all monies received in any fiscal year during that fiscal year. In the event Franchisor's expenditures for the Fund in any one (1) fiscal year shall exceed the total amount contributed to the Fund during such fiscal year, Franchisor shall have the right to be reimbursed to the extent of such excess contributions from any amounts subsequently contributed to the Fund or to use such excess as a credit against its future contributions. The parties do not intend that the Fund be deemed a trust.
5. Franchisor will, on an annual basis, account for the operation of the Fund and prepare an unaudited financial statement evidencing such accounting that will be available to Franchisee, upon Franchisee's written request, one hundred twenty (120) days after Franchisor's fiscal year end.
6. Franchisor may dissolve, suspend, modify and/or reinstate the Fund at any time after it is established.
- F. **Advertising Council.** Franchisor may establish, if and when it deems appropriate in its sole discretion, a council to provide advice and guidance regarding the administration of the Fund and various other advertising/marketing matters (an "Advertising Council"). If Franchisor establishes an Advertising Counsel, it may serve in only an advisory capacity and may consist of franchisees, personnel from Franchisor's affiliate-owned Studios, or other management/employees that Franchisor designates. If an Advertising Council is established, the membership of such Advertising Council, along with the policies and procedures by which it operates, will be determined by Franchisor. The recommendations of the Advertising Council shall not be binding on Franchisor.
- G. **Website.** Franchisee may not establish any separate website or other Internet presence in connection with the Franchised Business, System or Proprietary Marks without Franchisor's prior written consent. If approved to establish a separate website, Franchisee shall comply with Franchisor's policies, standards and specifications with respect to the creation, maintenance and content of any such website. Franchisee specifically acknowledges and agrees that any website owned or maintained by or for the benefit of Franchisee shall be deemed "advertising" under this Agreement, and will be subject to (among other things) Franchisor's approval as described in this Section 9. Franchisee may not promote or otherwise list its Franchised Business, or the Proprietary Marks or System, on any social media or networking site, including without limitation, Facebook, LinkedIn, Instagram, Pinterest, Twitter, TikTok or YouTube, without Franchisor's prior written consent. Franchisor shall have the right to modify the provisions of this Section relating to Franchisee's use of separate websites and social media, as Franchisor determines necessary or appropriate.

H. **Cooperatives.** Franchisor may establish regional advertising cooperatives that are comprised of multiple Studio owners located within a geographical region that Franchisor designates (each, a “Cooperative”). If Franchisor establishes a Cooperative and designates Franchisee as a member thereof, Franchisee may be required to contribute to the Cooperative in an amount not to exceed Franchisee’s Local Advertising Requirement each month. All amounts paid to a Cooperative will be credited towards Franchisee’s Local Advertising Requirement. Franchisor shall have the right to specify the governing rules, terms and operating procedures of any Cooperative.

10. **ACCOUNTING AND RECORDS**

A. **Maintenance of Records.** Franchisee must, in a manner satisfactory to Franchisor and in accordance with generally accepted accounting principles, maintain original, full, and complete register tapes, computer files, back-up files, other records, accounts, books, data, licenses, contracts, and product vendor invoices which shall accurately reflect all particulars relating to the Franchised Business, as well as other statistical and financial information and records Franchisor may require. All of this information must be kept for at least three (3) years, even if this Agreement is no longer in effect. Upon Franchisor’s request, Franchisee must furnish Franchisor with copies of any or all product or equipment supply invoices reflecting purchases by or on behalf of the Franchised Business. In addition, Franchisee shall compile and provide to Franchisor any statistical or financial information regarding the operation of the Franchised Business, the products and services sold by it, or data of a similar nature, including without limitation, any financial data that Franchisor believes that it needs to compile or disclose in connection with the sale of franchises or that Franchisor may elect to disclose in connection with the sale of franchises. All data provided to the Franchisor under this Section 10 shall belong to Franchisor and may be used and published by Franchisor in connection with the System (including in Franchisor’s disclosure documents).

B. **Examination and Audit of Records.** Franchisor and its designated agents shall have the right to examine and audit Franchisee’s records, accounts, books, computer files, and data at all reasonable times to ensure that Franchisee is complying with the terms of this Agreement. If such audit discloses that Franchisee has underreported the Gross Sales of the Franchised Business or any amount due to Franchisor by two percent (2%) or more in any given reporting period (weekly, monthly or otherwise), then Franchisee must: (i) reimburse Franchisor any costs/expenses incurred in connection with conducting the inspection and audit; and (ii) pay any amount due and owing Franchisor as a result of Franchisee’s underreporting, along with any accrued interest on said amounts. In the event of an underreporting of two percent (2%) or more as described in this Section, Franchisee may also be required to provide, at Franchisee’s expense, audited financial statements that comply with GAAP and GAAS for Franchisee’s fiscal year within one hundred twenty (120) days of Franchisee’s fiscal year end.

C. **Computer System for Records.** Franchisee shall record all transactions and Gross Sales of the Franchised Business on a Computer System that is designated or approved by Franchisor, which must contain software that allows Franchisee to record accumulated sales without turning back, resetting or erasing such sales. Franchisor will, at all times and without notice to Franchisee, have the right to independently and remotely access and view Franchisee’s Computer System as described in Section 4 of this Agreement.

D. **Computer System Files and Passwords.** Franchisee will not install or load any computer software on the hard disks of the Computer System used in connection with the Franchised Business without Franchisor’s prior written consent. All computer and file passwords associated with the Computer System must be supplied as a list to Franchisor by Franchisee, along with any modifications or changes to that list. The passwords to access the Computer System located at the Premises or used by the Franchised Business, as well as all computer files and records related to the Franchised Business, are the exclusive property of Franchisor and Franchisee must provide Franchisor with these files and information upon the termination or expiration of this Agreement. Consistent with the other provisions of this Agreement, Franchisee agrees and acknowledges that Franchisor may have automatic access to Franchisee’s specific passwords/keys/logins through the Computer System components and related software that Franchisor requires Franchisee to use in connection with the Franchised Business.

E. **Current Contracts.** At any time and upon reasonable request of Franchisor, Franchisee shall provide Franchisor with a copy or summary listing, at Franchisor’s discretion, of all current customer agreements and class-based packages that Franchisee is involved in or working with in connection with the Franchised Business.

F. **Tax Returns.** Upon Franchisor’s request, Franchisee shall furnish the Franchisor with a copy of each of its reports, returns of sales, use and gross receipt taxes, and complete copies of any state or federal income tax returns covering the operation of the Franchised Business, all of which Franchisee shall certify as true and correct.

G. **Required Reports.** Franchisee must provide Franchisor with the following reports and information, all of which must be certified as true and correct by Franchisee and in the form and manner prescribed by Franchisor: (i) a signed Gross Sales Report as described more fully in Section 4 of this Agreement on or before the fifth (5th) day of each calendar month; (ii) on or before the twentieth (20th) of each month, an unaudited profit and loss statement for the Franchised Business for the preceding calendar month; (iii) within ninety (90) days after the close of each fiscal year of Franchisee, financial statements which shall include a statement of income and retained earnings, a statement of changes in financial position, and a balance sheet of the Franchised Business, all as of the end of such fiscal year; and (iv) any other financial information or performance metrics of the Franchised Business that Franchisor may reasonably request.

H. **Change to Ownership of Franchisee.** In addition to the foregoing statements, Franchisee must provide Franchisor with written reports regarding any authorized change to: (i) the listing of all owners and other holders of any type of interest (legal or beneficial) in Franchisee or the Franchised Business; and (ii) Franchisee's partners, officers, directors, as well as any of the Designated Manager(s) that manage the day-to-day operations of the Franchised Business. Franchisee will notify Franchisor in writing within ten (10) days after any such change, unless Franchisor is required to first notify Franchisor and obtain its approval prior to making any such change.

11. **INSURANCE AND INDEMNIFICATION**

A. **Required Insurance.** Franchisee shall, at its own expense and no later than the earlier of (a) the date on which Franchisee uses any of the Proprietary Marks, or (b) the date Franchisee begins building out the Premises, procure and maintain in full force and effect throughout the term of this Agreement the types of insurance enumerated in the Manuals or otherwise in writing (whether the Franchised Business is open or not). This insurance shall be in such amounts Franchisor or the lessor of the Premises designates from time to time. In addition to any other insurance that may be required by applicable law, or by lender or lessor, Franchisee shall procure the following coverages – unless and until such time that Franchisor provides updated insurance requirements via the Manuals or otherwise in writing:

1. “All risk” property insurance with contents coverage and business interruption coverage;
2. Crime insurance with a minimum coverage of \$10,000 per occurrence;
3. General liability insurance with a minimum liability coverage of \$1,000,000 per occurrence and an aggregate limit of \$2,000,000;
4. Professional liability insurance for personal trainers with a minimum coverage of \$1,000,000 per occurrence;
5. Automobile liability insurance with hired and non-owned liability CSL of at least \$1,000,000 and if applicable for owned automobiles;
6. Umbrella liability with a minimum coverage of \$2,000,000 per occurrence and an aggregate limit of \$2,000,000; and
7. Workers’ compensation insurance as required by state law.

Franchisee must buy insurance only from carriers rated A-VIII or better by A.M. Best and Company, Inc. (or similar criteria as Franchisor periodically specifies), unless Franchisor designates specific carriers from which Franchisee must purchase coverage (in which case Franchisee may only purchase from the designated carrier(s)). Franchisor may periodically increase the amounts of coverage required under these insurance policies and/or require different or additional insurance coverage to reflect inflation, identification of new risks, changes in law or standards of liability, higher damage awards, changing economic conditions, or other relevant changes in circumstances. All insurance policies Franchisee purchases must name Franchisor and any affiliate Franchisor designate as additional insureds, and provide for thirty (30) days’ prior written notice to Franchisor of a policy’s material modification or cancellation. The cost of Franchisee’s premiums will depend on the insurance carrier’s charges, terms of payment, and Franchisee’s insurance and payment histories. Franchisee shall make timely delivery of certificates of all required insurance to Franchisor, each of which shall contain a statement by the insurer that the policy will not be cancelled or materially altered without at least thirty (30) days’ prior written notice to Franchisor. The procurement and maintenance of such insurance shall not relieve Franchisee of any liability to Franchisor under any indemnity requirement of this Agreement.

B. **Failure to Procure and Maintain Insurance.** If Franchisee fails for any reason to procure and maintain the required insurance coverage, Franchisor has the right and authority (without having any obligation to do so) to

immediately procure such insurance coverage, in which case Franchisee must: (i) reimburse Franchisor for the costs incurred to obtain the required insurance (including any premium amounts paid); and (ii) pay Franchisor its then-current administrative fee, as may be reasonably charged by Franchisor as consideration for securing the required insurance on Franchisee's behalf.

C. **Indemnification.** Franchisee, as a material part of the consideration to be rendered to Franchisor, agrees to indemnify, defend and hold Franchisor, as well as Franchisor's directors, officers, principals/owners, managers, shareholders, affiliates, subsidiaries, employees, servants, agents, successors and assignees (collectively, the "Indemnitees"), harmless from and against any and all losses, damage, claims, demands, liabilities and causes of actions of every kind or character and nature, as well as costs and expenses incident thereto (including reasonable attorneys' fees and court costs), that are brought against any of the Indemnitees (collectively, the "Claims") that arise out of or are otherwise related to Franchisee's (a) breach or attempted breach of, or misrepresentation under, this Agreement, and/or (b) ownership, construction, development, management, or operation of the Franchised Business in any manner. Notwithstanding the foregoing, at Franchisor's option, Franchisor may choose to engage counsel and defend against any such Claim and may require immediate reimbursement from the Franchisee of all expenses and fees incurred in connection with such defense.

12. **INDEPENDENT CONTRACTOR**

A. **No Fiduciary Relationship.** In all dealings with third parties, including without limitation, employees, suppliers, and customers, Franchisee shall disclose in an appropriate manner acceptable to Franchisor that it is an independent entity licensed by Franchisor. Nothing in this Agreement is intended by the parties hereto either to create a fiduciary relationship between them or to constitute the Franchisee an agent, legal representative, subsidiary, joint venture, partner, employee, or servant of Franchisor for any purpose whatsoever.

B. **Independent Contractor Relationship.** It is understood and agreed that Franchisee is an independent contractor and is in no way authorized to make any contract, agreement, warranty, or representation or to create any obligation on behalf of Franchisor. Upon Franchisor's request, Franchisee must display a sign in its Franchised Business displaying the following phrase (or something similar): "This franchised Studio is independently owned and operated pursuant to a franchise agreement." Neither this Agreement nor Franchisor's course of conduct is intended, nor may anything in this Agreement (nor Franchisor's course of conduct) be construed to state or imply that Franchisor is the employer or joint employer of Franchisee's employees and/or independent contractors.

13. **TRANSFER AND ASSIGNMENT**

A. **No Transfer by Franchisee Without Franchisor's Approval.** Franchisee's rights under this Agreement are personal, and Franchisee shall not sell, transfer, assign or encumber Franchisee's interest in this Agreement or the Franchised Business (or undertake any of the actions identified in Section 13(C) of this Agreement) without Franchisor's prior written consent. Any sale, transfer, assignment or encumbrance made without Franchisor's prior written consent shall be voidable at Franchisor's option and shall subject this Agreement to termination as specified herein.

B. **Death or Disability.**

1. In the event of Franchisee's death, disability or incapacitation (or the death, disability or incapacitation of Franchisee's principals/owners/guarantors), Franchisee's legal representative, or Franchisee's partner's or guarantor's respective legal representative, as applicable, will have the right to continue the operation of the Franchised Business as "Franchisee" under this Agreement if: (i) within ninety (90) days from the date of death, disability or incapacity (the "90 Day Period"), such person has obtained Franchisor's prior written approval and has executed Franchisor's then-current franchise agreement for the unexpired term of the franchise, or has furnished a personal guaranty of any partnership, corporate or limited liability company Franchisee's obligations to Franchisor and Franchisor's affiliates; and (ii) such person successfully completes Franchisor's training program (which Franchisor will provide at Franchisor's then-current tuition rate). Such assignment by operation of law will not be deemed in violation of this Agreement, provided such heirs or legatees accept the conditions imposed by the Franchise Agreement and are acceptable to Franchisor.

2. Franchisor is under no obligation to operate the Franchised Business, or incur any obligation on behalf of any incapacitated franchisee, during or after the 90 Day Period. If necessary, Franchisee (or Franchisee's legal representative, as applicable) shall appoint a previously approved acting interim manager to operate the Franchised Business during the 90 Day Period. In the event of Franchisee's death, disability, absence or otherwise, Franchisor

may (but is not required to) operate the Franchised Business on Franchisee's behalf and at Franchisee's expense for such period of time (and under such terms and conditions) as Franchisor determines, including paying out the assets and/or revenues of the Franchised Business to cover any or all past, current and/or future obligations of the Franchised Business (including any amounts owed to Franchisor and/or any affiliate) in such priorities as Franchisor determines in Franchisor's sole discretion. Franchisor may pay itself a reasonable amount to reimburse Franchisor for Franchisor's management services and other costs at its then-current management fee rate set forth in the Manuals or otherwise in writing (the "Management Fee"). Franchisor may obtain approval of a court or arbitrator for any such arrangements, the attorney's fees and other costs incurred in connection with obtaining such approval to be charged against the assets and/or revenues of the Franchised Business. Franchisee (and/or Franchisee's estate) will indemnify Franchisor against any costs and/or liabilities incurred by it in connection with, or related in any way to, the operation (or otherwise) of the Franchised Business.

C. **Ownership.** In addition to those acts described in Section 13(A), a transfer or assignment requiring Franchisor's prior written consent shall be deemed to occur: (i) if Franchisee is a corporation, upon any assignment, sale, pledge or transfer of any fractional portion of Franchisee's voting stock or any increase in the number of outstanding shares of Franchisee's voting stock which results in a change of ownership, (ii) if Franchisee is a partnership, upon the assignment, sale, pledge or transfer of any fractional partnership ownership interest; or (iii) if Franchisee is a limited liability company, upon the assignment, sale, pledge or transfer or any interest in the limited liability company. Any new partner, shareholder, or member or manager owning having an ownership interest in the surviving entity after the proposed transfer will be required to personally guarantee Franchisee's obligations under this Agreement. A transfer pursuant to (i) and (iii) above shall not be subject to Franchisor's right of first refusal as set forth in Section 13(D).

D. **Right of First Refusal.** If Franchisee proposes to transfer either this Agreement or all, or substantially all, of the assets used in connection with the Franchised Business or any interest in Franchisee's lease to any third party (other than a corporation or limited liability company as set forth in Section 13(C) hereof or in the event of Franchisee's death/disability as set forth in Section 13(B)), Franchisee shall first offer to sell such interest to Franchisor on the same terms and conditions as offered by such third party. Franchisee shall obtain from the third party and provide Franchisor a statement in writing, signed by the third party and Franchisee, of the terms of the offer ("Letter of Intent"). If Franchisor elects not to accept the offer within a thirty (30) day period, Franchisee shall have a period not to exceed sixty (60) days to complete the transfer described in the Letter of Intent subject to the conditions for approval set forth in Section 13(E) of this Agreement. Franchisee shall effect no other sale or transfer as contemplated under the Letter of Intent without first complying with this Section. Any material change in the terms of the offer will be deemed a new proposal subject to Franchisor's right of first refusal. So long as Franchisee has obtained Franchisor's prior written consent, which shall not be unreasonably withheld, a transfer to an existing partner or shareholder, or a transfer as a result of the death, disability or incapacitation of a shareholder or partner, in accordance with the provisions set forth below, is not subject to Franchisor's first right of refusal.

E. **Conditions for Approval.** Franchisor may condition Franchisor's approval of any proposed sale or transfer of the Franchised Business or of Franchisee's interest in this Agreement or any other acts of transfer described in Section 13(C) upon satisfaction of the following occurrences:

1. All of Franchisee's accrued monetary obligations to Franchisor, Franchisor's affiliates, and Franchisor's designated/approved suppliers and vendors, are satisfied;
2. Franchisee must cure all existing defaults under this Agreement, or any other agreement between Franchisee and Franchisor, Franchisor's affiliates, Franchisor's designated/approved suppliers and vendors, within the period permitted for cure and have substantially complied with such agreements during their respective terms;
3. Franchisee and Franchisee's principals (if Franchisee is a partnership, corporation or limited liability company), and the transferee (if it has had any previous relationship with Franchisor or Franchisor's affiliates), must execute a general release under seal, in a form satisfactory to Franchisor, of any and all claims against Franchisor and Franchisor's affiliates and officers, directors, shareholders and employees, in their corporate and individual capacities;
4. Franchisee or transferee shall provide Franchisor a copy of the executed purchase agreement relating to the proposed transfer with all supporting documents and schedules, including transferee's assumption of an agreement to faithfully perform all of Franchisee's obligations under this Agreement;

5. The transferee shall demonstrate to Franchisor's satisfaction that he or she meets Franchisor's educational, managerial and business standards; possesses a good moral character, business reputation and credit rating; has the aptitude and ability to conduct the business to be transferred; and has adequate financial resources and capital to meet the performance obligations under this Agreement; however, transferee shall not be in the same business as Franchisor either as licensor, franchisor, independent operator or licensee of any other business or chain which is similar in nature or in competition with Franchisor, except that the transferee may be an existing franchisee of ours;
6. The transferee shall execute Franchisor's then-current franchise agreement (which may contain materially different terms than this Agreement) for the remaining balance of Franchisee's term under this Agreement, with transferee's term commencing on the date the transferee executes the then-current franchise agreement;
7. Franchisee or transferee shall pay Franchisor a transfer fee equal to \$10,000 (the "Transfer Fee"), as well as any third-party broker fees that are due in connection with any broker that Franchisee or the contemplated transferee involves in the transaction;
8. The transferee shall satisfactorily complete Franchisor's Initial Training Program at the transferee's expense within the time frame Franchisor reasonably requires, with the understanding that transferee will not be permitted to open or operate the Franchised Business unless and until there are appropriate management and/or Instructor personnel present and on-site at the Franchised Business to provide the Approved Services in accordance with the terms of this Agreement;
9. Franchisee (and Franchisee's principals/guarantors if Franchisee is a partnership, corporation or limited liability company) must comply with the post-termination provisions of this Agreement;
10. The transferee must demonstrate that is has obtained or maintained, within the time limits set by Franchisor, all permits and licenses required for the continued operation of the Franchised Business;
11. To the extent required by the terms of any leases or other agreements, the lessors or other parties must have consented to the proposed transfer; and
12. The transfer must be made in compliance with any laws that apply to the transfer, including state and federal laws governing the offer and sale of franchises.

Franchisor will not unreasonably withhold its consent to a proposed transfer or assignment requested by Franchisee, provided the foregoing conditions are met. Franchisor's approval of a transfer shall not operate as a release of any liability of the transferring party nor shall such approval constitute a waiver of any claims Franchisor may have against the transferring party. Furthermore, Franchisor agrees that Franchisee will not be required to pay any transfer fee in the event: (i) Franchisee wishes to transfer its rights under the Franchise Agreement to a newly-established legal business entity that is wholly owned by Franchisee and established solely for purposes of operating the Franchised Business under the Franchise Agreement; or (ii) Franchisee is required to encumber certain assets of the Franchised Business (or subordinate Franchisor's security interest thereto) in order to receive SBA or other traditional bank financing, provided Franchisor otherwise approves of the transfer.

F. **Transfer from an Individual Franchisee to Business Entity.** If Franchisee is an individual and desires to assign its rights under this Agreement to a corporation or limited liability company, and if all of the following conditions are met, Franchisor will consent to the transfer without assessing the transfer fee or training tuition fees set forth in Section 13(E)(7)-(8), and such assignment will not be subject to Franchisor's right of first refusal in Section 13(D): (i) the corporation or limited liability company is newly organized and its activities are confined to operating the Franchised Business; (ii) Franchisee is, and at all times remains, the owner of 51% or more of the outstanding shares of the corporation or a controlling interest in the limited liability company; (iii) the corporation or limited liability company agrees in writing to assume all of Franchisee's obligations hereunder; and (iv) all stockholders of the corporation, or members and managers of the limited liability company, as applicable, personally guarantee prompt payment and performance by the corporation or limited liability company of all its obligations to Franchisor and Franchisor's affiliates, under this Agreement and any other agreement between Franchisee and Franchisor and/or Franchisor's affiliates, and execute the Personal Guaranty attached to this Agreement as Exhibit B.

G. **Franchisor's Right to Transfer.** Franchisor has the right to sell, transfer, assign and/or encumber all or any part of Franchisor's assets and Franchisor's interest in, and rights and obligations under, this Agreement in Franchisor's sole discretion.

14. COVENANTS

Franchisee acknowledges that, as a participant in Franchisor's System, Franchisee will receive proprietary and confidential information and materials, trade secrets, and the unique methods, procedures and techniques that Franchisor has developed. As such, Franchisee agrees to the covenants in this Section to protect Franchisor, the System, Proprietary Marks and Franchisor's other franchisees.

A. **During the Term of this Agreement.** During the term of this Agreement, neither Franchisee, its principals, owners, guarantors or Designated Manager(s), nor any immediate family of Franchisee, its principals, owners, guarantors or Designated Manager(s), may, directly or indirectly, for themselves or through, on behalf of, or in conjunction with any other person, partnership or corporation:

1. Own, maintain, engage in, be employed or serve as an officer, director, or principal of, lend money or extend credit to, lease/sublease space to, or have any interest in or involvement with, any other business that (a) generates ten percent (10%) or more of its revenue from the sale of personal and group fitness training, fitness counseling, or nutritional counseling (or any combination thereof) similar to that which is offered by a System Studio location (each, a "Competing Business"), or (b) offers or grants licenses or franchises, or establishes joint ventures, for the ownership or operation of a Competing Business. For purposes of this Agreement, a Competing Business does not include: (i) any business operated by Franchisee under a Franchise Agreement with Franchisor; or (ii) any business operated by a publicly-traded entity in which Franchisee owns less than two percent (2%) legal or beneficial interest;
2. Employ or seek to employ any person who is at that time employed by Franchisor, Franchisor's affiliates or any other System franchisee, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment thereat; or
3. Divert, or attempt to divert, any prospective customer to a Competing Business in any manner.

B. **After the Term of this Agreement.**

1. For a period of two (2) years after the expiration and nonrenewal, transfer or termination of this Agreement, regardless of the cause, neither Franchisee, its principals, owners and guarantors, nor any member of the immediate family of Franchisee, its principals, owners or guarantors, may, directly or indirectly, for themselves or through, on behalf of, or in conjunction with any other person, partnership or corporation, be involved with any business that competes in whole or in part with Franchisor by offering or granting licenses or franchises, or establishing joint ventures, for the ownership or operation of a Competing Business. The geographic scope of the covenant contained in this Section is any location where Franchisor can demonstrate it has offered or sold franchises as of the date this Agreement is terminated or expires.

2. For a period of two (2) years after the expiration and nonrenewal, transfer or termination of this Agreement, regardless of the cause, neither Franchisee, its principals, owners and guarantors, nor any member of the immediate family of Franchisee, its principals, owners or guarantors, may, directly or indirectly, for themselves or through, on behalf of, or in conjunction with any other person, partnership or corporation:

- a. Own, maintain, engage in, be employed as an officer, director, or principal of, lend money to, extend credit to, lease/sublease space to, or have any interest in or involvement with any other Competing Business within a twenty-five (25) mile radius of the: (i) the Premises; or (ii) any other System Studio (whether franchised or company-owned) that is open or under development as of the date this Agreement expires, terminates, or is assigned in any manner; or
- b. Solicit business from customers of Franchisee's former Franchised Business or contact any of Franchisor's suppliers or vendors for any competitive business purpose, nor solicit any of Franchisor's other employees, or the employees of Franchisor's affiliates or any other System franchisee to discontinue employment.

C. **Intent and Enforcement.** It is the parties' intent that the provisions of this Section 14 be judicially enforced to the fullest extent permissible under applicable law. Accordingly, the parties agree that any reduction in scope or modification of any part of the noncompetition provisions contained herein shall not render any other part unenforceable. In the event of the actual or threatened breach of this Section 14 by Franchisee, any of Franchisee's principals, or any member of the immediate family of Franchisee or Franchisee's principals, Franchisor shall be entitled to an injunction restraining such person from any such actual or threatened breach. Franchisee acknowledges that the covenants contained herein are necessary to protect the goodwill of the Franchised Business, other System franchisees, and the System. Franchisee further acknowledges that covenants contained in this Section 14 are necessary to protect Franchisor's procedures and know-how transmitted during the term of this Agreement. Franchisee

agrees that in the event of the actual or threatened breach of this Section 14, Franchisor's harm will be irreparable and that Franchisor has no adequate remedy at law to prevent such harm. Franchisee acknowledges and agrees on Franchisee's own behalf and on behalf of the persons who are liable under this Section 14 that each has previously worked or been gainfully employed in other careers and that the provisions of this Section 14 in no way prevent any such person from earning a living. Franchisee further acknowledges and agrees that the time limitation on the restrictive covenants set forth in Section 14(B) shall be tolled during any default under this Section 14.

D. **Confidentiality and Non-Competition Agreement.** Franchisee must ensure that all management personnel of the Franchised Business, as well as any officers and directors of Franchisee, execute Franchisor's then-current form of Confidentiality and Non-Competition Agreement (which will be in substantially the same form as the document attached to this Agreement as Exhibit E). Franchisee must furnish Franchisor a copy of each executed agreement.

E. **No Defense.** Franchisee hereby agrees that the existence of any claim Franchisee may have against Franchisor, whether or not arising from this Agreement, shall not constitute a defense to Franchisor's enforcement of the covenants contained in this Section 14. Franchisee agrees to pay all costs and expenses (including reasonable attorneys' fees) that Franchisor incurs in connection with the enforcement of this Section 14.

15. **DEFAULT AND TERMINATION**

Franchisor may terminate this Agreement as described in this Section, and Franchisee agrees and acknowledges that the defaults, or failure to cure such defaults within the appropriate time period prescribed below (if any), shall constitute "good cause" and "reasonable cause" for termination under any state franchise laws or regulations that might apply to the operation of the Franchised Business.

A. **Automatic Termination.** This Agreement will automatically terminate without notice or an opportunity to cure upon the occurrence of any of the following:

1. The Franchisee becomes insolvent or makes a general assignment for the benefit of creditors, unless otherwise prohibited by law;
2. A petition in bankruptcy is filed by Franchisee or such a petition is filed against and consented to by Franchisee and not dismissed within thirty (30) days;
3. A bill in equity or other proceeding for the appointment of a receiver of Franchisee or other custodian in connection with the Franchisee or Franchised Business (or assets of the Franchised Business) is filed and consented to by Franchisee;
4. A receiver or other custodian (permanent or temporary) of Franchisee's assets or property, or any part thereof, is appointed;
5. A final judgment in excess of Ten Thousand Dollars (\$10,000.00) against Franchisee remains unsatisfied or of record for sixty (60) days or longer (unless a bond is filed or other steps are taken to effectively stay enforcement of such judgment in the relevant jurisdiction), except that Franchisor may provide Franchisee with additional time to satisfy the judgment if Franchisee demonstrates that it is using commercially reasonable efforts to resolve the issues related to the judgment; or
6. Franchisee attempts to sell, transfer, encumber or otherwise dispose of any interest in Franchisee, this Agreement or the Franchised Business in violation of Section 13 hereof.

B. **Termination upon Notice.** Franchisor has the right to terminate this Agreement upon written notice to Franchisee without providing Franchisee any opportunity to cure with respect to any of the following breaches or defaults:

1. If Franchisee or Franchisee's owners/principals commit any fraud or misrepresentation in the establishment or operation of the Franchised Business, including without limitation, any misrepresentation made in Franchisee's franchise application;
2. If Franchisee and any other required attendees fail to attend and complete the Initial Training Program within the time period prescribed in this Agreement;
3. If Franchisee receives from Franchisor three (3) or more notices to cure the same or similar defaults or violations set forth in Section 15(C) of this Agreement during any twelve (12) month period, whether or not these breaches were timely cured;

4. If Franchisee or Franchisee's owners/principals violate any of the in-term covenant not to compete or any of the other restrictive covenants set forth in Section 14 of this Agreement;
5. If Franchisee misuses the Proprietary Marks or Confidential Information in any manner, or otherwise violates any provision of this Agreement related to the use of the Proprietary Marks, Confidential Information and any other confidential materials provided by Franchisor (including those provisions related to non-disclosure of the Manuals and other confidential materials that Franchisor loans to Franchisee);
6. If Franchisee misuses any proprietary software that Franchisor designates for use in connection with the Franchised Business;
7. If Franchisee or any of Franchisee's principals default on any other agreement with Franchisor or any affiliate or Approved Supplier of Franchisor, and such default is not cured within the prescribed time period set forth in that other agreement;
8. If Franchisee defaults under the lease for the Premises and does not cure within the prescribed period of time thereunder, or if Franchisee otherwise loses its right to possess and control the Premises to operate the Franchised Business at any time during the term of this Agreement (except in cases of *force majeure* and cases where Franchisor has previously approved Franchisee's relocation request and Franchisee timely relocates);
9. If Franchisee fails to open and commence operations of the Franchised Business within the time period prescribed in Section 6 of this Agreement;
10. If Franchisee fails to cure any of the following violations under this Agreement within ten (10) days of being notified by Franchisor: (i) failure to offer only those Approved Products and Approved Services that Franchisor authorizes at the Franchised Business; (ii) any purchase of any non-approved item or service for use in connection with the Franchised Business; (iii) failure to purchase any Required Item that Franchisor designates as necessary for the establishment or operation of the Franchised Business from the appropriate Approved Supplier(s) that Franchisor designates;
11. If Franchisee voluntarily or otherwise abandons the Franchised Business. For purposes of this Agreement, the term "abandon" means: (i) failure to actively operate the Franchised Business for more than two (2) business days without Franchisor's prior written consent; or (ii) any other conduct on the part of Franchisee or its principals that Franchisor determines indicates a desire or intent to discontinue operating the Franchised Business in accordance with this Agreement or the Manuals;
12. If Franchisee fails to provide Franchisor with access, or otherwise blocks Franchisor's access, to Franchisee's POS system, Computer System or registers located at the Franchised Business as required under this Agreement, and fails to remedy this default within twenty four (24) hours of being notified by Franchisor;
13. If Franchisee fails to pay Franchisor, its affiliates or any of its Approved Suppliers any amount that is due and owing Franchisor within ten (10) days of the date that Franchisor (or other party owed the money) notifies Franchisee of the outstanding amount that is due and owed;
14. If Franchisee fails, for a period of fifteen (15) days after notification of non-compliance by appropriate authority, to comply with any law or regulation applicable to the operation of the Franchised Business;
15. If Franchisee fails, for a period of ten (10) days after notification of non-compliance, to obtain any other licenses, certificates, permits or approvals necessary to operate the Franchised Business at the Premises;
16. If Franchisee, any person controlling, controlled by, or under common control with the Franchisee, any principal officer or employee of Franchisee, or any person owning an interest in Franchisee is convicted of a felony or any other crime or offense (even if not a crime) that is reasonably likely in the sole opinion of Franchisor to adversely affect the System, any System unit, the Proprietary Marks, or the goodwill associated therewith;
17. If Franchisee takes for Franchisee's own personal use any assets or property of the Franchised Business, including inventory, employee taxes, FICA, insurance or benefits;
18. If there are insufficient funds in Franchisee's EFT Account to cover a check or EFT payment due to Franchisor or its affiliates under this Agreement three (3) or more times within any twelve (12) month period; or
19. If Franchisee commits repeated violations of any health, zoning, sanitation, or other regulatory law, standard, or practice; operates the business in a manner that presents a health or safety hazard to its employees or customers; or

if Franchisee loses its approval from any city, state, or other regulatory agency to operate a business that provides fitness services, including personal and group fitness training, fitness counseling and nutritional counseling.

C. **Termination upon Notice and 30 Days' to Cure.** Except for those defaults set forth in Sections 15(A)-(B) of this Agreement, Franchisor may terminate this Agreement upon notice to Franchisee in the event Franchisee: (i) breaches or violates any other covenant, obligation, term, condition, warranty, or certification under this Agreement, including Franchisee's failure to comply with any of Franchisor's other System standards and specifications in the operation of the Franchised Business as set forth in the Manuals; and (ii) fails to cure such breach or violation within thirty (30) days of the date Franchisee is provided with notice thereof by Franchisor.

D. **Step-In Rights.** In addition to Franchisor's right to terminate this Agreement, and not in lieu of such right or any other rights hereunder, if this Agreement is subject to termination due to Franchisee's failure to cure any default within the applicable time period (if any), then Franchisor has the right, but not the obligations, to enter the Premises and exercise complete authority with respect to the operation of the Franchised Business until such time that Franchisor determines, in its reasonable discretion, that the default(s) at issue have been cured and that Franchisee is otherwise in compliance with the terms of this Agreement. In the event Franchisor exercises these "step-in rights," Franchisee must (a) pay Franchisor its then-current Management Fee that may amount to up to twenty percent (20%) of Gross Sales of the Franchised Business during the time period that Franchisor's representatives are managing operations of the same, and (b) reimburse Franchisor for all reasonable costs and overhead that Franchisor incurs in connection with its operation of the Franchised Business, including without limitation, costs of personnel supervising and staffing the Franchised Business and any travel, lodging and meal expenses. If Franchisor undertakes to operate the Franchised Business pursuant to this Section, Franchisee must indemnify, defend and hold Franchisor (and its representatives and employees) harmless from and against any Claims that may arise out of Franchisor's operation of the Franchised Business.

16. POST-TERM OBLIGATIONS

Upon the expiration or termination of this Agreement, Franchisee shall immediately:

A. **Cease Ownership and Operation of Studio; Cease Affiliation with Franchisor and Brand Generally.** Cease to be a franchise owner of Franchised Business under this Agreement and cease to operate the former Franchised Business under the System. Franchisee shall not thereafter directly or indirectly represent to the public that the former Franchised Business is or was operated or in any way connected with the System or hold itself out as a present or former franchise owner of a System Studio or franchisee (unless Franchisor agrees otherwise in writing);

B. **Return Manuals and Confidential Information.** Return to Franchisor the Manuals and all trade secrets, Confidential Information (including customer lists and information) and other confidential materials, equipment, software and property owned by Franchisor and all copies thereof. Franchisee shall retain no copy or record of any of the foregoing; provided, however, that Franchisee may retain its copy of this Agreement, any correspondence between the parties, and any other document which Franchisee reasonably needs for compliance with any applicable provision of law;

C. **Assignment of Customer Contracts, Telephone/Facsimile Numbers and Domain Names.** Take such action as may that Franchisor designates to: (i) provide and assign to Franchisor the then-current and up-to-date customer list to Franchisor; and (ii) transfer, disconnect, forward, or assign all telephone/facsimile numbers and domain names used in connection with the Franchised Business, as well as any white and yellow page telephone references, advertisements, and all trade and similar name registrations and business licenses to Franchisor or its designee and cancel any interest which Franchisee may have in the same (as Franchisor directs in its sole discretion). Franchisee agrees to execute all documents necessary to comply with the obligations of this Section, including the form Conditional Assignment of Telephone/Facsimile Numbers and Domain Names attached to this Agreement as Exhibit F.

D. **Cease Using Proprietary Marks.** Cease to use in advertising or in any manner whatsoever any methods, procedures, or techniques associated with the System in which Franchisor has a proprietary right, title, or interest; cease to use the Proprietary Marks and any other marks and indicia of operation associated with the System; and remove all trade dress, physical characteristics, color combinations, and other indications of operation under the System from the Premises. Without limiting the generality of the foregoing, Franchisee agrees that, in the event of any termination or expiration and non-renewal of this Agreement, it will remove all signage bearing the Proprietary Marks, deliver the fascia for such signs to Franchisor upon Franchisor's request, and remove any items that are characteristic of the System "trade dress" from the Premises. Franchisee agrees that Franchisor or a designated agent

may enter upon the Premises at any time to make such changes at Franchisee's sole risk and expense and without liability for trespass.

1. Upon Franchisor's request, Franchisee must provide all materials bearing the Proprietary Marks to Franchisor upon expiration or termination of this Agreement for any reason, without cost to Franchisor; and

2. Franchisee must cease holding itself out as a present franchisee of Franchisor or the Franchisor's franchise system.

E. **Compliance with Post-Term Covenants.** Comply with the post-term covenants not to compete and other restrictive covenants set forth in Section 14 of this Agreement;

F. **Payment of Amounts Due.** Pay Franchisor, as well as each of Franchisor's Approved Suppliers, any and all amounts owed under this Agreement or otherwise in connection with the former Franchised Business within 10 days of the termination or expiration date.

G. **Written Evidence of Compliance.** Provide Franchisor with written evidence that they have complied with the post-term obligations, within thirty (30) days' notice of termination or scheduled expiration of the franchise; and

H. **Purchase of Assets.** Franchisor shall have the option, but not the obligation, within thirty (30) days after the date of termination, expiration, and non-renewal of this Agreement to purchase any and all of Franchisee's assets from the Franchised Business at a purchase price equal to net depreciated book value. If Franchisor elects this option, Franchisor will deliver written notice to Franchisee. Franchisor will have the right to inspect equipment at any time during this thirty (30) day period. If Franchisor elects to purchase equipment as part of the asset purchase, Franchisor will be entitled to, and Franchisee must provide, all customary warranties and representations as to compliance with law, the maintenance, function, and condition of the equipment and Franchisee's good title to the equipment (including, but not limited to, that Franchisee owns the equipment free and clear of any liens and encumbrances).

17. TAXES AND INDEBTEDNESS

A. **Taxes.** Franchisee must promptly pay when due any and all federal, state, and local taxes, including without limitation, unemployment, workers' compensation, and sales taxes which are levied or assessed with respect to any services or products furnished, used, or licensed pursuant to this Agreement and all accounts or other indebtedness of every kind incurred by Franchisee in the operation of the Franchised Business.

B. **Debts and Obligations.** Franchisee hereby expressly covenants and agrees to accept full and sole responsibility for any and all debts and obligations incurred in the operation of the Franchised Business.

18. WRITTEN APPROVALS; WAIVERS; FORMS OF AGREEMENT; AMENDMENT

A. **Franchisor's Approval.** Whenever this Agreement requires or Franchisee desires to obtain Franchisor's approval, Franchisee shall make a timely written request. Unless a different period is specified in this Agreement, Franchisor shall respond with its approval or disapproval within fifteen (15) days of receipt of such request. If Franchisor has not specifically approved a request within such fifteen (15) day period, such failure to respond shall be deemed as a disapproval of any such request.

B. **No Waiver.** No failure of Franchisor to exercise any power reserved to it by this Agreement and no custom or practice of the parties at variance with the terms hereof shall constitute a waiver of Franchisor's right to demand exact compliance with any of the terms herein. No waiver or approval by Franchisor of any particular breach or default by Franchisee; no delay, forbearance, or omission by Franchisor to act or give notice of default or to exercise any power or right arising by reason of such default hereunder; and no acceptance by Franchisor of any payments due hereunder shall be considered a waiver or approval by Franchisor of any preceding or subsequent breach or default by Franchisee of any term, covenant, or condition of this Agreement.

C. **Terms of Other Franchise Agreements.** No warranty or representation is made by the Franchisor that all System franchise agreements heretofore or hereafter issued by Franchisor do or will contain terms substantially similar to those contained in this Agreement. Further, Franchisee recognizes and agrees that Franchisor may, in its reasonable business judgment due to local business conditions or otherwise, waive or modify comparable provisions of other franchise agreements heretofore or hereafter granted to other System franchise owners in a non-uniform manner.

D. **Modification of System and Manuals.** Except as provided in Section 22 and Franchisor's right to unilaterally modify the System and Manuals, no amendment, change, or variance from this Agreement shall be binding upon either Franchisor or Franchisee unless set forth in writing and signed by both parties.

E. **No Disclaimers of Franchise Disclosure Document.** Nothing in this Agreement or in any related agreement is intended to disclaim the representations we made in the franchise disclosure document.

19. **ENFORCEMENT**

A. **No Withholding of Payments.** Franchisee agrees and acknowledges that it may not withhold payments or amounts of any kind due to Franchisor on the premise of alleged nonperformance by Franchisor of any of its obligations hereunder.

B. **Costs and Attorneys' Fees.** If Franchisee is in breach or default of any monetary or non-monetary obligation under this Agreement or any related agreement between Franchisee and Franchisor and/or Franchisor's affiliates, and Franchisor engages an attorney to enforce Franchisor's rights (whether or not formal judicial proceedings are initiated), Franchisee must reimburse Franchisor for all costs/expenses incurred in connection with enforcing its rights under this Agreement including all reasonable attorneys' fees, court costs and litigation expenses. If Franchisee institutes any legal action to interpret or enforce the terms of this Agreement, and Franchisee's claim in such action is denied or the action is dismissed, Franchisor is entitled to recover Franchisor's reasonable attorneys' fees, and all other reasonable costs and expenses incurred in defending against same, and to have such an amount awarded as part of the judgment in the proceeding.

20. **NOTICES**

Any notice required to be given hereunder shall be in writing and shall be either mailed by certified mail, return receipt requested, or delivered by a recognized courier service, receipt acknowledged. Notices must be provided to each party at the addresses set forth on the Data Sheet. Any notice complying with the provisions hereof will be deemed delivered at the earlier of: (i) three (3) days after mailing; or (ii) the actual date of delivery or receipt (as evidenced by the courier). Each party shall have the right to designate any other address for such notices by providing the other party(ies) with written notice thereof at the addresses above, and in such event, all notices to be mailed after receipt of such notice shall be sent to such other address.

21. **GOVERNING LAW AND DISPUTE RESOLUTION**

A. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Iowa, without reference to this state's conflict of laws principles.

B. **Internal Dispute Resolution.** Franchisee must first bring any claim or dispute between Franchisee and Franchisor to Franchisor's management, after providing notice as set forth in Section 21(G) of this Agreement, and make every effort to resolve the dispute internally. Franchisee must exhaust this internal dispute resolution procedure before Franchisee may bring Franchisee's dispute before a third party. This agreement to first attempt resolution of disputes internally shall survive termination or expiration of this Agreement.

C. **Mediation.** At Franchisor's option, all claims or disputes between Franchisee and Franchisor (or its affiliates) arising out of, or in any way relating to, this Agreement or any other agreement by and between Franchisee and Franchisor (or its affiliates), or any of the parties' respective rights and obligations arising from such agreement, which are not first resolved through the internal dispute resolution procedure set forth in Section 21(B) above, will be submitted first to mediation to take place at Franchisor's then-current corporate headquarters under the auspices of the American Arbitration Association ("AAA"), in accordance with AAA's Commercial Mediation Rules then in effect. Before commencing any legal action against Franchisor or its affiliates with respect to any such claim or dispute, Franchisee must submit a notice to Franchisor, which specifies, in detail, the precise nature and grounds of such claim or dispute. Franchisor will have a period of thirty (30) days following receipt of such notice within which to notify Franchisee as to whether Franchisor or its affiliates elects to exercise its option to submit such claim or dispute to mediation. Franchisee may not commence any action against Franchisor or its affiliates with respect to any such claim or dispute in any court unless Franchisor fails to exercise its option to submit such claim or dispute to mediation, or such mediation proceedings have been terminated either: (i) as the result of a written declaration of the mediator(s) that further mediation efforts are not worthwhile; or (ii) as a result of a written declaration by Franchisor. Franchisor's rights to mediation, as set forth herein, may be specifically enforced by Franchisor. Each party will bear its own cost of mediation and Franchisor and Franchisee will share mediator fees equally. This agreement to mediate will survive any termination or expiration of this Agreement. The parties will not be required to first attempt to mediate a controversy, dispute, or claim through mediation as set forth in this Section 21(C) if such controversy, dispute, or claim concerns an allegation that a party has violated (or threatens to violate, or poses an imminent risk of violating): (i) any federally protected intellectual property rights in the Proprietary Marks, the System, or in any Confidential

Information or other confidential information; (ii) any of the restrictive covenants contained in this Agreement; and (iii) any of Franchisee's payment obligations under this Agreement.

D. **Injunctive Relief.** Franchisee acknowledges and agrees that irreparable harm could be caused to Franchisor by Franchisee's violation of certain provisions of this Agreement and, as such, in addition to any other relief available at law or equity, Franchisor shall be entitled to obtain in any court of competent jurisdiction, without bond, restraining orders or temporary or permanent injunctions in order to enforce, among other items, the provisions of this Agreement relating to: (i) Franchisee's use of the Proprietary Marks and Confidential Information (including any proprietary software used in connection with the Franchised Business); (ii) the in-term covenant not to compete, as well as any other violations of the restrictive covenants set forth in this Agreement; (iii) Franchisee's obligations on termination or expiration of this Agreement; (iv) disputes and controversies based on or arising under the Lanham Act, or otherwise involving the Proprietary Marks, as now or hereafter amended; (v) disputes and controversies involving enforcement of the Franchisor's rights with respect to confidentiality under this Agreement; and (vi) to prohibit any act or omission by Franchisee or its employees that constitutes a violation of applicable law, threatens Franchisor's franchise system or threatens other franchisees of Franchisor. Franchisee's only remedy if such an injunction is entered will be the dissolution of the injunction, if appropriate, and Franchisee waives all damage claims if the injunction is wrongfully issued.

E. **Venue.** Subject to Sections 21(C) and 21(D) of this Agreement, the parties agree that any actions arising out of or related to this Agreement must be initiated and litigated to conclusion exclusively in the state court of general jurisdiction or, if appropriate, the federal district court that is closest to (or encompassing) Franchisor's then-current corporate headquarters. Franchisee acknowledges that this Agreement has been entered into in the State of Iowa, and that Franchisee is to receive valuable and continuing services emanating from Franchisor's headquarters in Iowa, including but not limited to training, assistance, support and the development of the System. In recognition of such services and their origin, Franchisee hereby irrevocably consents to the personal jurisdiction of the state and federal courts of Iowa as set forth in this Section.

F. **Third Party Beneficiaries.** Franchisor's officers, directors, shareholders, agents and/or employees are express third party beneficiaries of the provisions of this Agreement, including the dispute resolution provisions set forth in this Section 21, each having authority to specifically enforce the right to mediate/arbitrate claims asserted against such person(s) by Franchisee.

G. **Notice Requirement.** As a condition precedent to commencing an action for damages or for violation or breach of this Agreement, Franchisee must notify Franchisor within thirty (30) days after the occurrence of the violation or breach, and failure to timely give such notice shall preclude any claim for damages.

H. **No Withholding of Payments.** Franchisee shall not withhold all or any part of any payment to Franchisor or any of its affiliates on the grounds of Franchisor's alleged nonperformance or as an offset against any amount Franchisor or any of Franchisor's affiliates allegedly may owe Franchisee under this Agreement or any related agreements.

I. **Limitation of Actions.** Franchisee further agrees that no cause of action arising out of or under this Agreement may be maintained by Franchisee against Franchisor unless brought before the expiration of one (1) year after the act, transaction or occurrence upon which such action is based or the expiration of one year after the Franchisee becomes aware of facts or circumstances reasonably indicating that Franchisee may have a claim against Franchisor hereunder, whichever occurs sooner, and that any action not brought within this period shall be barred as a claim, counterclaim, defense, or set-off. Franchisee hereby waives the right to obtain any remedy based on alleged fraud, misrepresentation, or deceit by Franchisor, including, without limitation, rescission of this Agreement, in any mediation, judicial, or other adjudicatory proceeding arising hereunder, except upon a ground expressly provided in this Agreement, or pursuant to any right expressly granted by any applicable statute expressly regulating the sale of franchises, or any regulation or rules promulgated thereunder.

J. **Waiver of Punitive Damages.** Franchisee hereby waives to the fullest extent permitted by law, any right to or claim for any punitive, exemplary, incidental, indirect, special or consequential damages (including, without limitation, lost profits) against Franchisor arising out of any cause whatsoever (whether such cause be based in contract, negligence, strict liability, other tort or otherwise) and agrees that in the event of a dispute, that Franchisee's recovery is limited to actual damages. If any other term of this Agreement is found or determined to be unconscionable or unenforceable for any reason, the foregoing provisions shall continue in full force and effect, including, without limitation, the waiver of any right to claim any consequential damages. Nothing in this Section or any other provision

of this Agreement shall be construed to prevent Franchisor from claiming and obtaining expectation or consequential damages, including lost future royalties for the balance of the term of this Agreement if it is terminated due to Franchisee's default, which the parties agree and acknowledge Franchisor may claim under this Agreement.

K. **WAIVER OF JURY TRIAL.** THE PARTIES HEREBY AGREE TO WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, WHETHER AT LAW OR EQUITY, REGARDLESS OF WHICH PARTY BRINGS SUIT. THIS WAIVER SHALL APPLY TO ANY MATTER WHATSOEVER BETWEEN THE PARTIES HERETO WHICH ARISES OUT OF OR IS RELATED IN ANY WAY TO THIS AGREEMENT, THE PERFORMANCE OF EITHER PARTY, AND/OR FRANCHISEE'S PURCHASE FROM FRANCHISOR OF THE FRANCHISE AND/OR ANY GOODS OR SERVICES.

L. **WAIVER OF CLASS ACTIONS.** THE PARTIES AGREE THAT ALL PROCEEDINGS ARISING OUT OF OR RELATED TO THIS AGREEMENT, OR THE SALE OF THE FRANCHISED BUSINESS, WILL BE CONDUCTED ON AN INDIVIDUAL, NOT A CLASS-WIDE BASIS, AND THAT ANY PROCEEDING BETWEEN FRANCHISEE, FRANCHISEE'S GUARANTORS AND FRANCHISOR OR ITS AFFILIATES/OFFICERS/EMPLOYEES MAY NOT BE CONSOLIDATED WITH ANY OTHER PROCEEDING BETWEEN FRANCHISOR AND ANY OTHER THIRD PARTY.

22. SEVERABILITY AND CONSTRUCTION

A. Should any provision of this Agreement for any reason be held invalid, illegal, or unenforceable by a court of competent jurisdiction, such provision shall be deemed restricted in application to the extent required to render it valid, and the remainder of this Agreement shall in no way be affected and shall remain valid and enforceable for all purposes, both parties hereto declaring that they would have executed this Agreement without inclusion of such provision. In the event such total or partial invalidity or unenforceability of any provision of this Agreement exists only with respect to the laws of a particular jurisdiction, this paragraph shall operate upon such provision only to the extent that the laws of such jurisdiction are applicable to such provision. Each party agrees to execute and deliver to the other any further documents which may be reasonably required to make fully the provisions hereof. Franchisee understands and acknowledges that Franchisor shall have the right in its sole discretion on a temporary or permanent basis, to reduce the scope of any covenant or provision of this Agreement binding upon Franchisee without Franchisee's consent, effective immediately upon receipt by Franchisee of written notice thereof, and Franchisee agrees that it will comply forthwith with any covenant as so modified, which shall be fully enforceable.

B. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but such counterparts together shall constitute the same instrument.

C. The table of contents, headings, and captions contained herein are for the purposes of convenience and reference only and are not to be construed as a part of this Agreement. All terms and words used herein shall be construed to include the number and gender as the context of this Agreement may require. The parties agree that each Section of this Agreement shall be construed independently of any other Section or provision of this Agreement.

23. ACKNOWLEDGMENTS

A. Franchisee acknowledges that it received a complete copy of this Agreement for a period not less than fourteen (14) calendar days, during which time conducted an independent investigation of the business licensed hereunder to the extent of Franchisee's desire to do so. Franchisee recognizes and acknowledges that the business venture contemplated by this Agreement involves business risks, and that its success will be largely dependent upon the ability of the Franchisee as an independent businessperson. Franchisor expressly disclaims the making of, and Franchisee acknowledges that it has not received, any warranty or guarantee, express or implied, that Franchisee will be successful in this venture or that the business will attain any level of sales volume, profits, or success. Franchisee acknowledges that this Agreement, the franchise disclosure document ("FDD"), and the exhibits hereto constitutes the entire Agreement of the parties. This Agreement terminates and supersedes any prior agreement between the parties concerning the same subject matter.

B. Franchisee agrees and acknowledges that fulfillment of any and all of Franchisor's obligations written in this Agreement or based on any oral communications which may be ruled to be binding in a court of law shall be Franchisor's sole responsibility and none of Franchisor's agents, representatives, nor any individuals associated with Franchisor's franchise company shall be personally liable to Franchisee for any reason. This is an important part of this Agreement. Franchisee agrees that nothing that Franchisee believes Franchisee has been told by Franchisor or

Franchisor's representatives shall be binding unless it is written in this Agreement. This is an important part of this Agreement. Do not sign this Agreement if there is any question concerning its contents or any representations made.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement under seal on the date first written above.

FRANCHISOR:

FRANCHISEE:

FARRELL'S EXTREME BODYSHAPING INC.

By: _____
Lance Farrell, Chief Executive Officer

By: _____
Name: _____
Title: _____

If Franchisee an individual, Franchisee's Spouse

Print Name: _____
Date: _____

EXHIBIT A TO THE FRANCHISE AGREEMENT
DATA SHEET AND STATEMENT OF OWNERSHIP

1. SITE SELECTION AREA

Pursuant to Section 2(B) of the Franchise Agreement, Franchisee must locate and secure a Premises for the Franchised Business within the following Site Selection Area:

2. PREMISES

Pursuant to Section 2(C) of the Franchise Agreement, the Franchised Business shall be located at the following approved Premises:

3. DESIGNATED TERRITORY

Pursuant to Section 2(D) of the Franchise Agreement, Franchisee's Designated Territory will be defined as follows (if identified on a map, please attach map and reference attachment below):

4. Franchisee Contact Person. The following individual is a shareholder, member, or partner of Franchisee and is the principal person to be contacted on all matters relating to the Franchised Business:

Name: _____

Daytime
Telephone No.: _____

Evening
Telephone No.: _____

Cellular
Telephone No.: _____

Facsimile No.: _____

E-mail Address: _____

5. Statement of Ownership. If Franchisee is a corporation, limited liability company, partnership or other business entity, the undersigned agree and acknowledge that the following is a complete list of all of the shareholders, members, or partners of Franchisee and the percentage interest of each individual:

<u>Name</u>	<u>Position/Title</u>	<u>Interest (%)</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

6. Franchisor Address for Notices: Farrell's xTreme Bodyshaping, Inc.
 8510 New York Avenue
 Urbandale, Iowa 50322
 (515) 770-7295

7. Franchisee Address for Notices: _____

THE PARTIES SIGNING THIS DATA SHEET BELOW AGREE AND ACKNOWLEDGE THAT THIS DATA SHEET, BY ITSELF, DOES NOT CONSTITUTE A FRANCHISE AGREEMENT OR OTHERWISE CONFER ANY FRANCHISE RIGHTS UPON FRANCHISEE. THIS DATA SHEET PROVIDES CERTAIN DEAL-SPECIFIC INFORMATION IN CONNECTION WITH THE FRANCHISE THAT IS GOVERNED BY THE FRANCHISE AGREEMENT TO WHICH THIS DATA SHEET IS AN EXHIBIT.

THE PARTIES AGREE AND ACKNOWLEDGE THAT THE FOREGOING FRANCHISE AGREEMENT MUST BE EXECUTED PRIOR TO OR CONTEMPORANEOUS WITH THIS DATA SHEET FOR ANY RIGHTS TO BE CONFERRED.

IN WITNESS WHEREOF, the undersigned has duly executed this Exhibit to the Franchise Agreement on this ____ day of _____, 20 ____.

FRANCHISEE

FRANCHISOR
FARRELL'S EXTREME BODYSHAPING INC.

By: _____
 Name: _____
 Title: _____

By: _____
 Lance Farrell, Chief Executive Officer

EXHIBIT B TO THE FRANCHISE AGREEMENT

PERSONAL GUARANTY

NOTE: IF FRANCHISEE IS A CORPORATION, LIMITED LIABILITY COMPANY OR OTHER BUSINESS ENTITY, THEN EACH INDIVIDUAL/ENTITY WITH AN OWNERSHIP INTEREST IN FRANCHISEE (PRINCIPALS/MEMBERS/SHAREHOLDERS/MANAGERS/ PARTNERS/ETC.) AND THEIR RESPECTIVE SPOUSES MUST EXECUTE THIS FORM OF PERSONAL GUARANTY. IF FRANCHISEE IS AN INDIVIDUAL AND FRANCHISEE’S SPOUSE HAS NOT SIGNED THE FRANCHISE AGREEMENT DIRECTLY, THEN FRANCHISEE’S SPOUSE MUST EXECUTE THIS FORM OF PERSONAL GUARANTY.

ARTICLE I

PERSONAL GUARANTY

The undersigned persons (individually and collectively “you”) hereby represent to Farrell’s eXtreme Bodyshaping, Inc. (the “Franchisor”) that you are all the owners/principals/members/shareholders/managers/partners, as applicable, of the business entity named _____ (the “Franchisee”), as well as their respective spouses, as of the date this Personal Guaranty (the “Personal Guaranty” or “Guaranty”) is executed.

In consideration of the grant by Franchisor to the Franchisee as herein provided, each you hereby agree, in consideration of benefits received and to be received by each of you, jointly and severally, and for yourselves, your heirs, legal representatives and assigns, to be firmly bound by all of the terms, provisions and conditions of the foregoing Farrell’s eXtreme Bodyshaping, Inc. Franchise Agreement, and any other agreement between Franchisee and Franchisor and/or its affiliates, and do hereby unconditionally guarantee the full and timely performance by Franchisee of each and every obligation of Franchisee under the aforesaid Franchise Agreement or other agreement between Franchisor and Franchisee, including, without limitation: (i) any indebtedness of Franchisee arising under or by virtue of the aforesaid Franchise Agreement; (ii) the prohibition of any change in the percentage of Franchisee owned, directly or indirectly, by any person, without first obtaining the written consent of Franchisor prior to said proposed transfer as set forth in the Franchise Agreement; (iii) those obligations related to confidentiality, non-disclosure and indemnification; and (iv) the in-term and post-term covenants against competition, as well as all other restrictive covenants set forth in the Franchise Agreement.

ARTICLE II

CONFIDENTIALITY

During the initial and any renewal terms of the Franchise Agreement and this Guaranty, you will receive information, which Franchisor considers to be Confidential Information, trade secrets and/or confidential information, including without limitation: (i) site-selection criteria; (ii) methods, techniques and trade secrets for use in connection with the proprietary business operating system that Franchisor and its affiliates have developed (the “System”) for the establishment and operation of a Sytem franchised business (hereafter, a “Franchised Business”); (iii) marketing research and promotional, marketing and advertising programs for the Franchised Business; (iv) knowledge of specification for and suppliers of, and methods of ordering, certain products, fixtures, furnishings, equipment and inventory used at the Franchised Business; (v) knowledge of the operating results and financial performance of other System Studio locations; (vi) customer communication and retention programs, along with data used or generated in connection with those programs; (vii) Franchisor’s proprietary Manuals and other instructional manuals, as well as any training materials and information Franchisor has developed for use in connection with the System; (viii) information regarding the development of Franchisor’s proprietary marks (the “Proprietary Marks”); (ix) information generated by, or used or developed in, the Studio’s operation, including customer names, addresses, telephone numbers and related information and any other information contained in the Franchised Business’s computer system; (x) the design, build-out and any construction/remodeling plans for the interior and exterior of the Franchised Business; and (xi) any other proprietary information or confidential information that is provided to Franchisee by Franchisor during the term of the Franchise Agreement (collectively, “Confidential Information”). You shall not, during the term of this Agreement or anytime thereafter, communicate, divulge, or use for the benefit of any other person, partnership, association, corporation, or limited liability company any Confidential Information and trade secrets, including, without limitation: Franchisor’s copyrighted materials; price marketing mixes related to the offer and sale or fitness services and other Approved Services and Approved Products (as defined in the Franchise Agreement); standards and specifications for providing the Approved Services and Approved Products and other

merchandise or services offered or authorized for sale by System franchisees; methods and other techniques and know-how concerning the of operation of the Franchised Business, which may be communicated to you or of which you may become apprised by virtue of your role as a guarantor of the Franchisee's obligations under the Franchise Agreement. You also acknowledge and agree that the following also constitutes "Confidential Information" under this Section: (i) former, current and prospective customer information, including customer names and addresses, contracts/agreements (collectively "Customer Lists"), and (ii) sources and pricing matrices of any approved or designated suppliers; and (iii) any and all information, knowledge, know-how, techniques, and other data, which Franchisor designates as confidential.

ARTICLE III

NON-COMPETITION

You acknowledge that as a participant in the Franchisor's System, you will receive proprietary and confidential information and materials, trade secrets, and the unique methods, procedures and techniques which Franchisor has developed. Therefore, to protect Franchisor and all Franchisor's franchisees, you agree as follows:

1. **During the Term of the Franchise Agreement and this Guaranty.** During the term of the Franchise Agreement and this Personal Guaranty, each of the undersigned may not, directly or indirectly, for themselves or through, on behalf of, or in conjunction with any other person, partnership or corporation:

1.1. Own, maintain, engage in, be employed or serve as an officer, director, or principal of, lend money, lease space or extend credit to (or otherwise have any interest in or involvement with), any other business that (a) generates ten percent (10%) or more of its revenue from the sale of any personal and group fitness training, fitness counseling, or nutritional counseling (or any combination thereof) similar to that which is offered at a System Studio location (each, a "Competing Business"), or (b) offers or grants licenses or franchises, or establishes joint ventures, for the ownership or operation of a Competing Business; provided, however, that this Section does not apply to your operation of a franchise pursuant to a valid franchise agreement with Franchisor, or your ownership of less than two percent (2%) of the interests in a publicly traded company.

1.2. Employ or seek to employ any person who is at that time employed by Franchisor, Franchisor's affiliates or any other System franchisee, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment thereat; or

1.3. Divert or attempt to divert business or customers of any Franchisee-owned Franchised Businesses to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Proprietary Marks or the System.

2. **After the Term of This Agreement.**

2.1. For a period of two (2) years after the expiration and nonrenewal, transfer or termination of the Franchise Agreement, regardless of the cause, the undersigned may not, directly or indirectly, for themselves or through, on behalf of, or in conjunction with any other person, partnership or corporation enter into any business competing in whole or in part with Franchisor in offering or granting franchises or licenses, or establishing joint ventures, for the ownership or operation of a Competing Business.

2.2. For a period of two (2) years after the expiration, transfer or termination of the Franchise Agreement, regardless of the cause, the undersigned may not, directly or indirectly, for themselves or through, on behalf of, or in conjunction with any other person, partnership or corporation:

2.2.1. Own, maintain, engage in, be employed by, lend money to, have any interest in, or be employed as an officer, director, executive, or principal of any other Competing Business at or within the following areas: (i) at the Premises of the Franchised Business; (ii) within the Designated Territory granted under the Franchise Agreement; or (iii) within a radius 25 miles of (a) the perimeter of the Designated Territory granted under the Franchise Agreement or (b) any other System Studio (whether franchised or company-owned) that is open or under development as of the date the Franchise Agreement expires, terminates, or is assigned in any manner.

2.2.2. Contact any of Franchisor's suppliers or vendors for any competitive business purpose; or

2.2.3. Solicit any of Franchisor's employees, or the employees of Franchisor's affiliates, or any other System franchisee to discontinue employment.

3. **Intent and Enforcement.** It is the parties' intent that the provisions of this Article III be judicially enforced to the fullest extent permissible under applicable law. Accordingly, the parties agree that any reduction in scope or modification of any part of the noncompetition provisions contained herein shall not render any other part unenforceable. In the event of the actual or threatened breach of this Article III by you, any of your principals, or any members of their immediate family, Franchisor shall be entitled to an injunction restraining such person from any such actual or threatened breach. You agree that in the event of the actual or threatened breach of this Article III, Franchisor's harm will be irreparable and that Franchisor has no adequate remedy at law to prevent such harm. You acknowledge and agree that each of you has previously worked or been gainfully employed in other careers and that the provisions of this Article III in no way prevents you from earning a living. You further acknowledge and agree that the time limitation of this Article III shall be tolled during any default under this Guaranty.

ARTICLE IV

DISPUTE RESOLUTION

1. **Acknowledgment.** You acknowledge that this Guaranty is not a franchise agreement and does not confer upon you any rights to use the Franchisor's proprietary marks or its system.

2. **Governing Law.** This Guaranty shall be deemed to have been made in and governed by the laws of the State of Iowa.

3. **Internal Dispute Resolution.** You must first bring any claim or dispute arising out of or relating to the Franchise Agreement or this Personal Guaranty to Franchisor's Chief Executive Officer and/or President. You agree to exhaust this internal dispute resolution procedure before bringing any dispute before a third party. This agreement to engage in internal dispute resolution first shall survive the termination or expiration of this Agreement.

4. **Mediation.** At Franchisor's option, all claims or disputes between you and Franchisor or its affiliates arising out of, or in any way relating to, the Franchise Agreement, this Guaranty or any other agreement by and between the parties or their respective affiliates, or any of the parties' respective rights and obligations arising from such agreements, which are not first resolved through the internal dispute resolution procedure set forth above, must be submitted first to mediation, at Franchisor's then-current headquarters under the auspices of the American Arbitration Association ("AAA"), in accordance with AAA's Commercial Mediation Rules then in effect. Before commencing any legal action against Franchisor or its affiliates with respect to any such claim or dispute, you must submit a notice to Franchisor that specifies, in detail, the precise nature and grounds of such claim or dispute. Franchisor will have a period of thirty (30) days following receipt of such notice within which to notify you as to whether Franchisor or its affiliates elect to exercise our option to submit such claim or dispute to mediation. You may not commence any arbitration proceeding or other action against Franchisor or its affiliates with respect to any such claim or dispute in any court unless Franchisor fails to exercise its option to submit such claim or dispute to mediation, or such mediation proceedings have been terminated either: (i) as the result of a written declaration of the mediator(s) that further mediation efforts are not worthwhile; or (ii) as a result of a written declaration by Franchisor. Franchisor may specifically enforce our mediation rights under this Section. Each party shall bear its own cost of mediation, except that you and Franchisor shall share the mediator's fees and costs equally. This agreement to mediate at Franchisor's option shall survive any termination or expiration of the Franchise Agreement and this Guaranty.

4.1. **Excepted Claims.** The parties agree that mediation shall not be required with respect to any claim or dispute involving: (i) any of your payment obligations that are past due; (ii) the actual or threatened disclosure or misuse of Franchisor's Confidential Information; (iii) the actual or threatened violation of Franchisor's rights in, or misuse of, the Proprietary Marks, System or other trade secrets; (iv) any of the restrictive covenants contained in the Franchise Agreement or this Guaranty; or (v) any claims arising out of or related to fraud or misrepresentation by you, or your insolvency (collectively, the "Excepted Claims").

5. **Jurisdiction and Venue.** Subject to the dispute resolution provisions in this Guaranty, the parties agree that any action at law or in equity instituted against either party to this Agreement must be commenced and litigated to conclusion (unless settled) only in any court of competent jurisdiction located closest to Franchisor's then-current headquarters. The undersigned hereby irrevocably consent to the jurisdiction of these courts.

6. **Third Party Beneficiaries.** Franchisor's officers, directors, shareholders, agents and/or employees are express third-party beneficiaries of this Agreement and the mediation and other dispute resolution provisions contained herein, each having authority to specifically enforce the right to mediate and litigate claims asserted against such person(s) by you.

7. **Right to Injunctive Relief.** Nothing contained in this Guaranty shall prevent Franchisor from applying to or obtaining from any court having jurisdiction a writ of attachment, temporary injunction, preliminary injunction and/or other emergency relief available to safeguard and protect Franchisor's interest prior to the filing of any mediation or arbitration proceeding, or pending the trial or handing down of a decision or award pursuant to any mediation or arbitration proceeding conducted hereunder. If injunctive relief is granted, your only remedy will be the court's dissolution of the injunctive relief. If the injunctive relief was wrongfully issued, you expressly waive all claims for damages you incurred as a result of the wrongful issuance.

8. **JURY TRIAL AND CLASS ACTION WAIVER. THE PARTIES HEREBY AGREE TO WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, WHETHER AT LAW OR EQUITY, REGARDLESS OF WHICH PARTY BRINGS SUIT. THIS WAIVER SHALL APPLY TO ANY MATTER WHATSOEVER BETWEEN THE PARTIES HERETO WHICH ARISES OUT OF OR IS RELATED IN ANY WAY TO THIS AGREEMENT, THE PERFORMANCE OF EITHER PARTY, AND/OR FRANCHISEE'S PURCHASE FROM FRANCHISOR OF THE FRANCHISE AND/OR ANY GOODS OR SERVICES. THE PARTIES AGREE THAT ALL PROCEEDINGS ARISING OUT OF OR RELATED TO THIS AGREEMENT, OR THE SALE OF THE FRANCHISED BUSINESS, WILL BE CONDUCTED ON AN INDIVIDUAL, NOT A CLASS-WIDE BASIS, AND THAT ANY PROCEEDING BETWEEN FRANCHISEE, FRANCHISEE'S GUARANTORS AND FRANCHISOR OR ITS AFFILIATES/OFFICERS/EMPLOYEES MAY NOT BE CONSOLIDATED WITH ANY OTHER PROCEEDING BETWEEN FRANCHISOR AND ANY OTHER THIRD PARTY.**

9. **Limitation of Action.** You further agree that no cause of action arising out of or under this Guaranty may be maintained by you unless brought before the expiration of one year after the act, transaction or occurrence upon which such action is based or the expiration of one year after you become aware of facts or circumstances reasonably indicating that you may have a claim against us, whichever occurs sooner, and that any action not brought within this period shall be barred as a claim, counterclaim, defense or set-off.

10. **Punitive Damages.** You hereby waive to the fullest extent permitted by law, any right to or claim for any punitive, exemplary, incidental, indirect, special or consequential damages (including, without limitation, lost profits) which you may have against us, arising out of any cause whatsoever (whether such cause be based in contract, negligence, strict liability, other tort or otherwise) and agrees that in the event of a dispute, that your recovery shall be limited to actual damages. If any other term of this Guaranty is found or determined to be unconscionable or unenforceable for any reason, the foregoing provisions shall continue in full force and effect, including, without limitation, the waiver of any right to claim any consequential damages.

11. **Costs and Attorneys' Fees.** Whether or not formal legal proceedings are initiated, in the event Franchisor incurs any legal fees or other costs associated with enforcing the terms of this Guaranty or the Franchise Agreement against you, then Franchisor will be entitled to recover from you all costs and

expenses, including reasonable attorneys' fees, incurred in enforcing the terms of this Guaranty or the Franchise Agreement.

12. **Nonwaiver.** Franchisor's failure to insist upon strict compliance with any provision of this Guaranty shall not be a waiver of our right to do so, any law, custom, usage or rule to the contrary notwithstanding. Delay or omission by us respecting any breach or default shall not affect Franchisor's rights respecting any subsequent breaches or defaults. All rights and remedies granted in this Guaranty shall be cumulative. Your election to exercise any remedy available by law or contract shall not be deemed a waiver or preclude exercise of any other remedy.

13. **No Personal Liability.** You agree that fulfillment of any and all of Franchisor's obligations written in the Franchise Agreement or this Guaranty, or based on any oral communications which may be ruled to be binding in a court of law, shall be Franchisor's sole responsibility and none of our owners, officers, agents, representatives, nor any individuals associated with Franchisor shall be personally liable to you for any reason. This is an important part of this Guaranty. You agree that nothing that you believe you have been told by us or our representatives shall be binding unless it is written in the Franchise Agreement or this Guaranty. Do not sign this Agreement if there is any question concerning its contents or any representations made.

14. **Severability.** The parties agree that if any provisions of this Guaranty may be construed in two ways, one of which would render the provision illegal or otherwise voidable or unenforceable and the other which would render it valid and enforceable, such provision shall have the meaning, which renders it valid and enforceable. The language of all provisions of this Guaranty shall be construed according to fair meaning and not strictly construed against either party. The provisions of this Guaranty are severable, and this Guaranty shall be interpreted and enforced as if all completely invalid or unenforceable provisions were not contained herein, and partially valid and enforceable provisions shall be enforced to the extent that they are valid and enforceable. If any material provision of this Guaranty shall be stricken or declared invalid, the parties agree to negotiate mutually acceptable substitute provisions. In the event that the parties are unable to agree upon such provisions, Franchisor reserves the right to terminate this Guaranty.

15. **Construction of Language.** Any term defined in the Franchise Agreement which is not defined in this Guaranty will be ascribed the meaning given to it in the Franchise Agreement. The language of this Guaranty will be construed according to its fair meaning, and not strictly for or against either party. All words in this Guaranty refer to whatever number or gender the context requires. If more than one party or person is referred to as you, their obligations and liabilities must be joint and several. Headings are for reference purposes and do not control interpretation.

16. **Successors.** References to "Franchisor" or "the undersigned," or "you" include the respective parties' heirs, successors, assigns or transferees.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Guaranty on the date stated on the first page hereof.

PERSONAL GUARANTORS

[Insert Name of Guarantor]

[Insert Name of Spouse]

[Insert Name of Guarantor]

[Insert Name of Spouse]

[Insert Name of Guarantor]

[Insert Name of Spouse]

[Insert Name of Guarantor]

[Insert Name of Spouse]

EXHIBIT C TO THE FRANCHISE AGREEMENT

COLLATERAL ASSIGNMENT AND ASSUMPTION OF LEASE

THIS COLLATERAL ASSIGNMENT AND ASSUMPTION OF LEASE (this “Assignment”) is made, entered into and effective on this ___ day of _____, 20__ Effective Date,”) by and between: (i) Farrell’s eXtreme Bodyshaping, Inc., an Iowa corporation with its principal place of business at 8510 New York Avenue Urbandale, Iowa 50322 (the “Franchisor”); and (ii) _____, a (resident of) (corporation organized in) (limited liability company organized in) _____ with a business address at _____ (the “Franchisee”).

BACKGROUND INFORMATION

The Franchisor entered into that certain Franchise Agreement (the “Franchise Agreement”) dated as of _____, 20__ with the Franchisee, pursuant to which the Franchisee plans to own and operate a FARRELL’S EXTREME BODYSHAPING franchised business (the “Franchised Business”) located at _____ (the “Site”). In addition, pursuant to that certain Lease Agreement (the “Lease”), the Franchisee has leased or will lease certain space containing the Franchised Business described therein from _____ (the “Lessor”). The Franchise Agreement requires the Franchisee to deliver this Assignment to the Franchisor as a condition to the grant of a franchise.

OPERATIVE TERMS

The Franchisor and the Franchisee agree as follows:

1. **Background Information:** The background information is true and correct. This Assignment will be interpreted by reference to, and construed in accordance with, the background information set forth above.
2. **Incorporation of Terms:** Terms not otherwise defined in this Assignment have the meanings as defined in the Franchise Agreement.
3. **Indemnification of Franchisor:** Franchisee agrees to indemnify and hold Franchisor and its affiliates, stockholders, directors, officers, principals, franchisees/licensees and representatives harmless from and against any and all losses, liabilities, claims, proceedings, demands, damages, judgments, injuries, attorneys’ fees, costs and expenses, that they incur resulting from any claim brought against any of them or any action which any of them are named as a party or which any of them may suffer, sustain or incur by reason of, or arising out of, Franchisee’s breach of any of the terms of the Lease, including the failure to pay rent or any other terms and conditions of the Lease.
4. **Conditional Assignment:** Franchisee hereby grants to the Franchisor a security interest in and to the Lease, all of the furniture, fixtures, inventory and supplies located in the Site and the franchise relating to the Franchised Business, and all of the Franchisee’s rights, title and interest in and to the Lease as conditional for the payment of any obligation, liability or other amount owed by the Franchisee or its affiliates to the Lessor arising under the Lease and for any default or breach of any of the terms and provisions of the Lease, and for any default or breach of any of the terms and provisions of the Franchise Agreement. In the event of a breach or default by Franchisee under the terms of the Lease, or, in the event Franchisor makes any payment to the Lessor as a result of the Franchisee’s breach of the Lease, then such payment by the Franchisor, or such breach or default by the Franchisee, shall at Franchisor’s option be deemed to be an immediate default under the Franchise Agreement, and the Franchisor shall be entitled to the possession of the Site and to all of the rights, title and interest of the Franchisee in and to the Lease and to all other remedies described herein or in the Franchise Agreement or at law or in equity, without prejudice to any other rights or remedies of the Franchisor under any other agreements or under other applicable laws or equities. This Assignment shall constitute a lien on the interest of the Franchisee in and to the Lease until satisfaction in full of all amounts owed by the Franchisee to the Franchisor. In addition, the rights of the Franchisor to assume all obligations under the Lease provided in this Assignment are totally optional on the part of the Franchisor, to be exercised in its sole discretion. Franchisee agrees to execute any and all Uniform Commercial Code financing statements and all other documents and instruments deemed necessary by Franchisor to perfect or document the interests and assignments granted herein.
5. **No Subordination:** Franchisee shall not permit the Lease to become subordinate to any lien without first obtaining Franchisor’s written consent, other than the lien created by this Assignment, the Franchise Agreement,

the Lessor's lien under the Lease, liens securing bank financing for the operations of Franchisee on the Site and the agreements and other instruments referenced herein. The Franchisee will not terminate, modify or amend any of the provisions or terms of the Lease without the prior written consent of the Franchisor. Any attempt at termination, modification or amendment of any of the terms of the Lease without such written consent is null and void.

6. **Exercise of Remedies:** In any case of default by the Franchisee under the terms of the Lease or under the Franchise Agreement, Franchisor shall be entitled to exercise any one or more of the following remedies in its sole discretion:

- a) to take possession of the Site, or any part thereof, personally, or by its agents or attorneys;
- b) to, in its discretion, without notice and with or without process of law, enter upon and take and maintain possession of all or any part of the Site, together with all furniture, fixtures, inventory, books, records, papers and accounts of the Franchisee;
- c) to exclude the Franchisee, its agents or employees from the Site;
- d) as attorney-in-fact for the Franchisee, or in its own name, and under the powers herein granted, to hold, operate, manage and control the Franchised Business and conduct the business, if any, thereof, either personally or by its agents, with full power to use such measures, legally rectifiable, as in its discretion may be deemed proper or necessary to cure such default, including actions of forcible entry or detainer and actions in distress of rent, hereby granting full power and authority to the Franchisor to exercise each and every of the rights, privileges and powers herein granted at any and all times hereafter;
- e) to cancel or terminate any unauthorized agreements or subleases entered into by the Franchisee, for any cause or ground which would entitle the Franchisor to cancel the same;
- f) to disaffirm any unauthorized agreement, sublease or subordinated lien, to make all necessary or proper repairs, decorating, renewals, replacements, alterations, additions, betterments and improvements to the Site or the Site that may seem judicious, in the sole discretion of the Franchisor; and
- g) to insure and reinsure the same for all risks incidental to the Franchisor's possession, operation and management thereof; and/or
- h) notwithstanding any provision of the Franchise Agreement to the contrary, to declare all of the Franchisee's rights but not obligations under the Franchise Agreement to be immediately terminated as of the date of Franchisee defaults under the Lease and fails to cure said default within the applicable cure period (if any).

The parties agree and acknowledge that Franchisor is not required to assume the Lease, take possession of the Site or otherwise exercise of its other rights described in this Assignment. In the event Franchisor elects to exercise its right to assume the Lease and/or take possession of the Site, it will provide written notice to Franchisee in writing and undertake the other necessary actions at issue. Nothing in this Assignment may be construed to impose an affirmative obligation on the part of Franchisor to exercise any of the rights set forth herein.

7. **Power of Attorney:** Franchisee does hereby appoint irrevocably Franchisor as its true and lawful attorney-in-fact in its name and stead and hereby authorizes it, upon any default under the Lease or under the Franchise Agreement, with or without taking possession of the Site, to rent, lease, manage and operate the Site to any person, firm or corporation upon such terms and conditions in its discretion as it may determine, and with the same rights and powers and immunities, exoneration of liability and rights of recourse and indemnity as the Franchisor would have upon taking possession of the Site pursuant to the provisions set forth in the Lease. The power of attorney conferred upon the Franchisor pursuant to this Assignment is a power coupled with an interest and cannot be revoked, modified or altered without the written consent of the Franchisor.

8. **Election of Remedies:** It is understood and agreed that the provisions set forth in this Assignment are deemed a special remedy given to the Franchisor and are not deemed to exclude any of the remedies granted in the Franchise Agreement or any other agreement between the Franchisor and the Franchisee, but are deemed an additional remedy and shall be cumulative with the remedies therein and elsewhere granted to the Franchisor, all of which remedies are enforceable concurrently or successively. No exercise by the Franchisor or any of the rights hereunder will cure, waiver or affect any default hereunder or default under the Franchise Agreement. No inaction or partial exercise of rights by the Franchisor will be construed as a waiver of any of its rights and remedies and no waiver by the Franchisor of any such rights and remedies shall be construed as a waiver by the Franchisor of any

future rights and remedies. Franchisor is not required to exercise any of its rights set forth in Section 6 hereof, but shall have the irrevocable right to do so.

9. **Binding Agreements:** This Assignment and all provisions hereof shall be binding upon the Franchisor and the Franchisee, their successors, assigns and legal representatives and all other persons or entities claiming under them or through them, or either of them, and the words “Franchisor” and “Franchisee” when used herein shall include all such persons and entities and any others liable for payment of amounts under the Lease or the Franchise Agreement. All individuals executing on behalf of corporate entities hereby represent and warrant that such execution has been duly authorized by all necessary corporate and shareholder authorizations and approvals.

10. **Assignment to Control:** This Assignment governs and controls over any conflicting provisions in the Lease.

11. **Attorneys’ Fees, Etc:** In any action or dispute, at law or in equity, that may arise under or otherwise relate to this Assignment, the prevailing party will be entitled to recover its attorneys’ fees, costs and expenses relating to any trial or appeal (including, without limitation, paralegal fees) or arbitration or bankruptcy proceeding from the non-prevailing party.

12. **Severability:** If any of the provisions of this Assignment or any section or subsection of this Assignment shall be held invalid for any reason, the remainder of this Assignment or any such section or subsection will not be affected thereby and will remain in full force and effect in accordance with its terms.

IN WITNESS WHEREOF, the Parties have caused this Assignment to be executed as of the day and year first above written.

FRANCHISEE

FRANCHISOR

FARRELL’S EXTREME BODYSHAPING, INC.

By: _____

By: _____

Name: _____

Lance Farrell, Chief Executive Officer

Date: _____

The Lessor hereby consents, agrees with, approves of and joins in with this COLLATERAL ASSIGNMENT AND ASSUMPTION OF LEASE.

LESSOR

By: _____

Name: _____

Title: _____

Date: _____

**EXHIBIT D TO THE FRANCHISE AGREEMENT
EFT AUTHORIZATION FORM**

Bank Name: _____
ABA# : _____
Acct. No.: _____
Acct. Name: _____

Effective as of the date of the signature below, **[Franchisee Name]** (the “Franchisee”) hereby authorizes Farrell’s eXtreme Bodyshaping, Inc. (the “Company”) or its designee to withdraw funds from the above-referenced bank account, electronically or otherwise, to cover the following payments that are due and owing Company or its affiliates under the franchise agreement dated _____ (the “Franchise Agreement”) for the franchised business located at _____ (the “Franchised Business”): (i) all Royalty Fees; (ii) Fund Contributions (if a Fund is established); (iii) any amounts due and owing the Company or its affiliates in connection with marketing materials or other supplies or inventory that is provided by Company or its affiliates; and (iv) all other fees and amounts due and owing to Company or its affiliates under the Franchise Agreement. Franchisee acknowledges each of the fees described above may be collected by the Company (or its designee) as set forth in the Franchise Agreement.

The parties further agree that all capitalized terms not specifically defined herein will be afforded the definition they are given in the Franchise Agreement.

Such withdrawals shall occur on a bi-weekly or monthly basis, or on such other schedule as Company shall specify in writing. This authorization shall remain in full force and effect until terminated in writing by Company. **[Franchisee Name]** shall provide Company, in conjunction with this authorization, a voided check from the above-referenced account.

AGREED:

FRANCHISEE

[INSERT FRANCHISEE NAME]

By: _____
Name (Print): _____
Its: _____

FRANCHISOR APPROVAL

FARRELL’S EXTREME BODYSHAPING, INC.

By: _____
Lance Farrell, Chief Executive Officer

Please attach a voided blank check, for purposes of setting up Bank and Transit Numbers.

**EXHIBIT E TO THE FRANCHISE AGREEMENT
CONFIDENTIALITY AND RESTRICTIVE COVENANT AGREEMENT**

(for trained employees, officers, directors, general partners, members, Designated Managers and any other management personnel of Franchisee)

In consideration of my being a [INSERT TITLE/ROLE WITH FRANCHISEE] of _____ (the “Franchisee”), and other good and valuable consideration, the receipt and sufficiency of which is acknowledged, I (the undersigned) hereby acknowledge and agree that Franchisee has acquired the right from Farrell’s eXtreme Bodyshaping, Inc. (the “Company”) to: (i) establish and operate a FARRELL’S EXTREME BODYSHAPING franchised business (the “Franchised Business”); and (ii) use in the operation of the Franchised Business the Company’s trade names, trademarks and service marks (collectively, the “Proprietary Marks”) and the Company’s unique and distinctive format and system relating to the establishment and operation of FARRELL’S EXTREME BODYSHAPING Franchised Businesses (the “System”), as they may be changed, improved and further developed from time to time in the Company’s sole discretion, only at the following authorized and approved location: _____ (the “Premises”).

1. The Company possesses certain proprietary and confidential information relating to the operation of the Franchised Business and System generally, including without limitation: Company’s proprietary and confidential Operations Manual and other manuals providing guidelines, standards and specifications related to the establishment and operation of the Franchised Business (collectively, the “Manual”); Franchisor’s proprietary training materials and programs, as well as proprietary marketing methods and other instructional materials, trade secrets; information related to any other proprietary methodology or aspects of the System or the establishment and continued operation of the Franchised Business; financial information; any and all customer lists, contracts and other customer information obtained through the operation of the Franchised Business and other FARRELL’S EXTREME BODYSHAPING Studio businesses; any information related to any type of proprietary software that may be developed and/or used in the operation of with the Franchised Business; and any techniques, methods and know-how related to the operation of FARRELL’S EXTREME BODYSHAPING Studio business or otherwise used in connection with the System, which includes certain trade secrets, copyrighted materials, methods and other techniques and know-how (collectively, the “Confidential Information”).

2. Any other information, knowledge, know-how, and techniques which the Company specifically designates as confidential will also be deemed to be Confidential Information for purposes of this Agreement.

3. As [INSERT TITLE WITH RESPECT TO FRANCHISEE] of the Franchisee, the Company and Franchisee will disclose the Confidential Information to me in furnishing to me the training program and subsequent ongoing training, the Manual, and other general assistance during the term of this Agreement.

4. I will not acquire any interest in the Confidential Information, other than the right to utilize it in the operation of the Franchised Business during the term hereof, and the use or duplication of the Confidential Information, in whole or in part, for any use outside the System would constitute an unfair method of competition.

5. The Confidential Information is proprietary, involves trade secrets of the Company, and is disclosed to me solely on the condition that I agree, and I do hereby agree, that I shall hold in strict confidence all Confidential Information and all other information designated by the Company as confidential. Unless the Company otherwise agrees in writing, I will disclose and/or use the Confidential Information only in connection with my duties as [INSERT TITLE] of the Franchisee, and will continue not to disclose any such information even after I cease to be in that position and will not use any such information even after I cease to be in that position unless I can demonstrate that such information has become generally known or easily accessible other than by the breach of an obligation of Franchisee under the Franchise Agreement.

6. I will surrender any material containing some or all of the Confidential Information to the Company, upon request, or upon conclusion of the use for which the information or material may have been furnished.

7. Except as otherwise approved in writing by the Company, I shall not, while in my position with the Franchisee, for myself, or through, on behalf of, or in conjunction with any person, persons, partnership, corporation or limited liability company, own, maintain, engage in, be employed by, or have any interest in any other business that: (i) generates ten percent (10%) of its revenue from services including personal and group fitness training, fitness counseling and nutritional counseling (or any combination thereof) similar to that offered and sold by a System Studio;

or (iii) grants or has granted franchises or licenses, or establishes or has established joint ventures, for one or more businesses that earn ten percent (10%) of their revenue from services including personal and group fitness training, fitness counseling and nutritional counseling and/or the other Approved Products and Approved Services similar to those offered by a System Studio (collectively, a “Competing Business”). I also agree that I will not undertake any action to divert business from the Franchised Business to any Competing Business, or solicit any of the former customers or employees of Franchisee for any competitive business purpose.

7.1 *Post-Term Restrictive Covenant for Designated Manager of Franchised Business or Manager/Officers/Directors of Franchisee.* In the event I am a manager of the Franchised Business, or an officer/director/manager/partner of Franchisee that has not already executed a Personal Guaranty agreeing to be bound by the terms of the Franchise Agreement, then I further agree that I will not be involved in a Competing Business of any kind for a period of two years after the expiration or termination of my employment with Franchisee for any reason: (i) at or within a 25-mile radius of the Premises; or (ii) within a 25-mile radius of any other FARRELL’S EXTREME BODYSHAPING Studio business that exists at the time my employment with Franchisee ceases through the date of my involvement with the Competing Business. I also agree that I will not be involved in the franchising or licensing of any Competing Business at any location, or undertake any action to divert business from the Franchised Business to any Competing Business or solicit any of the former customers or employees of Franchisee for any competitive business purpose, during this two-year period following the termination or expiration of my employment with the Franchisee.

8. I agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Agreement is held unreasonable or unenforceable by a court or agency having valid jurisdiction in an unappealed final decision to which the Company is a party, I expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Agreement.

9. I understand and acknowledge that the Company shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in this Agreement, or any portion thereof, without my consent, effective immediately upon receipt by me of written notice thereof; and I agree to comply forthwith with any covenant as so modified.

10. The Company is a third-party beneficiary of this Agreement and may enforce it, solely and/or jointly with the Franchisee. I am aware that my violation of this Agreement will cause the Company and the Franchisee irreparable harm; therefore, I acknowledge and agree that the Franchisee and/or the Company may apply for the issuance of a temporary and/or permanent injunction and a decree for the specific performance of the terms of this Agreement, without the necessity of showing actual or threatened harm and without being required to furnish a bond or other security. I agree to pay the Franchisee and the Company all the costs it/they incur(s), including, without limitation, legal fees and expenses, if this Agreement is enforced against me. Due to the importance of this Agreement to the Franchisee and the Company, any claim I have against the Franchisee or the Company is a separate matter and does not entitle me to violate, or justify any violation of this Agreement.

11. I shall not at any time, directly or indirectly, do any act that would or would likely be injurious or prejudicial to the goodwill associated with the Confidential Information and the System.

12. Franchisee shall make all commercially reasonable efforts to ensure that I act as required by this Agreement.

13. Any failure by Franchisor to object to or take action with respect to any breach of this Agreement by me shall not operate or be construed as a waiver of or consent to that breach or any subsequent breach by me.

14. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF **[INSERT STATE WHERE FRANCHISED BUSINESS IS LOCATED]** AND MYSELF HEREBY IRREVOCABLY SUBMITS HIMSELF TO THE JURISDICTION OF THE STATE COURT CLOSEST TO FRANCHISED BUSINESS OR, IF APPROPRIATE, THE UNITED STATES DISTRICT COURT FOR **[INSERT APPROPRIATE COURT]**. I HEREBY WAIVE ALL QUESTIONS OF PERSONAL JURISDICTION OR VENUE FOR THE PURPOSE OF CARRYING OUT THIS PROVISION. I HEREBY AGREE THAT SERVICE OF PROCESS MAY BE MADE UPON ME IN ANY PROCEEDING RELATING TO OR ARISING UNDER THIS AGREEMENT OR THE RELATIONSHIP CREATED BY THIS AGREEMENT BY ANY MEANS ALLOWED BY **[INSERT STATE WHERE FRANCHISED BUSINESS IS LOCATED]** OR FEDERAL LAW. I FURTHER AGREE THAT VENUE FOR ANY PROCEEDING RELATING TO OR ARISING OUT OF THIS AGREEMENT SHALL BE ONE OF THE COURTS DESCRIBED ABOVE IN

THIS SECTION; PROVIDED, HOWEVER, WITH RESPECT TO ANY ACTION WHICH INCLUDES INJUNCTIVE RELIEF OR OTHER EXTRAORDINARY RELIEF, FRANCHISOR MAY BRING SUCH ACTION IN ANY COURT IN ANY STATE WHICH HAS JURISDICTION.

15. The parties acknowledge and agree that each of the covenants contained in this Agreement are reasonable limitations as to time, geographical area, and scope of activity to be restrained and do not impose a greater restraint than is necessary to protect the goodwill or other business interests of Franchisor. The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Agreement is held unreasonable or unenforceable by a court or agency having valid jurisdiction in any unappealed final decision to which Franchisor is a part, I expressly agree to be bound by any lesser covenant subsumed within the terms of the covenant that imposes the maximum duty permitted by law as if the resulting covenant were separately stated in and made a part of this Agreement.

16. This Agreement contains the entire agreement of the parties regarding the subject matter of this Agreement. This Agreement may be modified only by a duly authorized writing executed by all parties.

17. All notices and demands required to be given must be in writing and sent by personal delivery, expedited delivery service, certified or registered mail, return receipt requested, first-class postage prepaid, facsimile or electronic mail, (provided that the sender confirms the facsimile or electronic mail, by sending an original confirmation copy by certified or registered mail or expedited delivery service within three (3) business days after transmission), to the respective party at the following address unless and until a different address has been designated by written notice.

The notice shall be addressed to

For Franchisee: [INSERT FRANCHISEE'S NOTICE ADDRESS]

For Undersigned:
NOTICE ADDRESS]

[INSERT UNDERSIGNED'S

Any notices sent by personal delivery shall be deemed given upon receipt. Any notices given by facsimile or electronic mail shall be deemed given upon transmission, provided confirmation is made as provided above. Any notice sent by expedited delivery service or registered or certified mail shall be deemed given three (3) business days after the time of mailing. Any change in the foregoing addresses shall be effected by giving fifteen (15) days written notice of such change to the other parties. Business day for the purpose of this Agreement excludes Saturday, Sunday and the following national holidays: New Year's Day, Martin Luther King Day, Presidents' Day, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving and Christmas.

18. The rights and remedies of Franchisor under this Agreement are fully assignable and transferable and inure to the benefit of its respective parent, successor and assigns.

IN WITNESS WHEREOF, this Agreement is made and entered into by the undersigned parties as of the Effective Date.

UNDERSIGNED

Signature: _____

Name: _____

Address: _____

Title: _____

ACKNOWLEDGED BY FRANCHISEE

[FRANCHISEE NAME]

By: _____

Title: _____

EXHIBIT F TO THE FRANCHISE AGREEMENT
CONDITIONAL ASSIGNMENT OF TELEPHONE NUMBERS AND DOMAIN NAMES

1. _____, doing business as FARRELL'S EXTREME BODYSHAPING Studio (the "Assignor"), in exchange for valuable consideration provided by Farrell's eXtreme Bodyshaping, Inc, Inc. (the "Assignee"), receipt of which is hereby acknowledged hereby conditionally assigns to Assignee all telephone numbers, facsimile numbers, domain names, as well as any listings associated therewith, utilized by Assignor in the operation of its FARRELL'S EXTREME BODYSHAPING franchised business located at _____ (collectively, the "Assigned Property"). The Assigned Property includes the following:

Telephone Number(s): _____

Facsimile Number(s): _____

Domain Name(s) (as permitted by Franchisor under the Franchise Agreement): _____

_____.

2. The conditional agreement will become effective automatically upon termination, expiration of Assignor's franchise. Upon the occurrence of that condition, Assignor must do all things required by the telephone company and/or domain name registrar to assure the effectiveness of the assignment of Assigned Property as if the Assignee had been originally issued such Assigned Property and the usage thereof.

3. Assignor agrees to pay the telephone company and/or domain name registrar, on or before the effective date of assignment, all amounts owed for the use of the Assigned Property up to the date this Assignment becomes effective. Assignor further agrees to indemnify Assignee for any sums Assignee must pay the telephone company or domain name registrar to effectuate this agreement, and agrees to fully cooperate with the telephone company and/or domain name registrar, as well as the Assignee, in effectuating this assignment.

ASSIGNOR

BY: _____

Date: _____

TITLE: _____

ASSIGNEE

FARRELL'S EXTREME BODYSHAPING, INC.

BY: _____

Lance Farrell, Chief Executive Officer

EXHIBIT B - 2
To Franchise Disclosure Document
AREA DEVELOPMENT AGREEMENT

FARRELL'S EXTREME BODYSHAPING, INC.
AREA DEVELOPMENT AGREEMENT

DEVELOPER

DATE OF AGREEMENT

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AREA DEVELOPMENT AGREEMENT

THIS AREA DEVELOPMENT AGREEMENT (the “Agreement”), is made and entered into this _____ day of _____, 20____, by and between: (i) FARRELL’S EXTREME BODYSHAPING, INC., a corporation with its principal place of business at the notice address set forth in this Agreement(the “Franchisor”); and (ii) _____, a/n _____ with a business address at _____ (the “Developer”).

WITNESSETH:

WHEREAS, as the result of the expenditure of time, effort and expense, Franchisor has created a unique and distinctive proprietary system (hereinafter the “System”) related to the establishment, development, opening, and operation of a business that provides various types of personal and group fitness training, fitness counseling and classes via a membership model and other method that Franchisor authorizes (collectively, the “Approved Services”), along with certain fitness-related supplies and merchandise that may or may not bear Franchisor’s proprietary marks (collectively, the “Approved Products”), with high levels of customer service and attention and in a clean, friendly environment that is welcoming to clientele (each, a “Facility”).

WHEREAS, Franchisor owns the System and the right to use the Proprietary Marks (as defined below), and grants the right and license to others to use the System and the Proprietary Marks;

WHEREAS, the distinguishing characteristics of the System include, without limitation, proprietary methodology and procedures for the establishment and operation of a Facility, including instruction on fitness and nutritional counseling; site selection guidance and criteria; specifications for the design, layout and construction of the interior of the Facility; standards and specifications for the furniture, fixtures and equipment located within a Facility; established relationships with approved or designated suppliers for certain products and services; and standards and specifications for advertising, bookkeeping, sales and other aspects of operating a Facility.

WHEREAS, Franchisor identifies the System and licenses the use of certain trade names, service marks, trademarks, emblems and indicia of origin, including its current primary mark FARRELLS EXTREME BODYSHAPING, as well as certain other trade names, trademarks, service marks and trade dress, all of which Franchisor may modify, update, supplement or substitute in the future (collectively, the “Proprietary Marks”).

WHEREAS, Developer desires the right to develop, own and operate multiple franchised Facilities under the System in a defined geographic area under a Development Schedule (the “Development Schedule”) set forth in this Agreement; and

WHEREAS, Developer acknowledges that Developer has conducted an independent investigation of the business contemplated by this Agreement and recognizes that, like any other business, the nature of the business conducted as a franchised Facility may evolve and change over time, that an investment in a franchised Facility involves a business risk and the success of the venture is largely dependent upon Developer’s business abilities and efforts.

NOW, THEREFORE, the parties, in consideration of the mutual undertakings and commitments set forth in this Agreement, the receipt and sufficiency of which are hereby acknowledged, agree as follows:

1. REFERENCES AND DEFINITIONS

A. DEVELOPMENT AREA

“Development Area” means the geographic area described in Exhibit A.

B. DEVELOPMENT SCHEDULE/DEVELOPMENT PERIOD

“Development Schedule” means the schedule for Developer to open and operate a specific cumulative number of System Facilities as set forth in Exhibit B to this Agreement. Each “Development Period” is a period of time set forth in the Development Schedule wherein Developer must meet each specific development obligations.

C. FRANCHISE AGREEMENT

Except for the royalty fee and the advertising contributions, which shall remain the same in each franchise agreement executed pursuant to this Agreement and any extensions of this Agreement, the term “Franchise Agreement” means the then-current form of agreements (including the franchise agreement and any exhibits, riders, collateral assignments of leases or subleases, shareholder guarantees and preliminary agreements) that Franchisor customarily uses in the granting of a franchise for the ownership and operation of a System Facility.

Concurrent with the execution of this Agreement, Developer shall execute the Franchise Agreement for the first Facility that Developer is granted the right to open within the Development Area hereunder. Franchisor, in its sole discretion, but subject to the express provisions contained herein, may modify or amend in any respect the standard form of Franchise Agreement it customarily uses in granting a franchise for a System Facility.

The parties agree and acknowledge that: (i) Developer must timely execute Franchisor's then-current form of Franchise Agreement for each System Facility that Developer is required to open and commence operating pursuant to the Development Schedule; and (ii) Franchisor may, in its discretion, modify or amend the form of Franchise Agreement that Franchisor is using as of the date this Agreement is executed as it deems appropriate for (a) use in the System generally, and (b) execution by the parties in connection with the Facilities that Developer must subsequently open and commence operating under this Agreement.

D. PRINCIPALS

The term "Principals" includes, collectively and individually, Developer's owners; if Developer is an entity, any officers and directors of Developer (including the officers and directors of any general partner of Developer) and any person and of any entity directly owning and/or controlling ten percent (10%) or more of Developer, or a managing member or manager of a limited liability company. The initial Principals shall be listed in Exhibit D. The Principals must execute an agreement in substantially the form of the attached Guaranty and Assumption of Obligations (immediately following this Agreement) undertaking to be bound jointly and severally to all provisions of this Agreement.

2. USE OF SYSTEM

Developer acknowledges, and does not contest, Franchisor's exclusive ownership and rights to each and every aspect of the System. Developer's right to use the System is specifically limited to the Development Area and the terms and conditions of this Agreement and Franchise Agreements executed pursuant thereto.

3. GRANT OF DEVELOPMENT RIGHTS

A. GRANT AND TERM

In reliance on the representations and warranties of Developer and its Principals, Franchisor grants to Developer, and Developer hereby accepts the right and obligation to develop, a designated number of System Facilities within the Development Area in full compliance with the terms of this Agreement, including the timely development obligations to open a specific cumulative number of System Facilities over prescribed periods of time as established in the Development Schedule; and in full compliance with all obligations and provisions under the form(s) of Franchise Agreement entered into for the right to own and operate each individual System Facility.

The term of this Agreement shall commence upon full execution of this Agreement and, unless earlier terminated by Franchisor pursuant to the terms hereof, this Agreement shall expire upon the earlier of: (i) the date Developer timely opens the last System Facility it is required to open and commence operations within the Development Area pursuant to this Agreement; or (ii) the last day of the last Development Period on the Development Schedule. Developer acquires no rights under this Agreement to develop System Facilities outside the Development Area. Upon expiration or termination of this Agreement for any reason, Developer will have no rights whatsoever within the Development Area (other than any territorial rights that Franchisor has granted to Developer in connection with any System Facility(ies) that Developer has timely opened pursuant to a Franchise Agreement as required by the Development Schedule prior to the date this Agreement is terminated or expires).

B. COMMITMENT OF DEVELOPER

Franchisor has granted these rights in reliance on the business skill, financial capability, personal character and expectations of performance by the Developer and its Principals. This Agreement is for the purpose of developing and operating the System Facilities, and is not for the purpose of reselling the rights granted by this Agreement.

C. DEVELOPMENT PLAN

The following conditions and approvals are conditions precedent before the right of Developer to develop each System Facility becomes effective. At the time Developer selects a site for each System Facility, Developer must satisfy the operational, financial and training requirements, set forth below:

(1) Operational: Developer must be in substantial compliance with the material terms and conditions of this Agreement and all Franchise Agreements granted Developer. For each System Facility operated by Developer,

Developer must be in substantial compliance with the standards, specifications, and procedures set forth and described in the Manuals (defined in the Franchise Agreement).

(2) Financial: Developer and the Principals must satisfy Franchisor's financial criteria for Developers and Principals with respect to Developer's operation of its existing System Facilities, if any, and the proposed System Facility. Developer must be in compliance and not been in default during the twelve (12) months preceding Developer's request for approval, of any monetary obligations of Developer to Franchisor or its affiliate under any Franchise Agreement granted under this Agreement.

D. EXECUTION OF FRANCHISE AGREEMENT

This Agreement is not a Franchise Agreement and does not grant Developer any right or license to operate a System Facility, or to provide services, or to distribute goods, or any right or license in the Proprietary Marks. Developer must timely execute Franchisor's then-current form of Franchise Agreement for each System Facility that Developer is required to open under the Development Schedule.

4. DEVELOPMENT RIGHTS AND OBLIGATIONS

A. RESERVATION OF RIGHTS

Franchisor (on behalf of itself and its affiliate and its subsidiaries) retains the rights, in its sole discretion and without granting any rights to Developer: (1) to itself operate, or to grant other persons the right to operate, System Facilities at locations and on terms Franchisor deems appropriate outside the Development Area granted Developer, and (2) to sell the products and services authorized for System Facilities under the Proprietary Marks or under other trademarks, service marks and commercial symbols through dissimilar channels of distribution and under terms Franchisor deems appropriate within and outside the Development Area, including, but not limited to, by electronic means, such as the Internet, and by web sites established by Franchisor, as we determine, in our sole discretion.

In addition, Franchisor, any other developer and any other authorized person or entity shall have the right, at any time, to advertise and promote the System, in the Development Area. Developer acknowledges and agrees that Developer is only granted the right to develop and operate System Facilities within the Development Area. Accordingly, within and outside the Development Area, Franchisor and its affiliate and its subsidiaries may also offer and sell, and may authorize others to offer and sell products and services identified by the Proprietary Marks (including memberships and gift cards) at or from any location.

Franchisor or any other developer or any other authorized person or entity shall have the right, at any time, to establish and operate businesses offering dissimilar products or dissimilar services within and outside the Development Area granted by the Area Development Agreement and within and outside the Designated Territory granted by a Franchise Agreement, under the Proprietary Marks and on any terms and conditions as determined by Franchisor; to acquire the assets or ownership interests of one or more businesses providing products and services similar to those provided at a System Facility and to franchise, license or create similar arrangements with respect to these businesses once acquired, wherever these businesses (or the franchisees or the licensees of these businesses) are located or operating, which may include within the Development Area granted by this Area Development Agreement and within the Designated Territory granted by any franchise agreement.

Franchisor may be acquired (whether through acquisition of assets, ownership interests or otherwise, regardless of the form of transaction, by a business providing products and similar services to those provided at a System Facility, or by another business, even if such business operates, franchises and/or licenses competitive businesses within the Development Area granted by the Area Development Agreement and within the Designated Territory granted by a Franchise Agreement.

Franchisor has the right to own, operate and license others to own and operate other business concepts in and outside the Development Area, provided the other business concepts are not similar to a System Facility utilizing the Proprietary Marks and System.

Franchisor has no obligation and will not pay Developer if it exercises any of the rights specified above within the Development Area granted by the Area Development Agreement or within the Designated Territory granted by a Franchise Agreement.

B. RIGHTS DURING DEVELOPMENT PERIODS

Except as provided below, if Developer (i) is in compliance with the material terms and conditions contained in this Agreement, including the timely development obligations to open a specific cumulative number of System Facilities over prescribed periods of time as established in Exhibit B (the “Development Schedule”) and (ii) is in substantial compliance with all material obligations under Franchise Agreements executed by Developer for individual System Facilities under this Agreement; then during the Development Schedule, Franchisor: (i) will grant Developer the right to own and operate System Facilities located within the Development Area pursuant to the terms of this Agreement; and (ii) will not operate (directly or through its affiliate), nor grant a franchise for the location of, any System Facility within the Development Area, except for franchises granted to Developer under this Agreement, or other than through the uses and exceptions as described in Section 4(A) of this Agreement.

If Developer, for any reason within his control, fails to comply with the Development Schedule, this failure constitutes a material default of this Agreement, and Franchisor has the right to terminate this Agreement pursuant to Section 14 of this Agreement. In the event Developer fails to cure the noticed default within the time allowed under Section 14, Franchisor may terminate this Agreement and grant individual or area development franchises within the Development Area to third parties or own and operate Facilities owned by Franchisor or by the affiliate of Franchisor. Franchisor and Developer agree that the timely development of Facilities by Developer in compliance with the Development Schedule will control the rights granted Developer by this Agreement, regardless of the time period granted Developer to open a Facility pursuant to a Franchise Agreement for such Facility. Upon termination of this Agreement, all rights granted Developer revert to Franchisor, who is free to franchise any other person to use the System within the Development Area or to itself own and operate System Facilities within the Development Area.

Notwithstanding anything contained in this Section, Franchisor will provide Developer with a one-time reasonable extension of time not to exceed 90 days to comply with its development obligations in any one of the Development Period as set forth in the Development Schedule (see Exhibit B), provided: (i) Developer has already executed a lease for, or otherwise obtained, a Premises that Franchisor approves for any System Facility(ies) it is required to open and operate during that Development Period; and (ii) Developer notifies Franchisor of its need for such an extension no less than 30 days prior to expiration of that Development Period. The parties agree and acknowledge that Franchisor’s grant of this one-time extension under this Section will not extend, modify or otherwise affect the expiration of any of Developer’s subsequent Development Periods or subsequent development obligations.

C. DEVELOPMENT OBLIGATIONS

Developer will at all times faithfully, honestly, and diligently perform his obligations under this Agreement and will continuously exert his best efforts to timely promote and enhance the development of System Facilities within the Development Area. Developer agrees to open and operate the cumulative number of System Facilities at the end of each Development Period set forth in the Development Schedule (see Exhibit B). Developer agrees that compliance with the Development Schedule is the essence of this Agreement.

D. EXPIRATION OR TERMINATION

After this Agreement expires or terminates for any reason, Franchisor shall have the absolute right to own and operate, or license other parties the right to own and operate System Facilities, in the Development Area, except in those Designated Territories granted under each Franchise Agreement that Developer enters into pursuant to this Agreement.

5. FACILITY CLOSINGS

If during the term of this Agreement, Developer ceases to operate any System Facility developed under this Agreement for any reason, Developer must develop a replacement System Facility to fulfill Developer’s obligation to have open and in operation the required number of System Facilities upon the expiration of each Development Period. The replacement System Facility must be open and in operation within nine (9) months after Developer ceases to operate the System Facility to be replaced or Developer will be in material breach of this Agreement. If, during the term of this Agreement, Developer, in accordance with the terms of any Franchise Agreement for a System Facility developed under this Agreement, transfers its interests in that System Facility, a transferred System Facility shall continue to be counted in determining whether the Developer has complied with the Development Schedule so long as it continues to be operated as a System Facility. If the transferred System Facility ceases to be operated as a System Facility, it will not count toward Developer’s compliance with the Development Schedule.

6. PROCEDURE FOR EXERCISING DEVELOPMENT RIGHTS

Developer shall enter into a separate Franchise Agreement with Franchisor for each System Facility developed pursuant to this Agreement. The Franchise Agreement to be executed for the first System Facility to be developed by

Developer under this Agreement must be executed and delivered to Franchisor concurrently with the execution and delivery of this Agreement. All subsequent System Facilities developed under this Agreement must be established and operated under the then-current form of Franchise Agreement then being used by Franchisor for System Facilities under the System. The then-current form of Franchise Agreement may differ from the form attached as Exhibit C; however, the provisions regarding royalty fees and advertising contributions shall remain as established in Exhibit C. Developer must execute the then-current form of Franchise Agreement for each System Facility to be developed under this Agreement

Developer acknowledges that the projected opening dates for each System Facility set forth in the Development Schedule are reasonable requirements. Developer must execute a Franchise Agreement for each Facility by the earlier of: (i) fifteen (15) days from the date a lease is signed for a location that Franchisor approves for the System Facility at issue; and (ii) the date necessary for Developer to otherwise comply with its development obligations under this Agreement.

7. DUTIES OF DEVELOPER

A. ORGANIZATION OF DEVELOPER

Developer makes the following representations, warranties and covenants and accepts the following continuing obligations:

(1) If Developer is a corporation, limited liability company or a partnership, Developer represents, warrants and covenants that: (i) Developer is duly organized and validly existing under the state law of its formation; (ii) Developer is duly qualified and is authorized to do business in each jurisdiction which requires such qualification; (iii) the execution and performance of this Agreement are within Developer's corporate power, if Developer is a corporation or if Developer is a partnership permitted under Developer's written partnership agreement, or if Developer is a limited liability company, permitted under the management agreement;

(2) If Developer is a corporation, copies of its articles of incorporation, bylaws, other governing documents, any amendments, resolutions of the Board of Directors authorizing entry into and performance of this Agreement, shall be promptly furnished to Franchisor. If Developer is a partnership, copies of Developer's written partnership agreement and other governing documents shall be promptly furnished to Franchisor before the execution of this Agreement. If Developer is a limited liability company, copies of Developer's organizational documents and management agreement shall be promptly furnished to Franchisor;

(3) If Developer is a corporation, partnership, limited liability company, or other form of legal entity other than an individual, Developer shall maintain at all times a current list of all owners of record and all beneficial owners of any class of voting securities in Developer or, if Developer is a partnership, Developer shall maintain at all times a current list of all owners of an interest in the partnership, or, if Developer is a limited liability company, it shall maintain at all times a current list of managers and members of the limited liability company;

(4) If, after the execution of this Agreement, any person ceases to qualify as one of the Developer's Principal's (as defined in Section 1), or if Developer believes in the event any individual later qualifies as one of Principals, Developer shall promptly notify Franchisor and that person shall execute any documents (including, as applicable, this Agreement) as Franchisor may reasonably require;

(5) If Developer is a corporation, Developer must maintain stop-transfer instructions against the transfer of its records of any equity security and each stock certificate of the corporation shall have conspicuously endorsed upon it a statement in a form satisfactory to Franchisor that it is held subject to all restrictions imposed upon assignments by this Agreement; provided, however, that the requirements of this Section 7 shall not apply to a publicly held corporation. If Developer is a partnership, its written partnership agreement shall provide that ownership of an interest in the partnership is held subject to and that further assignment or transfer is subject to restrictions imposed on assignments by this Agreement. If Developer is a limited liability company, its articles of organization and operating agreement must provide that ownership interests are subject to restrictions on transfers imposed on assignments by this Agreement;

(6) Developer agrees to maintain at all times throughout the term of this Agreement, sufficient working capital to fulfill its obligations under this Agreement; and

(7) Each Principal who has right, title, or interest of ten percent (10%) or more in the ownership of Developer, must each execute and bind themselves to the confidentiality and noncompetition covenants set forth in the

Confidentiality Agreement and Ancillary Covenants Not to Compete (Exhibit E). The Principals agree to jointly and severally guarantee the performance of all of Developer's obligations, under the terms of this Agreement, except the obligation to open Facilities.

B. REQUIREMENTS OF REPRESENTATIVE

Upon the execution of this Agreement, Developer must designate and retain an individual throughout the term of this Agreement to act on behalf of Developer in all transactions with Developer concerning Developer's obligations under this Agreement (the "Representative"). If Developer is an individual, Developer must perform all obligations of the Representative. The Representative must use reasonable efforts to do the following, during the entire period he serves in that capacity: (1) maintain a direct or indirect ownership interest in the Developer; (2) devote substantial time and reasonable efforts to the supervision and conduct of the business contemplated by this Agreement and execute this Agreement as one of the Principals; and (3) meet Franchisor's standards and criteria for a Representative as set forth in the Manuals or otherwise in writing by Franchisor. If the Representative or any designee is not able to continue to serve in the capacity of Representative or no longer qualifies, Developer must promptly notify Franchisor and designate a replacement.

C. BEST EFFORTS; COMPLIANCE WITH APPLICABLE LAWS

Developer must use his best efforts to substantially comply with all requirements of federal, state and local rules, regulations and orders. Developer will have sole authority and control over the day-to-day operations of the Franchised Business and Developer's employees and/or independent contractors. Developer agrees to be solely responsible for all employment decisions and to comply with all state, federal, and local hiring laws, including without limitation, those related to hiring, firing, training, wage and hour requirements, compensation, promotion, record-keeping, supervision, and discipline of employees, paid or unpaid, full or part-time. At no time will Developer or Developer's employees be deemed to be employees of Franchisor or Franchisor's affiliates.

8. SITE SELECTION, LEASES, FRANCHISE AGREEMENT

A. SELECTION OF SITE BY DEVELOPER

Developer assumes all costs, liabilities, expenses and responsibilities for locating, obtaining, financing and developing sites for System Facilities, and for constructing and equipping System Facilities at those sites. The selection of a site and the development of a Facility at any site is the responsibility of Developer. The selection of a site by Developer is subject to our approval and must be in compliance with Franchisor's site selection procedures and its standards for demographic characteristics, parking, traffic patterns and the predominant character of the neighborhood, and other commercial characteristics of the site and any other factors Franchisor may consider relevant in reviewing a site selected by Developer. Developer must not enter into a binding commitment with a prospective seller or lessor of real estate with respect to the site for a Facility until Franchisor has approved the proposed site. Developer specifically acknowledges that the selection of a site by Developer in compliance with Franchisor's site selection procedures and the approval of a site by Franchisor does not constitute a representation, promise or guarantee by Franchisor that the site and the Facility to be operated at that site will be profitable or successful. Developer acknowledges that factors governing the success of a System Facility are unpredictable and beyond Franchisor's control. Franchisor is not responsible to Developer or to any other person or entity if a site approved by Franchisor fails to meet Developer's expectations for revenue or operational criteria.

B. DEMOGRAPHIC INFORMATION

Before acquiring a site for any Facility by lease or purchase, Developer must locate a site for the Facility that satisfies the site selection guidelines Franchisor provides to Developer and must submit to Franchisor, in the form Franchisor specifies, a description of the site, a demographic study and other information and materials Franchisor may reasonably require and shall represent in writing that Developer has the option or other firm commitment to obtain the site. Franchisor will review information provided by Developer for the site which may include the population of the work force or residents, character of the neighborhood, household income, ingress and egress, and trade area. If on-site evaluations by Franchisor are requested by Developer or determined to be necessary by Franchisor, then Franchisor or its designee will, at Franchisor's expense, provide a single on-site inspection in connection with each Facility that Developer is required to open hereunder at Franchisor's expense. Developer must reimburse Franchisor for the reasonable expenses Franchisor incurs for any additional on-site evaluations, including, but not limited to, the cost of travel, lodging, meals and wages of Franchisor's representatives and employees.

C. LEASE OR PURCHASE OF SITE

Developer shall not make any binding commitment to purchase or lease real estate for a proposed site for a System Facility until the proposed site has been approved by Franchisor and a Franchise Agreement has been executed by Franchisor and Developer (or its affiliate) for a Facility at such site. Developer shall provide Franchisor with a copy of either the proposed contract of sale or lease relating to the site before the Franchise Agreement is executed. Developer must comply with the conditions set forth in the Franchise Agreement at issue in connection with the signing of such a lease, including ensuring that both Developer and the landlord for the proposed site execute Franchisor's prescribed form of Collateral Assignment of Lease.

D. FRANCHISE AGREEMENT

Franchisor will deliver a Franchise Agreement, in the then-current form, to Developer for execution by Developer (or its affiliate). With the execution of this Agreement, Developer must concurrently execute the Franchise Agreement establishing Developer's first System Facility and return both this Agreement and the Franchise Agreement to Franchisor. If Developer fails to execute the Franchise Agreement, Franchisor may, at its sole discretion, revoke its approval of the site and its offer to grant Developer a franchise to operate a System Facility at the site.

9. DEVELOPMENT FEE

Concurrently with the execution of this Agreement, Developer must pay to Franchisor a nonrefundable area development fee equal to \$_____ (the "Development Fee"). The Development Fee is deemed fully earned by Franchisor upon execution of this Agreement in consideration of lost development opportunities and is nonrefundable under any circumstances. Developer will not be required to pay any additional initial franchise fee for each Facility opened pursuant to this Agreement upon executing a Franchise Agreement for that Facility.

10. SUPERIORITY OF INDIVIDUAL FRANCHISE AGREEMENT

Developer understands and agrees that any and all individual Franchise Agreements executed by Developer and Franchisor for System Facilities within the Development Area are independent of this Agreement. The continued effectiveness of any Franchise Agreement does not depend on the continued effectiveness of this Area Development Agreement. If any conflict arises with this Agreement and any Franchise Agreement, the Franchise Agreement controls, has precedence and superiority (except with respect to the opening deadline for each System Facility Developer is granted the right to open under this Agreement).

11. COVENANTS

A. Developer and the Representative covenant that during the term of this Agreement, except as otherwise approved in writing by Franchisor, Developer and the Representative must devote substantial time, energy and best efforts to the management and operation of the development activities required under this Agreement.

B. Developer acknowledges that, as a participant in Franchisor's System, Developer will receive proprietary and confidential information and materials, trade secrets, and the unique methods, procedures and techniques that Franchisor has developed. As such, Developer agrees to the covenants in this Section to protect Franchisor, the System, Proprietary Marks and Franchisor's other franchisees and developers.

(1) During the term of this Agreement, neither Developer, its Principals, owners, officers or guarantors, nor any immediate family of Developer, its Principals, owners, officers or guarantors, may, directly or indirectly, for themselves or through, on behalf of, or in conjunction with any other person, partnership or corporation:

(a) Own, maintain, engage in, be employed or serve as an officer, director, or principal of, lend money or extend credit to, lease/sublease space to, or have any interest in or involvement with, any other business that (a) generates ten percent (10%) or more of its revenue from the sale of personal and group fitness training, fitness counseling, or nutritional counseling (or any combination thereof) similar to that offered by a System Facility location (each, a "Competing Business"), or (b) offers or grants licenses or franchises, or establishes joint ventures, for the ownership or operation of a Competing Business. For purposes of this Agreement, a Competing Business does not include: (i) any business operated by Developer under a Development Agreement with Franchisor; or (ii) any business operated by a publicly traded entity in which Developer owns less than two percent (2%) legal or beneficial interest;

(b) Employ or seek to employ any person who is at that time employed by Franchisor, Franchisor's affiliates or any other System franchisee, or otherwise directly or indirectly induce or seek to induce such person to leave his or her employment thereat; or

(c) Divert, or attempt to divert, any prospective customer to a Competing Business in any manner.

(2) For a period of two (2) years after the expiration and nonrenewal, transfer or termination of this Agreement, regardless of the cause, neither Developer, its principals, owners and guarantors, nor any member of the immediate family of Developer, its principals, owners or guarantors, may, directly or indirectly, for themselves or through, on behalf of, or in conjunction with any other person, partnership or corporation, be involved with any business that competes in whole or in part with Franchisor by offering or granting licenses or franchises, or establishing joint ventures, for the ownership or operation of a Competing Business. The geographic scope of the covenant contained in this Section is any location where Franchisor can demonstrate it has offered or sold franchises as of the date this Agreement is terminated or expires.

(3) For a period of two (2) years after the expiration and nonrenewal, transfer or termination of this Agreement, regardless of the cause, neither Developer, its Principals, owners, officers and guarantors, nor any member of the immediate family of Developer, its Principals, owners, officers or guarantors, may, directly or indirectly, for themselves or through, on behalf of, or in conjunction with any other person, partnership or corporation:

(a) Own, maintain, engage in, be employed as an officer, director, or principal of, lend money to, extend credit to, lease/sublease space to, or have any interest in or involvement with any other Competing Business within a twenty five (25) mile radius of the: (i) the Development Area; or (ii) any other System Facility (whether franchised or company-owned) that is open or under development as of the date this Agreement expires, terminates, or is assigned in any manner; or

(b) Solicit business from customers of Developer's former Facilities or contact any of Franchisor's suppliers or vendors for any competitive business purpose, nor solicit any of Franchisor's other employees, or the employees of Franchisor's affiliates or any other System franchisee or developer to discontinue employment.

C. It is the parties' intent that the provisions of this Section 11 be judicially enforced to the fullest extent permissible under applicable law. Accordingly, the parties agree that any reduction in scope or modification of any part of the noncompetition provisions contained herein shall not render any other part unenforceable. In the event of the actual or threatened breach of this Section 11 by Developer, any of Developer's Principals, or any member of the immediate family of Developer or Developer's Principals, Franchisor shall be entitled to an injunction restraining such person from any such actual or threatened breach. Developer acknowledges that the covenants contained herein are necessary to protect the goodwill of other System franchisees and developers, and the System. Developer further acknowledges that covenants contained in this Section 11 are necessary to protect Franchisor's procedures and know-how transmitted during the term of this Agreement. Developer agrees that in the event of the actual or threatened breach of this Section 11, Franchisor's harm will be irreparable and that Franchisor has no adequate remedy at law to prevent such harm. Developer and the Principals agree to pay all costs and expenses (including reasonable attorneys' fees) incurred by Franchisor in connection with the enforcement of this Section 11. Developer acknowledges and agrees on Developer's own behalf and on behalf of the persons who are liable under this Section 11 that each has previously worked or been gainfully employed in other careers and that the provisions of this Section 11 in no way prevent any such person from earning a living. Developer further acknowledges and agrees that the time limitation of this Section 11 shall be tolled during any default under this Section 11.

D. Developer must ensure that all management personnel of Developer's Facilities opened under this Agreement, as well as any officers or directors of Developer, execute Franchisor's then-current form of Confidentiality and Non-Competition Agreement. Developer must furnish Franchisor a copy of each executed agreement.

E. Developer hereby agrees that the existence of any claim Developer may have against Franchisor, whether or not arising from this Agreement, shall not constitute a defense to Franchisor's enforcement of the covenants contained in this Section 11. Developer agrees to pay all costs and expenses (including reasonable attorneys' fees) that Franchisor incurs in connection with the enforcement of this Section 11.

F. Notwithstanding the foregoing, Franchisor reserves the right, in its sole discretion, to reduce the period of time or geographic scope of the non-competition covenants set forth in this Section 11 and in Exhibit E, by written notice to Developer.

12. RELATIONSHIP OF THE PARTIES

A. The parties agree that this Agreement does not create a fiduciary relationship between them, that Developer is an independent contractor and must at all times represent itself as an independent contractor. This Agreement does not create either party as an agent, legal representative, subsidiary, joint venturer, partner, employee or joint employer.

Developer shall hold itself out to the public as an independent contractor operating pursuant to this Agreement. Developer agrees to take any action necessary to that end, including without limitation, exhibiting a notice on signage and member contracts, as required by Franchisor as to content and manner of disclosure. Neither this Agreement nor Franchisor's course of conduct is intended, nor may anything in this Agreement (nor Franchisor's course of conduct) be construed to state or imply that Franchisor is the employer or joint employer of Developer's employees and/or independent contractors.

B. Developer understands and agrees that nothing in this Agreement authorizes Developer to make any contract, agreement, warranty or representation on Franchisor's behalf, or to incur any debt or other obligation in Franchisor's name and that Franchisor shall in no event assume liability for, or be deemed liable under this Agreement as a result of any such action, or for any act or omission of Developer in the conduct of its business pursuant to this Agreement or any claim or judgment arising therefrom.

C. Developer and each of the Principals shall, at all times, indemnify and hold harmless Franchisor and its affiliate, successors and assigns and the officers, directors, shareholders, agents, representatives and employees of each of them ("Indemnitees") from all losses and expenses incurred in connection with any formal or informal action, suit, proceeding, claim, demand, investigation or inquiry or any settlement thereof, which arises out of or is based upon the action or negligence of Developer or any Principal in any of the following:

- (1) The infringement, alleged infringement, or any other violation or alleged violation of any Proprietary Mark or other proprietary right owned by Franchisor;
- (2) Claims of sexual harassment or discrimination by Developer's employees or by a guest at the Facility;
- (3) The violation of any federal, state or local law, regulation, rule, standard or directive, or any industry standard, including without limitation, health, sanitation and safety laws and regulations;
- (4) Libel, slander or any other form of defamation of Franchisor or the System, by Developer or the Principals;
- (5) The violation or breach by Developer or any of the Principals of any warranty, representation, agreement or obligation of this Agreement or any Franchise Agreement; and
- (6) Acts, errors or omissions of Developer or any of its agents, servants, employees, contractors, partners, affiliates or representatives.

Notwithstanding anything contained in this Section 12(C), Developer will not be required to indemnify, defend or hold Franchisor harmless for any claims or causes of action that arise solely out of Franchisor's gross negligence or willful misconduct.

D. Developer and each of the Principals agree to give Franchisor immediate notice of any such action, suit, proceeding, claim, demand, inquiry or investigation.

E. Franchisor may, at any time and without notice, as it, in its reasonable discretion, consent, or agree to settlement, or take such other remedial or corrective action as it deems expedient with respect to the action, suit, proceeding, claim, demand, inquiry or investigation.

F. All losses and expenses incurred under this Section 12 shall be chargeable to and shall be paid by Developer or any of the Principals pursuant to this Section 12, regardless of any actions, activity or defense undertaken by Franchisor or the subsequent success or failure of such actions, activity or defense. However, Franchisor will indemnify Developer from losses or expenses resulting from the direct result of Franchisor's negligence or intentional acts.

G. The phrase "losses and expenses" shall include, without limitation, all monetary losses, compensatory, exemplary or punitive damages, fines, actual costs, expenses, lost profits, reasonable attorneys' fees, court costs, settlement amounts, judgments, damages to Franchisor's reputation and goodwill, costs of financing or advertising material and media costs and all expenses of recall, refunds, compensation, public notices and such other amounts incurred in connection with the matters described.

H. Developer must give Franchisor notice of any such action immediately upon Developer having received notice of any such action, claim or proceeding.

I. Under no circumstances shall Indemnitees be required or obligated to seek recovery from third parties or otherwise mitigate their losses in order to maintain a claim against Developer. Developer and the Principals agree that

the failure of Franchisor to pursue recovery or mitigate loss from third parties will in no way reduce the amounts recoverable from Developer or the Principals.

J. Developer and the Principals expressly agree that the terms of this Section 12 shall continue in full force and effect after the termination, expiration or transfer of this Agreement or any interest herein.

13. PROPRIETARY MARKS

A. Developer acknowledges that Developer has no interest in or to the Proprietary Marks and Developer's right to use the Proprietary Marks is derived solely from the individual Franchise Agreements entered into between Developer and Franchisor for the purpose of operating System Facilities. Developer agrees that all usage of the Proprietary Marks by Developer and any goodwill established exclusively benefits Franchisor. Developer agrees that after termination or expiration of this Agreement, Developer will not, except with respect to System Facilities operated by Developer under individual Franchise Agreements, directly or indirectly, at any time or in any manner identify itself or any business as a Developer or former Developer of, or otherwise associated with, Franchisor or use in any manner or for any purpose any Proprietary Mark or other indicia of a System Facility or any colorable imitation.

B. Developer must not use any Proprietary Mark as part of any corporate or trade names or with any prefix, suffix, or other modifying words, terms, designs, or symbols, or in any modified form, nor may Developer use any Proprietary Mark in connection with any business or activity, other than the business conducted by Developer under Franchise Agreements entered into between Developer and Franchisor, or in any other manner not explicitly authorized in writing by Franchisor.

C. Developer must immediately notify Franchisor in writing of any apparent infringement of or challenge to Developer's use of any Proprietary Mark, or claim by any person of any rights in any Proprietary Mark or similar trade name, trademark, or service mark of which Developer becomes aware. Developer must not communicate with any person other than Franchisor and its counsel regarding any infringement, challenge or claim. Franchisor has sole discretion to take action it deems appropriate and the right to exclusively control any litigation, U.S. Patent and Trademark Office proceeding or other administrative proceeding arising out of any infringement, challenge, or claim or otherwise relating to any Proprietary Mark.

D. Developer acknowledges that Franchisor is the lawful and sole owner of this domain name, which incorporates any of the Proprietary Marks, including the term and surname "Farrell". Developer agrees not to register any of the Proprietary Marks now or hereafter owned by Franchisor or any abbreviation, acronym or variation of the Proprietary Marks, or any other name that could be deemed confusingly similar, as Internet domain names, including, but not limited to, generic and country code top level domain names available at the present time or in the future.

E. Developer agrees and acknowledges that this Agreement does not grant Developer any rights whatsoever to use any Proprietary Mark, and that such rights are only granted through Developer's timely execution of a Franchise Agreement that will govern the operation of a Facility that Developer is required to open pursuant to the Development Schedule

14. TERMINATION

A. Franchisor may terminate this Agreement for a material default of this Agreement by Developer and all rights granted herein shall automatically terminate upon written notice to Developer, upon the occurrence of any of the following:

(1) If Developer becomes insolvent, makes a general assignment for the benefit of creditors; files a voluntary petition in bankruptcy, or an involuntary petition is filed against Developer in bankruptcy; or Developer is adjudicated bankrupt; or if a bill in equity or other proceeding for the appointment of a receiver of Developer or other custodian for Developer or assets is filed and consented to by Developer; or if a receiver or other custodian (permanent or temporary) of Developer's assets or property, or any part thereof, is appointed by a court of competent jurisdiction; or if a proceeding for a composition of creditors under any state or federal law should be initiated against Developer; or if a final judgment remains unsatisfied or of record for thirty (30) days or longer, (unless supersedeas bond is filed); or if Developer is dissolved; or if execution is levied against Developer; or if a suit to foreclose any lien or mortgage

against the premises or Facility is levied; or if the real or personal property of Facility is sold after levy thereon by any sheriff, marshal or law officer;

- (2) If Developer or any of its Principals fail to comply with Section 11 of this Agreement;
- (3) If Developer or a Principal discloses the contents of the Manuals or other confidential information contrary to this Agreement;
- (4) If an immediate threat or danger to public health or safety results from the operation of a Facility operated by Developer under a Franchise Agreement;
- (5) If Developer or a Principal has made material misrepresentations in connection with its application for the franchise;
- (6) If Developer fails on three (3) or more occasions within any one (1) year period to comply with one (1) or more provisions of this Agreement, whether or not such failures to comply are cured after notice thereof is delivered to Developer; or
- (7) Failure to comply with the conditions of transfer of any interest in Developer as required of this Agreement.

B. Franchisor may terminate this Agreement and all rights granted herein, upon thirty (30) days written notice to Developer, or a less time as specified below, for a material default of this Agreement, which shall constitute good cause for termination and the failure of Developer to cure the good cause for termination within the notice period. Good cause for termination shall be the occurrence of any one of the following events of default:

- (1) If Developer fails to meet the development requirements set forth in the Development Schedule;
- (2) If Developer fails to develop, open and operate each Facility and execute each Franchise Agreement in compliance with this Agreement;
- (3) If Developer fails to designate a qualified replacement Representative;
- (4) If Developer misappropriates, misuses or makes any unauthorized use of the Proprietary Marks or materially impairs the goodwill associated with the Proprietary Marks or with the System and does not cure such default following written notice from Franchisor;
- (5) If Developer, fails, refuses or is unable to promptly pay when due any monetary obligation to Franchisor or its affiliate required by this Agreement, or by any Franchise Agreement or any other agreement between the parties and does not cure the monetary default within fourteen (14) days following written notice from Franchisor;
- (6) If Developer fails to correct a deficiency of a health, sanitation, or safety issue after notice of such deficiency is issued by a local, state, or federal agency or regulatory authority; or
- (7) If Developer fails to comply with any other material term or material condition imposed by this Agreement or any Franchise Agreement executed pursuant thereto.

C. Failure of Developer to cure the default within the specified time, or a longer period of time as applicable law may require, will result in Developer's rights under this Agreement to be terminated effective on the expiration of the notice period, and without further notice to Developer.

D. Upon termination of this Agreement, Developer has no right to establish or operate any Facility for which an individual Franchise Agreement has not already been executed by both Franchisor and Developer, as well as delivered to Developer, as of the date of termination. Franchisor, effective upon termination of this Agreement, shall have the absolute right and is entitled to establish, and to license others to establish, System Facilities in the Development Area, except as may be otherwise provided under any Franchise Agreement which is then in effect between Franchisor and Developer.

E. No default under this Agreement shall constitute a default under any Franchise Agreement between the parties, unless Developer's acts or omissions also violate the terms and conditions of the applicable Franchise Agreement.

F. No right or remedy herein conferred upon or reserved to the Franchisor is exclusive of any other right or remedy provided or permitted by law or in equity.

15. EFFECT OF TERMINATION AND EXPIRATION

All obligations of Franchisor and Developer under this Agreement, which expressly or by their nature survive the expiration or termination of this Agreement, continue in full force and effect after the expiration or termination of this Agreement and until they are satisfied in full or by their nature expire.

16. TRANSFER OF INTEREST

A. BY FRANCHISOR

Franchisor has the absolute right to transfer or assign this Agreement and all or any part of its rights, duties or obligations to any person or legal entity without the consent of or notice to Developer. This Agreement shall inure to the benefit of, and be binding on the successors and assigns of Franchisor.

B. DEVELOPER MAY NOT ASSIGN WITHOUT APPROVAL OF THE FRANCHISOR

Developer understands and acknowledges that the rights and duties created by this Agreement are personal to Developer and its owners and that Franchisor has granted these rights to Developer in reliance upon the individual or collective character, skill, aptitude, attitude, business ability and financial capacity of Developer and/or its owners. Unless otherwise provided with respect to an assignment to an entity controlled by Developer as provided in Section 16(D), none of these rights nor any ownership interest in Developer may be voluntarily, involuntarily, directly or indirectly, assigned, sold, conveyed, pledged, sub-franchised or otherwise transferred by Developer or its owners (including by merger or consolidation, by issuance of additional securities representing an ownership interest in Developer, by conversion of a general partnership to a limited partnership, by transfer or creation of an interest as a general partner of a partnership, by transfer of an interest in Developer or in this Agreement in a divorce proceeding, or if Developer or an owner of Developer dies, by will, declaration of or transfer in trust or the laws of the intestate succession) without the approval of Franchisor. Any attempted assignment or transfer without such approval will constitute a breach of this Agreement and will not transfer any rights or interests to such assignee or transferee.

C. CONDITIONS FOR APPROVAL OF ASSIGNMENT

If Developer is in substantial compliance with this Agreement, Franchisor shall not unreasonably withhold its approval of an assignment or transfer contemplated by Section 16(B) so long as the proposed assignee or transferer has good and moral character, sufficient business experience and aptitude to develop and own and operate Facilities, and otherwise meets Franchisor's then-current standards for developers and System franchisees. Franchisor may require that any one or more of the following conditions be met before, or concurrently with, the effective date of any such assignment or transfer:

(1) All the accrued monetary obligations of Developer or any of its affiliates and all other outstanding obligations to Franchisor or its affiliate arising under this Agreement or any Franchise Agreement or other agreement between them and all trade accounts and any other debts to Franchisor, of whatsoever nature, prior to the transfer becoming effective shall be satisfied;

(2) Developer and its affiliates are not in material default of any substantive provision of this Agreement, any amendment hereof or successor hereto, or any Franchise Agreement granted pursuant to its terms, or other agreement between Developer or any of its affiliates and Franchisor or its affiliate;

(3) Developer and its Principals, as applicable, shall have executed a general release, in a form satisfactory to Franchisor, releasing Franchisor of any and all claims against Franchisor and its affiliate and their respective past and present partners, the past and present officers, directors, shareholders, partners, agents, representatives, independent contractors, servants and employees of each of them, in their corporate and individual capacities, including, without limitation, claims arising under or related to this Agreement and any other agreements between Developer and Franchisor, or under federal, state or local laws, rules, and regulations or orders;

(4) The transferee shall demonstrate to Franchisor's satisfaction that the transferee meets the criteria considered by Franchisor when reviewing a prospective developer's application for development rights, including, but not limited to, Franchisor's managerial and business experience standards, that the transferee possesses good moral character, business reputation and credit rating; that the transferee has the aptitude, financial resources and capital committed for the operation of the business, and the geographic proximity of other territories with respect to which transferee has been granted development rights or of other System Facilities operated by transferee, if any;

(5) The transferee shall sign a written assumption agreement, in a form prescribed by Franchisor, assuming full, unconditional, joint and several liability from the date of the transfer of all obligations, covenants and agreements of Developer in this Agreement; and, if transferee is a corporation, limited liability company or a partnership, transferee's shareholders, partners, members or other investors, as applicable, shall also execute such agreement;

(6) Developer shall pay a transfer fee equal to Ten Thousand Dollars (\$10,000) per franchise this is granted to Franchisee under this Agreement and that Franchisee wishes to transfer, unless the transfer is being made: (i) to an immediate family member of Developer that Franchisor approves pursuant to Section 16(F); or (ii) in the form of an encumbrance of the assets of any Franchised Business (or a subordinating Franchisor's security interest in such assets) as a necessary condition to obtain SBA or traditional bank financing. Developer will always be solely responsible for all third-party broker fees incurred in connection with any transfer with respect to this Agreement;

(7) Developer acknowledges and agrees that each condition, which must be met by the transferee, is reasonable and necessary; and

(8) Developer must pay any referral fees or commissions that may be due to any franchise broker, sales agent or other third party upon the occurrence of such assignment.

Franchisor's consent to a transfer of any interest in Developer described herein shall not constitute a waiver of any claims it may have against the transferring party, nor shall it be deemed a waiver of Franchisor's right to demand exact compliance with any of the terms of this Agreement by the transferee. Upon an approved transfer under this Section, Developer will only be bound by, and liable in connection with, its post-term obligations under this Agreement.

D. ASSIGNMENT TO A CORPORATION OR LIMITED LIABILITY COMPANY

(1) Notwithstanding the provisions of this Section 16 of this Agreement, upon thirty (30) days' prior written notice to Franchisor, and without payment of a transfer fee, Developer may assign this Agreement to a corporation or limited liability company that conducts no business other than the development and/or operation of System Facilities. Developer shall be the owner of all the voting stock or interest of the corporation or limited liability company, or if Developer is more than one individual, each individual shall have the same proportionate ownership interest in the corporation as he had in Developer before the transfer. Developer and each of its Principals, as applicable, may transfer, sell or assign their respective interests in Developer, by and amongst themselves with Franchisor's prior written consent, which consent shall not be unreasonably withheld; but may be conditioned on compliance with Section 11, except that such transfer, sale or assignment shall not effect a change in the controlling interest in Developer.

(2) Any person who is or becomes a shareholder or member of Developer or has or acquires beneficial ownership of any shares of stock equal to or greater than ten percent (10%) ownership interest in Developer must execute an agreement in substantially the form of the attached Guaranty and Assumption of Obligations undertaking to be bound jointly and severally to all provisions of this Agreement. Developer must furnish Franchisor at any time upon request a certified copy of the articles of incorporation or articles of organization and a list, in a form Franchisor requires, of all shareholders or members of record and all persons having beneficial ownership of shares of stock, reflecting their respective interests in Developer.

E. RIGHT OF FIRST REFUSAL

If Developer receives and desires to accept any bona fide offer to transfer an ownership interest in this Agreement from a third party, then the Developer shall promptly notify Franchisor in writing and send Franchisor an executed copy of the contract of transfer. Franchisor shall have the right and option, exercisable within thirty (30) days after actual receipt of such notification or of the executed contract of transfer which shall describe the terms of the offer, to send written notice to Developer that Franchisor intends to purchase the Developer's interest on the same terms and conditions offered by the third party. Closing on the purchase must occur within sixty (60) days from the date of notice by Franchisor to the Developer of Franchisor's election to purchase. If Franchisor elects not to accept the offer within the thirty (30) day period, Developer shall have a period not to exceed sixty (60) days to complete the transfer subject to the conditions for approval set forth in Section 16(C) of this Agreement. Any material change in the terms of any offer before closing shall constitute a new offer subject to the same rights of first refusal by Franchisor as in the case of an initial offer. Failure of Franchisor to exercise the option afforded by this Section 16 shall not constitute a waiver of any other provision of this Agreement. If the offer from a third party provides for payment of consideration other than cash or involves certain intangible benefits, Franchisor may elect to purchase the interest proposed to be sold for the reasonable cash equivalent, or any publicly-traded securities, including its own, or intangible benefits similar to

those being offered. If the parties cannot agree within a reasonable time on the reasonable cash equivalent of the non-cash part of the offer, then such amount shall be determined by an independent appraiser designated by Franchisor, and his determination shall be binding.

F. DEATH OR DISABILITY

Upon the death or permanent disability of Developer (or the managing shareholder, managing member or partner), the executor, administrator, conservator or other personal representative of that person, or the remaining shareholders, partners or members, must appoint a competent manager that is approved by Franchisor within ninety (90) days from the date of death or permanent disability (the "90 Day Period"). Before the end of the 90 Day Period, the appointed manager must attend and successfully complete Franchisor's training program and must either execute Franchisor's then-current form of area development agreement for the unexpired term of this Agreement, or furnish a personal guaranty of any partnership, corporate or limited liability company Developer's obligations to Franchisor and Franchisor's affiliates. If the Facility is not being managed by a Franchisor approved manager during the 90 Day Period, Franchisor is authorized, but is not required, to immediately appoint a manager to maintain the operations of Developer's Facilities for and on behalf of Developer until an approved assignee is able to assume the management and operation of the Facility. Franchisor's appointment of a manager of the Facilities does not relieve Developer of his obligations, and Franchisor is not liable for any debts, losses, costs or expenses incurred in the operations of the Facility or to any creditor of Developer for any products, materials, supplies or services purchased by the Facility during any period in which it is managed by Franchisor's appointed manager. Franchisor has the right to charge a reasonable fee for management services and to cease to provide management services at any time. Franchisor's right of first refusal set forth in Section 16(E) will not apply to a transfer under this Section if the transferee is an immediate family member of Developer that Franchisor approves.

G. PUBLIC OR PRIVATE OFFERINGS

(1) Developer acknowledges that the written information used to raise or secure funds can reflect upon Franchisor. Developer agrees to submit any written information intended to be used for that purpose to Franchisor before its inclusion in any registration statement, prospectus or similar offering circular or memorandum. This requirement applies under the following conditions: (i) if Developer attempts to raise or secure funds by the sale of securities in Developer or any affiliate of Developer (including common or preferred stock, bonds, debentures or general or limited partnership interest) and (ii) if any of its owners attempt to raise or secure funds by the sale of securities in Developer or any affiliate of Developer (including common or preferred stock, bonds, debentures or general or limited partnership interests) Developer (or any of its owners) agrees not to use the written materials submitted to Franchisor or any other written materials to raise or secure funds unless and until Franchisor approves of the language. No information respecting Franchisor or its affiliate shall be included in any securities disclosure document, unless that information has been furnished to Franchisor, in writing, pursuant to the written request of the Developer. The written request shall state the specific purpose for which the information is to be used. Should Franchisor, in its sole discretion, object to any reference to Franchisor or its affiliate or any of their businesses in the offering literature or prospectus, the literature or prospectus shall not be used unless and until the objections of Franchisor are withdrawn. Franchisor assumes no responsibility for the offering whatsoever. Developer must pay Franchisor a public offering fee of Three Thousand Five Hundred Dollars (\$3,500) for the costs to Franchisor to review the information. The written consent of Franchisor pursuant to this Paragraph G does not imply or constitute the approval of Franchisor with respect to the method of financing, the offering literature submitted to Franchisor or any other aspect of the offering.

(2) The prospectus or other literature utilized in any offering must contain the following language in bold-face type on the first textual page:

"NEITHER FRANCHISOR NOR ITS AFFILIATE NOR ANY OF ITS AFFILIATE'S SUBSIDIARIES IS DIRECTLY OR INDIRECTLY THE ISSUER OF THE SECURITIES OFFERED. NEITHER FRANCHISOR NOR ITS AFFILIATE NOR ANY OF ITS AFFILIATE'S SUBSIDIARIES ASSUMES ANY RESPONSIBILITY WITH RESPECT TO THIS OFFERING AND/OR THE ADEQUACY OR ACCURACY OF THE INFORMATION SET FORTH, INCLUDING ANY STATEMENTS MADE WITH RESPECT TO ANY OF THEM. NEITHER FRANCHISOR NOR ITS AFFILIATE NOR ANY OF ITS AFFILIATE'S SUBSIDIARIES ENDORSES OR MAKES ANY RECOMMENDATION WITH RESPECT TO THE INVESTMENT CONTEMPLATED BY THIS OFFERING."

(3) Developer and each of its owners agrees to indemnify, defend and hold harmless Franchisor and its affiliate, and their respective officers, directors, employees and agents, from any and all claims, demands, liabilities, and all costs and expenses (including reasonable attorneys' fees) incurred by Franchisor as the result of the offer or sale of securities. This Agreement applies to any and all claims, demands, liabilities, and all costs and expenses (including reasonable attorneys' fees) asserted by a purchaser of any security or by a governmental agency. Franchisor has the right (but not the obligation) to defend any claims, demands or liabilities and/or to participate in the defense of any action to which Franchisor or its affiliate or any of their respective officers, directors, employees or agents is named as a party.

H. NOTICE TO FRANCHISOR

Provided Developer is not then a public company, if any person holding an interest in Developer (other than Developer or a Principal, which parties shall be subject to the provisions set forth above) transfers such interest, then Developer shall promptly notify Franchisor of such proposed transfer in writing and provide information as Franchisor may reasonably request before the transfer. The transferee may not be one of Franchisor's competitors. The transferee must execute a Confidentiality Agreement and Ancillary Covenants Not to Compete in the form then required by Franchisor, which form shall be in substantially the same form attached hereto as Exhibit E. Franchisor also reserves the right to designate the transferee as one of the Principals. If Developer is a public company, this provision applies only to transfers in interest by Principals or to any person or entity controlling more than ten percent (10%) of Developer's voting stock.

17. APPROVALS

A. Wherever this Agreement requires the prior approval or consent of Franchisor, Developer shall make a timely written request to Franchisor for such approval or consent.

B. Franchisor makes no warranties or guarantees upon which Developer may rely and assumes no liability or obligation to Developer or to any third party to which it would not otherwise be subject, by providing any waiver, approval, advise, consent, or services to Developer in connection with this Agreement, or by any reason of neglect, delay or denial of any request therefor.

18. NONWAIVER

A. No failure of Franchisor to exercise any power reserved to it by this Agreement, or to insist upon strict compliance by Developer or Principals with any obligation or condition hereunder, and no custom or practice of the parties at variance with the terms hereof, shall constitute a waiver or estoppel of Franchisor's right to demand exact compliance with any of the terms herein and Developer and the Principals warrant and undertake that it shall not rely on such failure, custom or practice. Waiver by Franchisor of any particular default by Developer or any of the Principals shall not affect or impair Franchisor's rights with respect to any subsequent default of the same, similar or different nature, nor shall delay, forbearance, or omission of Franchisor to exercise any power or right arising out of any breach or default by its other developers or by Developer of any of the terms, provisions, or covenants hereof, affect or impair Franchisor's right to exercise the same, nor shall such constitute a waiver by Franchisor of any right hereunder, or the right to declare any subsequent breach or default and to terminate this Agreement prior to the expiration of its term. Subsequent acceptance by Franchisor of any payments due to it hereunder shall not be deemed to be a waiver by Franchisor of any preceding breach by Developer of any terms, covenants or conditions of this Agreement.

B. All rights and remedies of the parties hereto shall be cumulative and not alternative, in addition to and not exclusive of any other rights or remedies which are provided for herein or which may be available at law or in equity in case of any breach, failure or default or threatened breach, failure or default of any term, provision or condition of this Agreement, the rights and remedies of the parties hereto shall be continuing and shall not be exhausted by any one or more uses thereof, and may be exercised at any time or from time to time as often as may be expedient; and any option or election to enforce any such right or remedy may be exercised or taken at any time and from time to time. The expiration or early termination of this Agreement shall not discharge or release Developer from any liability or obligation then accrued, or any liability or obligation continuing beyond, or arising out of, the expiration or early termination of this Agreement.

19. DEVELOPER'S RECORDS AND REPORTS

A. Developer must keep accurate records concerning all transactions and written communications between Franchisor and Developer relating to the development and operation of Facilities in the Development Area.

Franchisor's duly authorized representative has the right, following reasonable notice, at all reasonable hours of the day to examine all Developer's records with respect to the subject matter of this Agreement, and has full and free access to records for that purpose and for the purpose of making extracts. All records must be kept available for at least three (3) years after preparation.

B. Developer must furnish to Franchisor monthly written reports regarding Developer's progress on the development of System Facilities under this Agreement.

20. NOTICES AND PAYMENTS

All written notices and reports permitted or required to be delivered by the provisions of this Agreement or of the Manuals shall be deemed so delivered at the time delivered by hand or by e-mail with receipt confirmed by the receiving party or one (1) business day after sending by overnight courier with delivery confirmed and addressed to the party to be notified at its most current address of which the notifying party has been notified. The following addresses for the parties shall be used unless and until a different address has been designated by written notice to the other party:

Notices to Franchisor:

Farrell's eXtreme Bodyshaping, Inc.
8510 New York Avenue
Urbandale, Iowa 50322

Notice to Developer:

ATTN: _____

21. GOVERNING LAW AND ALTERNATIVE DISPUTE RESOLUTION

A. This Agreement shall be governed by and construed in accordance with the laws of the State of Iowa, without reference to the state's conflict of laws principles.

B. Developer must first bring any claim or dispute between Developer and Franchisor to Franchisor's management, after providing notice as set forth in Section 20 of this Agreement, and make every effort to resolve the dispute internally. Developer must exhaust this internal dispute resolution procedure before Developer may bring Developer's dispute before a third party. This agreement to first attempt resolution of disputes internally shall survive termination or expiration of this Agreement.

C. At Franchisor's option, all claims or disputes between Developer and Franchisor (or its affiliates) arising out of, or in any way relating to, this Agreement or any other agreement by and between Developer and Franchisor (or its affiliates), or any of the parties' respective rights and obligations arising from such agreement, which are not first resolved through the internal dispute resolution procedure set forth in Section 21(B) above, will be submitted first to mediation to take place at Franchisor's then-current headquarters under the auspices of the American Arbitration Association ("AAA"), in accordance with AAA's Commercial Mediation Rules then in effect. Before commencing any legal action against Franchisor or its affiliates with respect to any such claim or dispute, Developer must submit a notice to Franchisor, which specifies, in detail, the precise nature and grounds of such claim or dispute. Franchisor will have a period of thirty (30) days following receipt of such notice within which to notify Developer as to whether Franchisor or its affiliates elects to exercise its option to submit such claim or dispute to mediation. Developer may not commence any action against Franchisor or its affiliates with respect to any such claim or dispute in any court unless Franchisor fails to exercise its option to submit such claim or dispute to mediation, or such mediation proceedings have been terminated either: (i) as the result of a written declaration of the mediator(s) that further mediation efforts are not worthwhile; or (ii) as a result of a written declaration by Franchisor. Franchisor's rights to mediation, as set forth herein, may be specifically enforced by Franchisor. Each party will bear its own cost of mediation and Franchisor and Developer will share mediator fees equally. This agreement to mediate will survive any termination or expiration of this Agreement. The parties will not be required to first attempt to mediate a

controversy, dispute, or claim through mediation as set forth in this Section 21(C) if such controversy, dispute, or claim concerns an allegation that a party has violated (or threatens to violate, or poses an imminent risk of violating): (i) any federally protected intellectual property rights in the Proprietary Marks, the System, or in any confidential information; (ii) any of the restrictive covenants contained in this Agreement; and (iii) any of Developer's payment obligations under this Agreement.

22. LITIGATION AND OTHER DISPUTE RESOLUTION PROVISIONS

A. Subject to Sections 22(B)-(C) of this Agreement, the parties agree that any actions arising out of or related to this Agreement must only and exclusively be initiated in the state court of general jurisdiction closest to Franchisor's then-current headquarters, or, if appropriate, the United States District Court that is closest to Franchisor's then-current headquarters (unless the action is settled by the parties after initiation). Developer acknowledges that this Agreement has been entered into in the State of Florida, and that Developer is to receive valuable and continuing services emanating from Franchisor's headquarters in Florida, including but not limited to training, assistance, support and the development of the System. In recognition of such services and their origin, Developer hereby irrevocably consents to the personal jurisdiction of the state and federal courts of Iowa as set forth in this Section.

B. Developer acknowledges and agrees that irreparable harm could be caused to Franchisor by Developer's violation of certain provisions of this Agreement and, as such, in addition to any other relief available at law or equity, Franchisor shall be entitled to obtain in any court of competent jurisdiction, without bond, restraining orders or temporary or permanent injunctions in order to enforce, among other items, the provisions of this Agreement relating to: (i) Developer's use of the Proprietary Marks and confidential information; (ii) the in-term covenant not to compete, as well as any other violations of the restrictive covenants set forth in this Agreement; (iii) Developer's obligations on termination or expiration of this Agreement; (iv) disputes and controversies based on or arising under the Lanham Act, as now or hereafter amended; (v) disputes and controversies involving enforcement of the Franchisor's rights with respect to confidentiality under this Agreement; and (vi) to prohibit any act or omission by Developer or its employees that constitutes a violation of applicable law, threatens Franchisor's franchise system or threatens other franchisees of Franchisor. Developer's only remedy if such an injunction is entered will be the dissolution of the injunction, if appropriate, and Developer waives all damage claims if the injunction is wrongfully issued.

C. Franchisor's officers, directors, shareholders, agents and/or employees are express third party beneficiaries of the provisions of this Agreement, including the dispute resolution provisions set forth in Sections 21 and 22 of this Agreement, each having authority to specifically enforce the right to mediate claims asserted against such person(s) by Developer.

D. As a condition precedent to commencing an action for damages or for violation or breach of this Agreement, Developer must notify Franchisor within thirty (30) days after the occurrence of the violation or breach, and failure to timely give such notice shall preclude any claim for damages.

E. Developer shall not withhold all or any part of any payment to Franchisor or any of its affiliates on the grounds of Franchisor's alleged nonperformance or as an offset against any amount Franchisor or any of Franchisor's affiliates allegedly may owe Developer under this Agreement or any related agreements.

F. Developer further agrees that no cause of action arising out of or under this Agreement may be maintained by Developer against Franchisor unless brought before the expiration of one (1) year after the act, transaction or occurrence upon which such action is based or the expiration of one year after the Developer becomes aware of facts or circumstances reasonably indicating that Developer may have a claim against Franchisor hereunder, whichever occurs sooner, and that any action not brought within this period shall be barred as a claim, counterclaim, defense, or set-off. Developer hereby waives the right to obtain any remedy based on alleged fraud, misrepresentation, or deceit by Franchisor, including, without limitation, rescission of this Agreement, in any mediation, judicial, or other adjudicatory proceeding arising hereunder, except upon a ground expressly provided in this Agreement, or pursuant to any right expressly granted by any applicable statute expressly regulating the sale of franchises, or any regulation or rules promulgated thereunder.

G. Developer hereby waives to the fullest extent permitted by law, any right to or claim for any punitive, exemplary, incidental, indirect, special or consequential damages (including, without limitation, lost profits) against Franchisor arising out of any cause whatsoever (whether such cause be based in contract, negligence, strict liability, other tort or otherwise) and agrees that in the event of a dispute, that Developer's recovery is limited to actual damages. If any other term of this Agreement is found or determined to be unconscionable or unenforceable for any reason, the foregoing provisions shall continue in full force and effect, including, without limitation, the waiver of any right to

claim any consequential damages. Nothing in this Section or any other provision of this Agreement shall be construed to prevent Franchisor from claiming and obtaining expectation or consequential damages, including lost future royalties for the balance of the term of this Agreement if it is terminated due to Developer's default, which the parties agree and acknowledge Franchisor may claim under this Agreement.

H. THE PARTIES HEREBY AGREE TO WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM, WHETHER AT LAW OR EQUITY, REGARDLESS OF WHICH PARTY BRINGS SUIT. THIS WAIVER SHALL APPLY TO ANY MATTER WHATSOEVER BETWEEN THE PARTIES HERETO WHICH ARISES OUT OF OR IS RELATED IN ANY WAY TO THIS AGREEMENT OR THE PERFORMANCE OF EITHER PARTY.

I. THE PARTIES AGREE THAT ALL PROCEEDINGS ARISING OUT OF OR RELATED TO THIS AGREEMENT WILL BE CONDUCTED ON AN INDIVIDUAL, NOT A CLASS-WIDE BASIS, AND THAT ANY PROCEEDING BETWEEN DEVELOPER, DEVELOPER'S GUARANTORS AND FRANCHISOR OR ITS AFFILIATES/OFFICERS/EMPLOYEES MAY NOT BE CONSOLIDATED WITH ANY OTHER PROCEEDING BETWEEN FRANCHISOR AND ANY OTHER THIRD PARTY.

23. ENFORCEMENT

A. SEVERABILITY AND SUBSTITUTION OF VALID PROVISIONS

(1) Except as expressly provided to the contrary in this Agreement, each section, paragraph, term and provision of this Agreement, is considered severable and if, for any reason, any portion of this Agreement is held to be invalid, contrary to, or in conflict with any applicable present or future law or regulation in a final, unappealable ruling issued by any court, agency or tribunal with competent jurisdiction in a proceeding to which Franchisor is a party, that ruling shall not impair the operation of, or have any other effect upon, other portions of this Agreement as may remain otherwise intelligible, which shall continue to be given full force and effect and bind the parties to this Agreement, although any portion held to be invalid shall be deemed not to be a part of this Agreement from the date the time for appeal expires, if Developer is a party, otherwise upon Developer's receipt of a notice of non-enforcement from Franchisor.

(2) If any applicable and binding law or rule of any jurisdiction requires a greater prior notice of the termination of this Agreement than is required in this Agreement, or the taking of some other action not required, or if under any applicable and binding law or rule of any jurisdiction, any provision of this Agreement or any specification, standard or operating procedure Franchisor prescribes is invalid or unenforceable, the prior notice and/or other action required by law or rule shall be substituted for the comparable provisions, and Franchisor has the right, in its sole discretion, to modify the invalid or unenforceable provision, specification, standard or operating procedure to the extent required to be valid and enforceable. Developer agrees to be bound by any promise or covenant imposing the maximum duty permitted by law which is prescribed within the terms of any provision of this Agreement, as though it were separately articulated in and made a part of this Agreement, that may result from striking from any of the provisions, or any specification, standard or operating procedure Franchisor prescribes, any portion or portions which a court may hold to be unenforceable in a final decision to which Franchisor is a party, or from reducing the scope of any promise or covenant to the extent required to comply with a court order. Modifications to this Agreement shall be effective only in that jurisdiction, unless Franchisor elects to give them greater applicability, and this Agreement shall be enforced as originally made and entered into in all other jurisdictions.

B. EXCEPTIONS

Neither Franchisor nor Developer are liable for loss or damage or deemed to be in breach of this Agreement if its failure to perform its obligations results from: (1) transportation shortages, inadequate supply of labor, material or energy, or the voluntary foregoing of the right to acquire or use any of the foregoing in order to accommodate or comply with the orders, requests, regulations, recommendations or instructions of any federal, state or municipal government or any department or agency; (2) compliance with any law, ruling, order, regulation, requirement or instruction of any federal, state, or municipal government or any department or agency; (3) acts of God; (4) acts or omissions of the other party; (5) fires, strikes, embargoes, war or riot; or (6) any other similar event or cause. Any delay resulting from any of these causes shall extend performance accordingly or excuse performance, in whole or in part, as may be reasonable.

C. RIGHTS OF PARTIES ARE CUMULATIVE

The rights of Franchisor and Developer under this Agreement are cumulative and no exercise or enforcement by Franchisor or Developer of any right or remedy precludes the exercise or enforcement by Franchisor or Developer of any other right or remedy which Franchisor or Developer is entitled by law to enforce.

D. COSTS AND ATTORNEYS' FEES

If Developer is in breach or default of any monetary or non-monetary obligation under this Agreement or any related agreement between Developer and Franchisor and/or Franchisor's affiliates, and Franchisor engages an attorney to enforce Franchisor's rights (whether or not formal judicial proceedings are initiated), Developer must reimburse Franchisor for all costs/expenses incurred in connection with enforcing its rights under this Agreement including all reasonable attorneys' fees, court costs and litigation expenses. If Developer institutes any legal action to interpret or enforce the terms of this Agreement, and Developer's claim in such action is denied or the action is dismissed, Franchisor is entitled to recover Franchisor's reasonable attorneys' fees, and all other reasonable costs and expenses incurred in defending against same, and to have such an amount awarded as part of the judgment in the proceeding.

E. VARIANCES

Developer acknowledges that Franchisor has and may at different times approve exceptions or changes from the uniform standards of the System in Franchisor's absolute sole discretion, which Franchisor deems desirable or necessary under particular circumstances. Developer understands that he has no right to object to or automatically obtain such variances, and any exception or change must be approved in advance from Franchisor in writing. Developer understands existing Developers may operate under different forms of agreements and that the rights and obligations of existing Developers may differ materially from this Agreement.

F. BINDING EFFECT

This Agreement is binding upon the parties of this Agreement and their respective executors, administrators, heirs, assigns and successors in interest, and shall not be modified except by written agreement signed by both Developer and Franchisor.

G. CONSTRUCTION/INTEGRATION CLAUSE

This Agreement, all exhibits to this Agreement and all ancillary agreements executed contemporaneously with this Agreement constitute the entire agreement between the parties with reference to the subject matter of this Agreement and supersede any and all prior negotiations, undertakings, representations, and agreements; provided, however, that nothing in this or any related agreement is intended to disclaim the representations Franchisor made in the Franchise Disclosure Document that Franchisor furnished to Developer. Developer acknowledges that Developer is entering into this Agreement, and all ancillary agreements executed contemporaneously with this Agreement, as a result of Developer's own independent investigation of the franchised business and not as a result of any representations about Franchisor made by Franchisor's shareholders, officers, directors, employees, agents, representatives, independent contractors, attorneys, or Developers, which are contrary to the terms set forth in this Agreement or of any franchise disclosure document, offering circular, prospectus, or other similar document required or permitted to be given to Developer pursuant to applicable law.

Developer hereby acknowledges and further represents and warrants to Franchisor that:

1. Developer has placed no reliance on any oral or written statements, whether referred to as representations, warranties, inducements, or otherwise, which are not contained in this Agreement or in the Franchise Disclosure Document;
2. Developer has entered into this Agreement after making an independent investigation of Franchisor's operations and the System;
3. Franchisor has not made any guarantee or provided any assurance that the business location will be successful or profitable regardless of whether Franchisor may have approved of the franchise or site location;
4. Developer has (a) read this Agreement in its entirety and understands its contents; (b) been given the opportunity to clarify any provisions that Developer did not understand and (c) had the opportunity to consult with professional advisors regarding the operation and effect of the Agreement and the operation of the System;

5. Developer has, together with its advisors, sufficient knowledge and experience in financial and business matters to make an informed decision with respect to the franchise offered by Franchisor; and

6. Developer has received a copy of the Franchise Disclosure Document not later than the first personal meeting held to discuss the sale of a franchise, or fourteen (14) calendar days before execution of this Agreement or fourteen (14) calendar days before any payment of any consideration.

Except as may have been disclosed at Item 19 of Franchisor's Franchise Disclosure Document, Developer represents and warrants to Franchisor that no claims, representations, or warranties regarding the earnings, sales, profits, success or failure of the franchised business have been made to Developer and no such claims, representations or warranties have induced Developer to enter into this Agreement.

Except for those changes permitted to be made unilaterally by Franchisor, no amendment, change or variance from this Agreement is binding on either party unless mutually agreed to by the parties and executed by their authorized officers or agents in writing.

24. CAVEAT

A. The success of the business venture contemplated to be undertaken by this Agreement is speculative and depends, to a large extent, upon the ability of the Developer as an independent business person, and the active participation of Developer in the daily affairs of the business as well as other factors. Franchisor does not make any representation or warranty, express or implied, as to the potential success of the business venture contemplated hereby.

B. Developer acknowledges that it has entered into this Agreement after making an independent investigation of Franchisor's operations and not upon any representation as to gross sales, volume, potential earnings or profits which Developer in particular might be expected to realize, nor has anyone made any other representation which is not expressly set forth in this Agreement, to induce the Developer to accept this franchise and execute this Agreement.

C. Developer represents and acknowledges that he has received a copy of this Agreement, with all blanks filled in, from Franchisor at least seven (7) calendar days before the date of execution of this Agreement. Developer further represents that he understands the terms, conditions and obligations of this Agreement and agrees to be bound.

25. MISCELLANEOUS

A. Except as otherwise expressly provided, nothing in this Agreement is intended, nor shall be deemed, to confer any rights or remedies upon any person or legal entity who is not a party to this Agreement.

B. The headings of the several sections and paragraphs are for convenience only and do not define, limit or construe the contents of sections or paragraphs.

C. The "Developer" as used in this Agreement is applicable to one (1) or more persons, a corporation or a partnership or limited partnership or limited liability company as the case may be, and the singular usage includes the plural and the masculine and neuter usages include the other and the feminine. If two (2) or more persons are at any time Developer under this Agreement, their obligations and liabilities to Franchisor shall be joint and several. References to "Developer" and "Assignee" which are applicable to an individual or individuals shall mean the owner or owners of the equity or operating control of Developer or the Assignee, if Developer or the Assignee is a corporation, partnership, limited partnership or limited liability company.

This Agreement shall be executed in multiple copies, each of which shall be deemed an original.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement under seal on the date first written above.

FRANCHISOR:

DEVELOPER:

FARRELL'S EXTREME BODYSHAPING, INC.

By: _____
Lance Farrell, Chief Executive Officer

By: _____
Name: _____

Title: _____

ATTACHMENT TO DEVELOPMENT AGREEMENT
GUARANTY AND ASSUMPTION OF OBLIGATIONS

THIS GUARANTY AND ASSUMPTION OF OBLIGATIONS is given this day of _____, 20____, by _____, (each a “Guarantor”).

In consideration of, and as an inducement to, the execution of that certain Area Development Agreement (the “Area Development Agreement”) by and between Farrell’s Extreme Bodyshaping, Inc. (the “Franchisor”), and _____ (“Developer”), each of the undersigned (each, a “Guarantor”) hereby personally and unconditionally (a) guarantees to Franchisor, and its successor and assigns, for the term of the Area Development Agreement and as provided in the Area Development Agreement, that Developer shall punctually pay and perform each and every undertaking, agreement and covenant set forth in the Area Development Agreement; and (b) agrees to be personally bound by, and personally liable for the breach of, each and every obligation of Developer under the Area Development Agreement, both monetary obligations and non-monetary in nature, including without limitation, those obligations related to: confidentiality and non-disclosure; indemnification; the Proprietary Marks; the in-term and post-term covenants against competition, as well as all other restrictive covenants; and the governing law, venue, attorneys’ fees and other dispute resolution provisions set forth in the Area Development Agreement (that shall also apply to this Guaranty and Assumption of Obligations).

Each Guarantor hereby waives: (1) acceptance and notice of acceptance by Franchisor of the foregoing undertakings; (2) notice of demand for payment of any indebtedness or nonperformance of any obligations guaranteed; (3) protest and notice of default to any party with respect to the indebtedness or nonperformance of any obligations guaranteed; (4) any right Guarantor may have to require that an action be brought against Developer or any other person as a condition of liability; and (5) the defense of the statute of limitations in any action hereunder or for the collection of any indebtedness or the performance of any obligation hereby guaranteed.

Each Guarantor hereby consents and agrees that: (1) such Guarantor’s undertaking shall be direct, immediate and independent of the liability of, and shall be joint and several with, Developer and any other Guarantors; (2) Guarantor shall render any payment or performance required under the Area Development Agreement upon demand if Developer fails or refuses punctually to do so; (3) Guarantor’s liability shall not be contingent or conditioned upon pursuit by Franchisor of any remedies against Developer or any other person; (4) Guarantor’s liability shall not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which Franchisor may grant to Developer or to any other person, including the acceptance of any partial payment or performance, or the compromise or release of any claims, none of which shall in any way modify or amend this guaranty, which shall be continuing and irrevocable during the term of the Area Development Agreement; (5) this undertaking will continue unchanged by the occurrence of any bankruptcy with respect to Developer or any assignee or successor of Developer or by any abandonment of the Area Development Agreement by a trustee of Developer; (6) neither the Guarantor’s obligations to make payment or render performance in accordance with the terms of this undertaking nor any remedy for enforcement shall be impaired, modified, changed, released or limited in any manner whatsoever by any impairment, modification, change, release or limitation of the liability of Developer or its estate in bankruptcy or of any remedy for enforcement, resulting from the operation of any present or future provision of the U.S. Bankruptcy Act or other statute, or from the decision of any court or agency; (7) Franchisor may proceed against Guarantor and Developer jointly and severally, or Franchisor may, at its option, proceed against Guarantor, without having commenced any action, or having obtained any judgment against Developer; and (8) Guarantor shall pay all reasonable attorneys’ fees and all costs and other expenses incurred in any collection or attempt to collect amounts due pursuant to this undertaking or any negotiations relative to the obligations hereby guaranteed or in enforcing this undertaking against Guarantor.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Guaranty on the date stated on the first page hereof.

PERSONAL GUARANTORS

[Insert Name of Guarantor]

[Insert Name of Spouse]

[Insert Name of Guarantor]

[Insert Name of Spouse]

[Insert Name of Guarantor]

[Insert Name of Spouse]

[Insert Name of Guarantor]

[Insert Name of Spouse]

EXHIBIT A TO THE AREA DEVELOPMENT AGREEMENT

DEVELOPMENT AREA

The development rights and obligations of Developer, _____, to timely develop and open System Facilities shall be within the following described area:

DEVELOPER

By: _____

Name: _____

Title: _____

FRANCHISOR

FARRELL'S EXTREME BODYSHAPING, INC.

By: _____

Lance Farrell, Chief Executive Officer

EXHIBIT B TO AREA DEVELOPMENT AGREEMENT
DEVELOPMENT SCHEDULE

1. Development Schedule

Developer, _____, agrees to timely open System Facilities in compliance with the following development schedule (the "Development Schedule"). Developer further agrees that failure to timely open the Facilities in compliance with the Development Schedule shall cause the rights of exclusivity granted to Developer regarding the geographic area defined in Exhibit A to be forfeited.

The Development Schedule is as follows:

Expiration of Development Period	Number of New Unit Franchises that Must be Opened and Commence Operations Within Development Period	Number of Unit Franchises that Must be Open and Operating by the Expiration of the Development Period

2. Forfeiture of Rights of Exclusivity

Developer's failure to comply with the Development Schedule in any manner shall be grounds for Franchisor to (a) terminate the Development Agreement to which this Development Schedule is attached as an Exhibit, or (b) in lieu of such termination, terminate any exclusive or other territorial rights that Developer may have within the Development Area or otherwise under the Development Agreement.

APPROVED:

DEVELOPER

By: _____
 Name: _____
 Title: _____

FRANCHISOR

FARRELL'S EXTREME BODYSHAPING, INC.

By: _____
 Lance Farrell, Chief Executive Officer

EXHIBIT C TO AREA DEVELOPMENT AGREEMENT

FRANCHISE AGREEMENT

(for initial Franchised Business to be developed within the Development Area)

EXHIBIT D TO AREA DEVELOPMENT AGREEMENT

STATEMENT OF OWNERSHIP INTERESTS AND PRINCIPALS

A. The following is a list of shareholders, partners, members or other investors in Developer, including all investors who own or hold a direct or indirect interest in Developer, and a description of the nature of their interest:

<u>Name</u>	<u>Percentage of Ownership/Nature of Interest</u>
-------------	---

B. The following is a list of all of Principals described in and designated pursuant to this Area Development Agreement, each of whom shall execute the Confidentiality Agreement and Ancillary Covenants Not to Compete substantially

DEVELOPER

By: _____

Name: _____

Title: _____

FRANCHISOR

FARRELL'S EXTREME BODYSHAPING, INC.

By: _____

Lance Farrell, President

EXHIBIT E TO AREA DEVELOPMENT AGREEMENT
CONFIDENTIALITY AGREEMENT AND
ANCILLARY COVENANTS NOT TO COMPETE

This Agreement is made and entered into this _____ day of _____, 20__, between **FARRELL'S EXTREME BODYSHAPING, INC.**, an Iowa corporation ("Franchisor"), ("Developer"), and _____ ("Covenantor").

RECITALS

WHEREAS, Franchisor has obtained the right to develop a unique system (the "System") for the development and operation of System Facilities under the name and marks FARRELL'S EXTREME BODYSHAPING (each, a "Facility"); and

WHEREAS, the System includes, but is not limited to, certain trade names, service marks, trademarks, logos, emblems and indicia of origin, including, but not limited to, the mark FARRELL'S EXTREME BODYSHAPING and other trade names, service marks, trademarks, logos, insignia, slogans, emblems, designs and commercial symbols as Franchisor may develop in the future to identify for the public the source of services and products marketed under the marks and under the System and representing the System's high standards of quality, appearance, service and the System's proprietary methodology and procedures for the establishment and operating procedures, site selection guidance and criteria, specifications for the design, layout and construction of the interior of the Facility, standards and specifications for the furniture, fixtures and equipment located within a Facility, established relationships with approved or designated suppliers for certain products and services, and standards and specifications for advertising, bookkeeping, sales and other aspects of operating a Facility; all of which Franchisor may change, improve and further develop and which Franchisor uses in connection with the operation of the System (collectively, the "Confidential Information"); and

WHEREAS, the Proprietary Marks and Confidential Information provide economic advantages to Franchisor and are not generally known to, and are not readily ascertainable by proper means by, Franchisor's competitors who could obtain economic value from knowledge and use of the Confidential Information; and

WHEREAS, Franchisor has taken and intends to take all reasonable steps to maintain the confidentiality and secrecy of the Confidential Information; and

WHEREAS, Franchisor has granted Developer the limited right to develop a System Facility using the System, the Proprietary Marks and the Confidential Information, pursuant to an Area Development Agreement entered into on _____, 20__ ("Area Development Agreement"), by and between Franchisor and Developer; and

WHEREAS, Franchisor and Developer have agreed in the Area Development Agreement on the importance to Franchisor and to Developer and other licensed users of the System of restricting the use, access and dissemination of the Confidential Information; and

WHEREAS, it is necessary for certain employees, agents, independent contractors, officers, directors and equity interest holders of Developer, or any entity having an interest in Developer ("Covenantor") to have access to and to use some of all of the Confidential Information in the management and operation of Developer's System Facility using the System; and

WHEREAS, Developer has agreed to obtain from those covenantors written agreements protecting the Confidential Information and the System against unfair competition; and

WHEREAS, Covenantor wishes to remain, or wishes to become associated with or employed by Developer; and

WHEREAS, Covenantor wishes and needs to receive and use the Confidential Information in the course of his employment or association in order to effectively perform the services for Developer; and

WHEREAS, Covenantor acknowledges that receipt of and the right to use the Confidential Information constitutes independent valuable consideration for the representations, promises and covenants made by Covenantor.

NOW, THEREFORE, in consideration of the mutual covenant and obligations contained in this Agreement, the parties agree as follows:

Confidentiality Agreement

1. Franchisor and/or Developer shall disclose to Covenantor some or all of the Confidential Information relating to the System. All information and materials, including, without limitation, manuals, drawings, specifications, techniques and compilations of data which Franchisor provides to Developer and/or Covenantor are deemed Confidential Information for the purposes of this Agreement.
2. Covenantor shall receive the Confidential Information in confidence and must, at all times, maintain them in confidence, and use them only in the course of his employment or association with a Developer and then only in connection with the development and/or operation by Developer of a System Facility for so long as Developer is licensed by Franchisor to use the System.
3. Covenantor shall not at any time make copies of any documents or compilations containing some or all of the Confidential Information without Franchisor's express written permission.
4. Covenantor shall not at any time disclose or permit the disclosure of the Confidential Information except to other employees of Developer and only to the limited extent necessary to train or assist other employees of Developer in the development or operation of a System Facility.
5. Covenantor must surrender any material containing some or all of the Confidential Information to Developer or Franchisor, upon request, or upon termination of employment by Developer, or upon conclusion of the use for which the information or material may have been furnished to Covenantor.
6. Covenantor shall not at any time, directly or indirectly, do any act that would or would likely be injurious or prejudicial to the goodwill associated with the Confidential Information and the System.
7. Franchisor loans all manuals to Developer for limited purposes only and they remain the property of Franchisor and may not be reproduced, in whole or in part, without Franchisor's written consent.

Covenants Not to Compete

1. In order to protect the goodwill and unique qualities of the System and the confidentiality and value of the Confidential Information during the term of this Agreement, and in consideration for the disclosure to Covenantor of the Confidential Information, Covenantor further agrees and covenants as follows:
 - a. Not to divert, or attempt to divert, directly or indirectly, any business, business opportunity, or customer of the Facilities to any competitor;
 - b. Not to employ, or seek to employ, any person who is at the time or was within the preceding one hundred eighty (180) days employed by Franchisor, its affiliate or any Developer of Franchisor, or otherwise directly or indirectly induce such person to leave that person's employment except as may occur in connection with Developer's employment of that person if permitted under the Area Development Agreement; and
 - c. Except with respect to Facilities operated under a valid and existing Franchise Agreement between Developer (or Developer's affiliates) and Franchisor, own, maintain, operate, engage in, or have any financial or beneficial interest in (including any interest in corporations, partnerships, trusts, limited liability companies, unincorporated associations or joint ventures), advise, assist or make loans to, any Competing Business (as defined below) or a business that is of a character and concept similar to a System Facility. For purposes of this Agreement, a "Competing Business" is defined as any business which generates ten percent (10%) or more of its revenue from the sale of personal and group fitness training, fitness counseling, or nutritional counseling (or any combination thereof) that are similar to that offered by a System Facility location, or any business which grants franchises or licenses to others to operate such a Competing Business.
2. In further consideration for the disclosure to Covenantor of the Confidential Information and to protect the uniqueness of the System, Covenantor agrees and covenants that for two (2) years following the earlier of the expiration, termination or transfer of all Developer's interest in the Area Development Agreement or the termination of his association with or employment by Developer, Covenantor will not without the prior written consent of Franchisor:
 - a. Divert or attempt to divert, directly or indirectly, any business, business opportunity or customer of the Facilities to any competitor;
 - b. Employ, or seek to employ, any person who is at the time or was within the preceding one hundred eighty (180) days employed by Franchisor, its affiliate or any franchisee of franchisor, or otherwise directly or indirectly induce such persons to leave that person's employment; and

c. Except with respect to Facilities operated under Franchise Agreements between Developer and its affiliates, and Franchisor or its affiliate or any of its subsidiaries, own, maintain, operate, engage in, or have any financial or beneficial interest in (including any interest in corporations, partnerships, trusts, limited liability companies, unincorporated associations or joint ventures), advise, assist or make loans to, any Competing Business or a business that is of a character and concept similar to a System Facility (i) within the Development Area granted to Developer; or (ii) within a twenty-five (25) mile radius of the perimeter of the Development Area being granted to Developer or any other designated territory or development area licensed by Franchisor to a System Facility as of the date of expiration, termination or transfer of all Developer's interest in the Area Development Agreement or the termination of Covenantor's association with or employment by Developer.

Miscellaneous

1. Developer shall make all commercially reasonable efforts to ensure that Covenantor acts as required by this Agreement.

2. Covenantor agrees that in the event of a breach of this Agreement, Franchisor would be irreparably injured and be without an adequate remedy at law. Therefore, in the event of a breach, or threatened or attempted breach of any of the provisions, Franchisor is entitled to enforce the provisions of this Agreement and is entitled, in addition to any other remedies available to it at law or in equity, including the right to terminate the Area Development Agreement, to a temporary and/or permanent injunction and a decree for the specific performance of the terms of this Agreement, without the necessity of showing actual or threatened harm and without being required to furnish a bond or other security.

3. Covenantor agrees to pay all expenses (including court costs and reasonable attorneys' fees) incurred by Franchisor and Developer in enforcing this Agreement.

4. Any failure by Franchisor to object to or take action with respect to any breach of this Agreement by Covenantor shall not operate or be construed as a waiver of or consent to that breach or any subsequent breach by Covenantor.

5. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF FLORIDA AND COVENANTOR HEREBY IRREVOCABLY SUBMITS HIMSELF TO THE JURISDICTION OF THE STATE COURT CLOSEST TO FRANCHISOR'S THEN-CURRENT HEADQUARTERS OR, IF APPROPRIATE, THE UNITED STATES DISTRICT COURT FOR THE DISTRICT FOR THE MIDDLE DISTRICT OF FLORIDA. COVENANTOR HEREBY WAIVES ALL QUESTIONS OF PERSONAL JURISDICTION OR VENUE FOR THE PURPOSE OF CARRYING OUT THIS PROVISION. COVENANTOR HEREBY AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON HIM IN ANY PROCEEDING RELATING TO OR ARISING UNDER THIS AGREEMENT OR THE RELATIONSHIP CREATED BY THIS AGREEMENT BY ANY MEANS ALLOWED BY FLORIDA OR FEDERAL LAW. COVENANTOR FURTHER AGREES THAT VENUE FOR ANY PROCEEDING RELATING TO OR ARISING OUT OF THIS AGREEMENT SHALL BE ONE OF THE COURTS DESCRIBED ABOVE IN THIS SECTION; PROVIDED, HOWEVER, WITH RESPECT TO ANY ACTION WHICH INCLUDES INJUNCTIVE RELIEF OR OTHER EXTRAORDINARY RELIEF, FRANCHISOR MAY BRING SUCH ACTION IN ANY COURT IN ANY STATE WHICH HAS JURISDICTION.

6. The parties acknowledge and agree that each of the covenants contained in this Agreement are reasonable limitations as to time, geographical area, and scope of activity to be restrained and do not impose a greater restraint than is necessary to protect the goodwill or other business interests of Franchisor. The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant in this Agreement is held unreasonable or unenforceable by a court or agency having valid jurisdiction in any unappealed final decision to which Franchisor is a part, Covenantor expressly agrees to be bound by any lesser covenant subsumed within the terms of the covenant that imposes the maximum duty permitted by law as if the resulting covenant were separately stated in and made a part of this Agreement.

7. This Agreement contains the entire agreement of the parties regarding the subject matter of this Agreement. This Agreement may be modified only by a duly authorized writing executed by all parties.

8. All notices and demands required to be given must be in writing and sent by personal delivery, expedited delivery service, certified or registered mail, return receipt requested, first-class postage prepaid, facsimile or electronic mail, (provided that the sender confirms the facsimile or electronic mail, by sending an original confirmation

copy by certified or registered mail or expedited delivery service within three (3) business days after transmission), to the respective parties at the following addresses unless and until a different address has been designated by written notice to the other parties.

If directed to Franchisor, the notice shall be addressed to

Farrells Extreme Bodyshaping, Inc.
Attn.: Lance Farrell, CEO
8510 New York Avenue
Urbandale, Iowa 50322

If directed to Developer, the notice shall be addressed to:

Attention: _____

If directed to Covenantor, the notice shall be addressed to:

Attention: _____

Any notices sent by personal delivery shall be deemed given upon receipt. Any notices given by facsimile or electronic mail shall be deemed given upon transmission, provided confirmation is made as provided above. Any notice sent by expedited delivery service or registered or certified mail shall be deemed given three (3) business days after the time of mailing. Any change in the foregoing addresses shall be effected by giving fifteen (15) days written notice of such change to the other parties. Business day for the purpose of this Agreement excludes Saturday, Sunday and the following national holidays: New Year's Day, Martin Luther King Day, Presidents' Day, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving and Christmas.

9. The rights and remedies of Franchisor under this Agreement are fully assignable and transferable and inure to the benefit of its respective parent, successor and assigns. The respective obligations of Developer and Covenantor hereunder may not be assigned by Developer or Covenantor without the prior written consent of Franchisor.

***[THE REST OF THIS PAGE HAS BEEN LEFT INTENTIONALLY BLANK
SIGNATURES ON THE FOLLOWING PAGE]***

IN WITNESS WHEREOF, the undersigned have entered into this Agreement as witnessed by their signatures below.

DEVELOPER:

COVENANTOR:

(If Developer is a corporation or Limited Liability Company)

Name of Corporation or Limited Liability Company

Print Name: _____

Date: _____

By: _____

Title: _____

(If Developer is an individual or partnership, each individual owner
Or each partner, as applicable, must sign below:

Developer

Developer

Developer

EXHIBIT C
To Franchise Disclosure Document

FINANCIAL STATEMENTS

FARRELL'S EXTREME BODYSHAPING, INC.

AUDITED FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020

FARRELL'S EXTREME BODYSHAPING, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Stockholders
Farrell's eXtreme Bodyshaping, Inc.
West Des Moines, Iowa

Opinion

We have audited the financial statements of Farrell's eXtreme Bodyshaping, Inc. (the "Company"), which comprise the balance sheet as of December 31, 2021, and the related statements of income, stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter – 2020 Financial Statements

The financial statements of the Company as of and for the year ended December 31, 2020, were audited by LWBJ, LLP, who merged into UHY LLP as of January 4, 2022, and who expressed an unmodified opinion on those statements dated March 23, 2021.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 2021 financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Information Included in the Franchise Disclosure Document

Management is responsible for the other information included in the Company's Franchise Disclosure Document. The other information comprises the nonfinancial information included in the Franchise Disclosure Document, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

UHY LLP

West Des Moines, Iowa

April 12, 2022

FARRELL'S EXTREME BODYSHAPING, INC.

Balance Sheets

December 31, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 549,482	\$ 206,374
Accounts receivable, less allowance for doubtful accounts of \$150,000 and \$81,000 as of December 31, 2021 and 2020, respectively	168,389	179,969
Other receivable	48,104	49,412
Prepaid expenses	59,958	16,861
Inventory	24,003	40,176
Refundable income taxes	33,337	140,046
Total current assets	883,273	632,838
Property and equipment, net	66,085	59,285
Intangible and other assets, net	153,320	181,010
Total assets	\$ 1,102,678	\$ 873,133
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 62,005	\$ 23,571
Accrued liabilities	67,881	50,753
Deferred revenue, current	28,705	33,975
Long-term debt due within one year	21,273	363,472
Total current liabilities	179,864	471,771
Long-term liabilities:		
Deferred revenue, net of current portion	113,753	89,475
Long-term debt due after one year	537,980	198,777
Deferred income taxes	58,800	57,400
Total long-term liabilities	710,533	345,652
Total liabilities	890,397	817,423
Stockholders' equity:		
Common stock, no par value, 1,000,000 shares authorized; 200,000 issued; and 150,000 outstanding	120,080	120,080
Treasury stock, 50,000 shares, at cost	(375,000)	(375,000)
Retained earnings	467,201	310,630
Total stockholders' equity	212,281	55,710
Total liabilities and stockholders' equity	\$ 1,102,678	\$ 873,133

See accompanying notes.

FARRELL'S EXTREME BODYSHAPING, INC.

Statements of Income

For the years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues:		
Franchise fees	\$ 31,793	\$ 84,009
Training	140,000	130,000
Royalties	953,300	792,568
Merchandise sales	17,858	14,421
Marketing fund	6,807	6,286
Rebates and other	57,637	38,124
Total revenues	<u>1,207,395</u>	<u>1,065,408</u>
Operating expenses:		
Payroll expense	570,105	612,788
Professional fees	129,116	183,790
Franchise costs	72,581	107,350
Facilities and equipment	71,122	101,252
Travel and corporate development	97,010	67,693
Advertising	73,371	55,625
Cost of merchandise sold	16,173	13,115
Depreciation	15,425	21,337
Other administrative	150,425	77,118
Total cost of revenues	<u>1,195,328</u>	<u>1,240,068</u>
Operating income (loss)	<u>12,067</u>	<u>(174,660)</u>
Other income (expense):		
Gain on loan forgiveness	140,783	126,700
Other income	6,696	7,000
Interest income	24,042	22,603
Interest expense	(20,887)	(18,846)
Total other income	<u>150,634</u>	<u>137,457</u>
Net income (loss) before income taxes	<u>162,701</u>	<u>(37,203)</u>
Income tax expense (benefit):		
Current	4,730	(101,750)
Deferred	1,400	30,100
Total income tax expense (benefit)	<u>6,130</u>	<u>(71,650)</u>
Net income	<u>\$ 156,571</u>	<u>\$ 34,447</u>

See accompanying notes.

FARRELL'S EXTREME BODYSHAPING, INC.

Statements of Stockholders' Equity

For the years ended December 31, 2021 and 2020

	<u>Common Stock</u>	<u>Treasury Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 2019	\$ 120,080	\$ (375,000)	\$ 276,183	\$ 21,263
Net income	-	-	34,447	34,447
Balance, December 31, 2020	<u>120,080</u>	<u>(375,000)</u>	<u>310,630</u>	<u>55,710</u>
Net income	-	-	156,571	156,571
Balance, December 31, 2021	<u>\$ 120,080</u>	<u>\$ (375,000)</u>	<u>\$ 467,201</u>	<u>\$ 212,281</u>

See accompanying notes.

FARRELL'S EXTREME BODYSHAPING, INC.

Statements of Cash Flows

For the years ended December 31, 2021 and 2020

	2021	2020
Operating activities		
Net income	\$ 156,571	\$ 34,447
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	70,115	109,160
Gain on disposal of property and equipment	(6,696)	-
Gain on loan forgiveness	(140,783)	(126,700)
Provision for losses on accounts receivable	69,000	13,459
Deferred tax expense	1,400	30,100
Decrease (increase) in accounts and other receivables	(56,112)	(34,698)
Decrease (increase) in prepaid expenses	(43,097)	3,655
Decrease in inventory	16,173	11,690
Decrease (increase) in refundable income taxes	106,709	(103,007)
Increase in accounts payable	38,434	7,339
Increase (decrease) in accrued liabilities	17,128	(21,606)
Increase (decrease) in deferred revenue	19,008	(151,009)
Net cash provided by (used in) operating activities	247,850	(227,170)
Investing activities		
Payments for intangible and other assets	(27,000)	(42,500)
Net cash used in investing activities	(27,000)	(42,500)
Financing activities		
Payments on long-term debt	(11,525)	(12,129)
Proceeds from long-term debt	133,783	283,700
Net cash provided by financing activities	122,258	271,571
Net increase in cash and cash equivalents	343,108	1,901
Cash and cash equivalents at beginning of year	206,374	204,473
Cash and cash equivalents at end of year	\$ 549,482	\$ 206,374
Supplemental disclosures		
Interest paid	\$ 15,262	\$ 15,799
Income taxes paid (refunded)	(101,797)	1,257
Non-cash investing and financing activity:		
Vehicle, subject to note payable, traded for vehicle, subject to note payable	\$ 15,529	\$ -

See accompanying notes.

FARRELL'S EXTREME BODYSHAPING, INC.

Notes to Financial Statements

December 31, 2021

1. Summary of Significant Accounting Policies and Related Matters

Nature of Business

Farrell's eXtreme Bodyshaping, Inc. (the "Company") franchises Farrell's eXtreme Bodyshaping operations, fitness centers, throughout the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

All liquid investments purchased with a maturity of three months or less are considered to be cash equivalents. At various times during the years ended December 31, 2021 and 2020, the Company maintained balances in excess of the balance insured by the Federal Deposit Insurance Corporation. The Company does not believe it is exposed to any significant credit risk related to cash and cash equivalents.

Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Inventory

The Company values inventory at the lower of cost or net realizable value using the first-in, first-out method.

Property and Equipment

The Company's property and equipment are recorded at cost and depreciated using the straight-line method over the asset's estimated useful life, 5 to 7 years. Expenditures for maintenance and repairs necessary to maintain equipment in proper operating condition are expensed as incurred. Major replacements and betterments are capitalized.

FARRELL'S EXTREME BODYSHAPING, INC.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies and Related Matters (continued)

Intangibles and Other Assets

Intangibles and other assets are amortized by the straight-line method over the estimated useful lives ranging from 3 to 15 years. The Company reviews its intangibles and other assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Revenue from Contracts with Customers

Company revenues consist primarily of initial franchise fees, transfer fees, training fees, development rights agreements ("DRAs"), royalties, marketing fund, and rebates and other fees.

The Company's primary performance obligations under the franchise agreement is granting the franchisee rights to use the Company's intellectual property and providing training to new owners and managers through FXB University ("FXBU"). FXBU is an extensive, in-person, class for new owners and head coaches, that is typically conducted quarterly or as needed. Other than FXBU, all pre-opening services the Company provides under the franchise agreement are considered highly interrelated, and are therefore accounted for as a single performance obligation, the franchise right, which is satisfied over the term of the franchise agreement, which is typically 10 years. .

Initial franchise fees and transfer fees are payable by the franchisee upon signing a new franchise agreement or when one franchisee transfers a franchise agreement to a different franchisee. Included within the initial franchise fees and transfer fees is tuition for the new owner or manager to attend FXBU. FXBU is considered a separate performance obligation as it is not highly interrelated with the franchise right as the training is not brand specific and consists principally of training that could be relevant to the operations of a similar business. The Company has determined the value allocable to FXBU based upon the price that third parties charge for comparable education.

The allocation of the contract amount to the franchise right is calculated as the proceeds collected for the initial franchise fee and transfer fee received less the value allocable to FXBU. If the value allocable to FXBU exceeds the proceeds received, no value is allocated to the franchise right, and FXBU allocation is reduced to equal the proceeds received. Initial franchise fees and transfer fees are recognized as franchise revenue on a straight-line basis over the term of the respective franchise agreement. FXBU fees are recognized upon completion of the program by the franchisee as training revenue.

DRAs generally consist of obligations to grant geographic exclusive development rights to current or prospective franchisees for a set period of time, and are payable upon signing. Revenue is deferred and apportioned to each franchise agreement signed, or recognized upon expiration if no development.

FARRELL'S EXTREME BODYSHAPING, INC.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies and Related Matters (continued)

Revenue from Contracts with Customers (continued)

Royalties are calculated as a percentage of franchisee gross sales over the term of the franchise agreement, and are payable in arrears. Royalties represent sales-based royalties that are related entirely to the franchise agreement performance obligation and are recognized as franchisee sales occur. Revenues from rebates and the sale of merchandise are recognized as products are sold and collectability is reasonably assured. In addition, franchisees agree to contribute an amount that the Company periodically specifies to the marketing fund, up to 3% of the franchisee's gross sales, to be used for advertising.

Incremental costs to obtain contracts, typically lead generation and sales closing expenses are capitalized and amortized on a straight line basis over the over the term of the respective franchise agreement.

Deferred Revenue

Deferred revenue resulting from initial franchise fees, transfer fees, and DRA fees paid by franchisees which are generally recognized on a straight-line basis over the term of the underlying franchise agreement. Deferred FXBU revenues are typically recognized upon completion of the program.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

Income taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences arise from the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Reclassifications

Certain amounts in the December 31, 2020 financial statements were reclassified to conform to the current year presentation.

FARRELL'S EXTREME BODYSHAPING, INC.

Notes to Financial Statements (continued)

2. Franchise Arrangements

The following is a summary of changes in the number of outlets during 2021 and 2020:

	2021	2020
Franchised outlets:		
In operation, beginning of year	55	65
New franchises during the year	1	2
Franchises closed during the year	(1)	(12)
Total in operation, end of year	55	55

3. Property and Equipment

Property and equipment consists of the following at December 31:

	2021	2020
Vehicles	\$ 90,869	\$ 96,717
Equipment	12,898	12,898
	103,767	109,615
Less accumulated depreciation	37,682	50,330
Total	\$ 66,085	\$ 59,285

4. Intangibles and Other Assets

Intangible and other assets consist of the following at December 31:

	2021	2020
Franchise agreement	\$ 46,774	\$ 46,774
Regional franchise agreement	24,665	24,665
Trademarks and patents	9,578	9,578
Renderings for building design	10,500	10,500
Lead generation agreement	32,000	32,000
Software	171,875	171,875
Contract assets (Note 8)	131,000	104,000
	426,392	399,392
Less accumulated amortization	273,072	218,382
Total	\$ 153,320	\$ 181,010

Amortization expense years subsequent to December 31, 2021 is estimated as follows:

2022	\$ 40,103
2023	26,897
2024	17,389
2025	15,842
2026	13,878
Thereafter	39,211
	\$ 153,320

FARRELL'S EXTREME BODYSHAPING, INC.

Notes to Financial Statements (continued)

5. Debt

Long-term debt consists of the following at December 31:

	2021	2020
Vehicle note payable, repaid in 2021.	\$ -	\$ 55,249
Note payable maturing in January 2027, payable in monthly installments of \$1,110, including interest of 4.62%, secured by a Company vehicle.	59,253	-
Borrowing under the Small Business Administration's ("SBA") Economic Injury Disaster Loan established under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The loan matures in June 2050, and is payable in monthly installments of \$731 beginning in December 2022, including interest of 3.75%. The loan is secured by significantly all assets of the Company.	150,000	150,000
Borrowing under the SBA's Paycheck Protection Program ("PPP") established under the CARES Act. See further information below.	-	7,000
Note payable maturing in December 2026, payable in monthly installments of \$2,132, including interest of 4.00%; The loan is secured by substantially all assets of the Company as well as guarantees from the stockholders of the Company and an affiliated entity.	350,000	-
Revolving note payable, refinanced with note payable in 2021.	-	350,000
	559,253	562,249
Less current portion of long-term debt	21,273	363,472
Long-term debt, net of current portion	\$ 537,980	\$ 198,777

Aggregate maturities of long-term debt for each of the five succeeding years subsequent to December 31, 2021 are as follows:

2022	\$ 21,273
2023	23,355
2024	24,344
2025	25,461
2026	313,718
Thereafter	151,102
	\$ 559,253

FARRELL'S EXTREME BODYSHAPING, INC.

Notes to Financial Statements (continued)

5. Debt (continued)

Paycheck Protection Program

During the years ended December 31, 2021 and 2020, the Company received \$133,783 and \$133,700, respectively, in borrowings using the PPP. The loans were subsequently forgiven by the SBA, and the Company has recorded gain on loan forgiveness on the statements of income of \$140,783 and \$126,700 for the years ended December 31, 2021 and 2020, respectively. The SBA reserves the right to review forgiveness for six years from the forgiveness date.

6. Income Taxes

In March 2020, the CARES Act was signed into law and, among other things, permitted net operating loss carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows net operating losses incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years. The Company is able to utilize operating losses generated during the year ended December 31, 2020, resulting in \$102,750 of additional income tax receivable as of December 31, 2020.

The tax effects of significant items comprising the Company's net deferred tax assets (liabilities) as of December 31 are as follows:

	<u>2021</u>	<u>2020</u>
Allowance for doubtful accounts	\$ 39,000	\$ 21,100
State net operating loss carryforwards	12,200	12,100
Property and equipment	(14,400)	(1,400)
Intangibles	(37,700)	(43,400)
Accrual to cash adjustments	<u>(57,900)</u>	<u>(45,800)</u>
Net deferred tax liability	<u>\$ (58,800)</u>	<u>\$ (57,400)</u>

As of December 31, 2021, the Company has net operating loss carryforwards for various states of approximately \$245,000

Income tax expense (benefit) differs from the amounts computed by applying the United States federal income tax rate of 21% to pre-tax earnings as a result of the following:

	<u>2021</u>	<u>2020</u>
Computed "expected" tax expense (benefit)	\$ 34,167	\$ (7,813)
State income taxes, net of federal benefit	1,318	(3,232)
Nondeductible and nontaxable items	87	2,378
Rate differential for CARES Act carryback	-	(36,307)
Nontaxable PPP forgiveness	(29,564)	(26,607)
Reconciliation to return, rate differential and other	<u>122</u>	<u>(69)</u>
Income tax expense (benefit)	<u>\$ 6,130</u>	<u>\$ (71,650)</u>

FARRELL'S EXTREME BODYSHAPING, INC.

Notes to Financial Statements (continued)

6. Income Taxes (continued)

The Company has analyzed its filing positions open to review and believes all significant positions have a "more-likely-than-not" likelihood of being upheld based on their technical merits or would not result in taxes assessed against the Company.

7. Trademark License Agreement, Management Agreement and Related-Party Activity

The Company operates under a trademark licensing agreement with an affiliate through common ownership. The agreement may be terminated with 180 days written notice by either party. Under the agreement, the Company was granted royalty-free, nonexclusive, personal and nontransferable right and license to its use and sublicense of the use of the trademarks in the territory solely in connection with the Company's business of licensing to franchisees its business system and know-how regarding the operation of the Company's franchises. At various times during the years ended 2021 and 2020, the Company made advances to, and received payments from, an affiliate through common ownership. There were no amounts due from, or to, the affiliate at December 31, 2021 or 2020.

8. Contract Assets and Liabilities

Costs associated with lead generation and sales closings are recognized as contract assets, and are amortized on a straight line basis over the term of the respective franchise agreement. Contract assets are included within intangible assets on the balance sheets (see Note 4). The following table reflects contract assets as of December 31:

	<u>Carrying Value</u>	<u>Accumulated Amortization</u>
Balance at December 31, 2019	\$ 132,000	\$ 3,783
Amortization expense	-	37,934
Disposal of asset	<u>(28,000)</u>	<u>(28,000)</u>
Balance at December 31, 2020	104,000	13,717
Incremental costs paid to obtain contracts	27,000	-
Amortization expense	-	12,650
Balance at December 31, 2021	<u>\$ 131,000</u>	<u>\$ 26,367</u>

Contract liabilities consist of deferred revenue resulting from initial franchise fees, transfer fees, and DRA fees which are generally recognized on a straight-line basis over the term of the underlying franchise agreement. Deferred revenue as of December 31 are as follows:

	<u>2021</u>	<u>2020</u>
Franchise	\$ 132,458	\$ 93,450
DRA's	10,000	20,000
Training	-	10,000
	<u>\$ 142,458</u>	<u>\$ 123,450</u>

FARRELL'S EXTREME BODYSHAPING, INC.

Notes to Financial Statements (continued)

8. Contract Assets and Liabilities (continued)

The following table reflects the change in contract liabilities for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Beginning of year	\$ 123,450	\$ 274,459
Revenue recognized during year that was deferred at beginning of year	(36,058)	(161,009)
Contract liabilities entered into during year, net of recognized during year	<u>55,066</u>	<u>10,000</u>
End of year	<u>\$ 142,458</u>	<u>\$ 123,450</u>

The following table illustrates estimated revenues expected to be recognized in each of the five succeeding years subsequent to December 31, 2021 related to performance obligations that are unsatisfied (or partially unsatisfied) as of December 31, 2021.

2022	\$ 28,705
2023	17,205
2024	16,955
2025	16,205
2026	15,955
Thereafter	<u>47,433</u>
	<u>\$ 142,458</u>

9. Operating Lease

The Company has an operating lease for corporate office space. The lease has a term of five years, expiring in November 2022, with an option to renew the lease at the end of the initial term. For the years ended December 31, 2021 and 2020, lease expense was \$36,270 and \$34,213, respectively. Future minimum lease payments for the year ended December 31, 2022 is \$27,913.

10. Employee Retention Credits

Under the provisions of the CARES Act and its subsequent extension, the Company was eligible for a refundable employee retention credit ("ERC"), subject to certain criteria, for the period from April 1, 2020 through September 30, 2021. The Company recognized \$122,471 and \$49,412 as a reduction of payroll expense on the statements of income related to the ERC during the years ended December 31, 2021 and 2020, respectively, as the Company has determined it has substantially met the barriers stipulated by the ERC. As of December 31, 2021 and 2020, \$48,104 and \$49,412, respectively, related to the ERC is recorded as other receivable on the Company's balance sheets.

11. Subsequent Events

Management has evaluated potential subsequent events through April 12, 2022, which is the date the financial statements were available to be issued.

FARRELL'S EXTREME BODYSHAPING, INC.

Financial Statements

December 31, 2019

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Independent Auditors' Report

To the Stockholders
Farrell's eXtreme Bodyshaping, Inc.
West Des Moines, Iowa

We have audited the accompanying financial statements of Farrell's eXtreme Bodyshaping, Inc. which comprise the balance sheets as of December 31, 2019 and 2018 and the related statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Farrell's eXtreme Bodyshaping, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

LWBJ, LLP

West Des Moines, Iowa
March 30, 2020

FARRELL'S EXTREME BODYSHAPING, INC.

Balance Sheets

December 31, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 204,473	\$ 271,321
Accounts receivable, less allowance for doubtful accounts of \$81,000 and \$100,000 as of December 31, 2019 and 2018, respectively	208,142	174,650
repaid expenses	20,516	67,474
Inventory	51,866	30,672
Refundable income taxes	37,039	37,009
Total current assets	522,036	581,126
Property and equipment, net	80,622	57,560
Intangible and other assets, net	226,333	99,304
Total assets	\$ 828,991	\$ 737,990
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 16,232	\$ 35,242
Accrued liabilities	72,359	83,149
Deferred revenue, current	110,970	-
Long-term debt due within one year	12,115	14,151
Total current liabilities	211,676	132,542
Long-term liabilities:		
Deferred revenue, net of current portion	163,489	-
Long-term debt due after one year	405,263	379,542
Deferred income taxes	27,300	67,200
Total long-term liabilities	596,052	446,742
Total liabilities	807,728	579,284
Stockholders' equity:		
Common stock, no par value, 1,000,000 shares authorized; 200,000 issued; and 150,000 outstanding	120,080	120,080
Treasury stock, 50,000 shares, at cost	(375,000)	(375,000)
Retained earnings	276,183	413,626
Total stockholders' equity	21,263	158,706
Total liabilities and stockholders' equity	\$ 828,991	\$ 737,990

See accompanying notes.

FARRELL'S EXTREME BODYSHAPING, INC.

Statements of Operations

For the years ended December 31, 2019 and 2018

	2019	2018
Revenues:		
Franchise fees	\$ 68,658	\$ 130,000
Training	230,000	-
Royalties	1,164,745	1,240,526
Merchandise sales	28,688	46,873
Rebates and other	52,301	54,866
Total revenues	1,544,392	1,472,265
Operating expenses:		
Payroll expense	744,044	751,571
Professional fees	182,733	186,426
Franchise costs	85,434	49,184
Facilities and equipment	145,341	132,062
Travel and corporate development	148,400	104,382
Advertising	153,172	135,430
Cost of merchandise sold	27,050	40,910
Depreciation	26,198	25,161
Other administrative	37,490	42,968
Total cost of revenues	1,549,862	1,468,094
Operating income (loss)	(5,470)	4,171
Other income (expense):		
Interest income	21,295	18,779
Interest expense	(19,331)	(2,194)
Total other income	1,964	16,585
Net income (loss) before income taxes	(3,506)	20,756
Income tax expense (benefit):		
Current	420	33,042
Deferred	5,200	(25,667)
Total income tax expense	5,620	7,375
Net income (loss)	\$ (9,126)	\$ 13,381

See accompanying notes.

FARRELL'S EXTREME BODYSHAPING, INC.

Statements of Stockholders' Equity

For the years ended December 31, 2019 and 2018

	<u>Common Stock</u>	<u>Treasury Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 2017	\$ 120,080	\$ -	\$ 400,245	\$ 520,325
Repurchase of treasury stock	-	(375,000)	-	(375,000)
Net income	-	-	13,381	13,381
Balance, December 31, 2018	<u>120,080</u>	<u>(375,000)</u>	<u>413,626</u>	<u>158,706</u>
Cumulative effect adjustment (Notes 1 and 9)	-	-	(128,317)	(128,317)
Net loss	-	-	(9,126)	(9,126)
Balance, December 31, 2019	<u>\$ 120,080</u>	<u>\$ (375,000)</u>	<u>\$ 276,183</u>	<u>\$ 21,263</u>

See accompanying notes.

FARRELL'S EXTREME BODYSHAPING, INC.

Statements of Cash Flows

For the years ended December 31, 2019 and 2018

	2019	2018
Operating activities		
Net income (loss)	\$ (9,126)	\$ 13,381
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	71,689	54,959
Gain on disposal of property and equipment	(5,402)	-
Deferred tax expense (benefit)	5,200	(25,667)
Decrease (increase) in accounts receivable	(33,492)	134,896
Decrease (increase) in prepaid expenses	46,958	(37,872)
Decrease (increase) in inventory	(21,194)	25,036
Increase in refundable income taxes	(30)	(29,328)
Decrease in accounts payable	(19,010)	(18,652)
Increase (decrease) in accrued liabilities	(10,790)	11,171
Increase in deferred revenue	101,042	-
Decrease in income tax payable	-	(43,779)
Net cash provided by operating activities	125,845	84,145
Investing activities		
Purchases of property and equipment	-	(10,249)
Proceeds from disposal of property and equipment	23,000	-
Payments for intangible and other assets	(172,000)	(21,050)
Net cash used in investing activities	(149,000)	(31,299)
Financing activities		
Payments on long-term debt	(43,693)	(22,404)
Proceeds from long term debt	-	350,000
Repurchase of treasury stock	-	(375,000)
Net cash used in financing activities	(43,693)	(47,404)
Net increase (decrease) in cash and cash equivalents	(66,848)	5,442
Cash and cash equivalents at beginning of year	271,321	265,879
Cash and cash equivalents at end of year	\$ 204,473	\$ 271,321
Supplemental disclosures		
Interest paid	\$ 19,331	\$ 2,194
Income taxes paid	450	106,149
Non-cash investing and financing activity:		
Equipment acquired through note payable	\$ 67,378	\$

See accompanying notes.

FARRELL'S EXTREME BODYSHAPING, INC.

Notes to Financial Statements

December 31, 2019

1. Summary of Significant Accounting Policies and Related Matters

Nature of Business

Farrell's eXtreme Bodyshaping, Inc. (the "Company") franchises Farrell's eXtreme Bodyshaping operations ("fitness centers") throughout the Midwest. The Company's revenue is from its franchised locations. Affairs of the Company are governed by its bylaws dated January 1, 2007.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

All liquid investments purchased with a maturity of three months or less are considered to be cash equivalents. At various times during the years ended December 31, 2019 and 2018, the Company maintained balances in excess of the balance insured by the Federal Deposit Insurance Corporation. The Company does not believe it is exposed to any significant credit risk related to cash and cash equivalents.

Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Inventory

The Company values inventories at the lower of cost or net realizable value using the first-in, first-out method.

Property and Equipment

The Company's property and equipment are recorded at cost and depreciated using the straight-line method over the asset's estimated useful life. Expenditures for maintenance and repairs necessary to maintain equipment in proper operating condition are expensed as incurred. Major replacements and betterments are capitalized.

FARRELL'S EXTREME BODYSHAPING, INC.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies and Related Matters (continued)

Intangibles and Other Assets

Intangibles and other assets are amortized by the straight-line method over the estimated useful lives ranging from 3 to 15 years. The Company reviews its intangibles and other assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Revenue from Contracts with Customers

Effective January 1, 2019, the Company adopted Financial Accounting Standards Board Accounting Standards Codification Topic 606, *Revenue From Contracts with Customers*, ("ASC 606"), using the modified retrospective transition method. The financial statements for the year ended December 31, 2018 were prepared under the guidance of previous standards. As a result, the Company recorded a \$128,317 cumulative effect adjustment as of January 1, 2019 on the statement of stockholders' equity (see Note 10).

Company revenues consist primarily of initial franchise fees, transfer fees, training fees, development rights agreements ("DRAs"), royalties, and rebates and other fees.

The Company's primary performance obligations under the franchise agreement is granting the franchisee rights to use the Company's intellectual property and providing training to new owners and managers through FXB University ("FXBU"). FXBU is an extensive, in-person, class for new owners and head coaches, that is typically conducted quarterly or as needed. Other than FXBU, all pre-opening services the Company provides under the franchise agreement are considered highly interrelated, and are therefore accounted for under ASC 606 as a single performance obligation, the franchise right, which is satisfied over the term of the franchise agreement. Under the previous standards, initial franchise fees and transfer fees were recognized when substantially all preopening services provided to the franchisee had been performed. Training fees were not separately distinguished, as there was no significant timing difference between recognition.

Initial franchise fees and transfer fees are payable by the franchisee upon signing a new franchise agreement or when one franchisee transfers a franchise agreement to a different franchisee. Included within the initial franchise fees and transfer fees is tuition for the new owner or manager to attend FXBU. FXBU is considered a separate performance obligation as is not highly interrelated with the franchise right as the training is not brand specific and consist principally of training that could be relevant to the operations of a similar business. The Company has determined the value allocable to FXBU based upon the price that third parties charge for comparable education.

The allocation of the contract amount to the franchise right is calculated as the proceeds collected for the initial franchise fee and transfer fee received less the value allocable to FXBU. If the value allocable to FXBU exceeds the proceeds received, no value is allocated to the franchise right, and FXBU allocation is reduced to equal the proceeds received. Initial franchise fees and transfer fees are recognized as franchise revenue on a straight-line basis over the term of the respective franchise agreement. FXBU fees are recognized upon completion of the program by the franchisee as training revenue.

FARRELL'S EXTREME BODYSHAPING, INC.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies and Related Matters (continued)

Revenue from Contracts with Customers (continued)

DRAAs generally consist of obligations to grant geographic exclusive development rights to current or prospective franchisees for a set period of time, and are payable upon signing. Revenue is deferred and apportioned to each franchise agreement signed, or recognized upon expiration if no development.

Royalties are calculated as a percentage of franchisee gross sales over the term of the franchise agreement, and are payable in arrears. Royalties represent sales-based royalties that are related entirely to the franchise agreement performance obligation and are recognized as franchisee sales occur. Revenues from rebates and the sale of merchandise are recognized as products are sold and collectability is reasonably assured. In addition, franchisees agree to contribute an amount that the Company periodically specifies to the marketing fund, up to 3% of the franchisee's gross sales, to be used for advertising.

Incremental costs to obtain contracts, typically lead generation and sales closing expenses are capitalized and amortized on a straight line basis over the over the term of the respective franchise agreement.

Deferred Revenue

Deferred revenue resulting from initial franchise fees, transfer fees, and DRA fees paid by franchisees which are generally recognized on a straight-line basis over the term of the underlying franchise agreement. Deferred FXBU revenues are typically recognized at upon completion of the program.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

Income taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences arise from the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Recently Adopted Accounting Pronouncements

ASC 606 was adopted by the Company effective January 1, 2019. This guidance requires that an entity recognize revenue to depict the transfer of a promised good or service to its customers in an amount that reflects consideration to which the entity expects to receive. This guidance also specifies accounting for certain costs incurred by an entity to obtain a contract with a customer and provides for enhancements to revenue specific disclosures intended to allow users of the financial statements to clearly understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with its customers. See above for revenue recognition policies and Notes 9 and 10 for further information.

FARRELL'S EXTREME BODYSHAPING, INC.

Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies and Related Matters (continued)

Reclassifications

Certain amounts in the December 31, 2018 financial statements were reclassified to conform to the current year presentation.

2. Franchise Arrangements

The following is a summary of changes in the number of outlets during 2019 and 2018:

	2019	2018
Franchised outlets:		
In operation, beginning of year	66	60
New franchises during the year	2	8
Franchises closed during the year	(3)	(2)
Total in operation, end of year	65	66

3. Property and Equipment

Property and equipment consists of the following at December 31:

	2019	2018
Vehicles	\$ 96,717	\$ 117,329
Equipment	12,898	12,898
	109,615	130,227
Less accumulated depreciation	28,993	72,667
Total	\$ 80,622	\$ 57,560

4. Intangibles and Other Assets

Intangible and other assets consist of the following at December 31:

	2019	2018
Franchise agreement	\$ 46,774	\$ 46,774
Regional franchise agreement	24,665	24,665
Trademarks and patents	9,578	9,578
Renderings for building design	10,500	10,500
Software	161,375	121,375
Contract assets (Note 9)	132,000	-
	384,892	212,892
Less accumulated amortization	158,559	113,588
Total	\$ 226,333	\$ 99,304

FARRELL'S EXTREME BODYSHAPING, INC.

Notes to Financial Statements (continued)

4. Intangibles and Other Assets (continued)

Amortization expense for each of the five succeeding years subsequent to December 31, 2019 is estimated as follows:

2020		\$	59,622
2021			43,454
2022			28,415
2023			16,086
2024			14,442
Thereafter			<u>64,314</u>
			<u>\$ 226,333</u>

5. Debt

ong-term debt consists of the following at December 31:

	<u>2019</u>		<u>2018</u>
Note payable maturing in 2024, payable in monthly installments of \$1,271, including interest of 4.94%, secured by a Company vehicle.	\$ 67,378	\$	-
Notes payable repaid in 2019.	-		43,693
Revolving note payable, with interest due monthly at the prime interest rate (4.75% at December 31, 2019). All unpaid interest and principal due December 2021. The line is guaranteed and secured by personal assets of a stockholder.	<u>350,000</u>		<u>350,000</u>
	417,378		393,693
ess current portion of long-term debt	<u>12,115</u>		<u>14,151</u>
ong-term debt, net of current portion	<u>\$ 405,263</u>		<u>\$ 379,542</u>

Aggregate maturities of long-term debt for each of the four succeeding years subsequent to December 31, 2019 are as follows:

2020		\$	12,115
2021			362,813
2022			13,460
2023			14,140
2024			<u>14,850</u>
			<u>\$ 417,378</u>

FARRELL'S EXTREME BODYSHAPING, INC.

Notes to Financial Statements (continued)

6. Income Taxes

The tax effects of significant items comprising the Company's net deferred tax assets (liabilities) as of December 31 are as follows:

	<u>2019</u>	<u>2018</u>
Allowance for doubtful accounts	\$ 21,100	\$ 26,000
Property and equipment	(2,200)	(7,200)
Intangibles	(53,700)	(19,100)
Accrual to cash adjustments	7,500	(66,900)
Net deferred tax liability	<u>\$ (27,300)</u>	<u>\$ (67,200)</u>

Income tax expense differs from the amounts computed by applying the United States federal income tax rate of 21% to pre-tax earnings as a result of the following:

	<u>2019</u>	<u>2018</u>
Computed "expected" tax expense (benefit)	\$ (736)	\$ 4,359
State income taxes, net of federal benefit	988	2,602
Nondeductible and nontaxable items	5,283	1,996
Reconciliation to return, rate differential and other	85	(1,582)
Income tax expense	<u>\$ 5,620</u>	<u>\$ 7,375</u>

The Company has analyzed its filing positions open to review and believes all significant positions have a "more-likely-than-not" likelihood of being upheld based on their technical merits or would not result in taxes assessed against the Company.

7. Trademark License Agreement, Management Agreement and Related-Party Activity

The Company operates under a trademark licensing agreement with an affiliate through common ownership. The agreement may be terminated with 180 days written notice by either party. Under the agreement, the Company was granted royalty-free, nonexclusive, personal and nontransferable right and license to its use and sublicense of the use of the trademarks in the territory solely in connection with the Company's business of licensing to franchisees its business system and know-how regarding the operation of the Company's franchises. At various times during the years ended 2019 and 2018, the Company made advances to, and received payments from, an affiliate through common ownership. There were no amounts due from, or to, the affiliate at December 31, 2019 or 2018.

8. Stockholders' Equity

During the year ended December 31, 2018, the Company repurchased 50,000 shares from one of its stockholders for \$375,000.

FARRELL'S EXTREME BODYSHAPING, INC.

Notes to Financial Statements (continued)

9. Contract Assets and Liabilities

Costs associated with lead generation and sales closings are recognized as contract assets, and are amortized on a straight line basis over the over the term of the respective franchise agreement. Contract assets are included within intangible assets on the balance sheets (see Note 4). The following table reflects the change in contract assets from January 1, 2019 to December 31, 2019:

	Carrying Value	Accumulated Amortization
Balance January 1, 2019	\$ -	\$ -
Amortization expense	-	3,783
Incremental costs paid to obtain contracts	132,000	-
Balance at December 31, 2019	\$ 132,000	\$ 3,783

Contract liabilities consist of deferred revenue resulting from initial franchise fees, transfer fees, and DRA fees which are generally recognized on a straight-line basis over the term of the underlying franchise agreement. Deferred revenue as of December 31, 2019 and January 1, 2019 consists of the following:

	December 31, 2019	January 1, 2019
Franchise	\$ 164,459	\$ 103,417
DRA's	30,000	10,000
Training	80,000	60,000
	\$ 274,459	173,417

The following table reflects the change in contract liabilities from January 1, 2019 to December 31, 2019:

Balance January 1, 2019	\$ 173,417
Revenue recognized during year that was deferred at beginning of year	(104,083)
Contract liabilities entered into during year	205,125
Balance at December 31, 2019	\$ 274,459

The following table illustrates estimated revenues expected to be recognized in each of the five succeeding years subsequent to December 31, 2019 related to performance obligations that are unsatisfied (or partially unsatisfied) as of December 31, 2019.

2020	\$ 110,970
2021	30,970
2022	30,720
2023	19,220
2024	18,970
Thereafter	63,609
	\$ 274,459

FARRELL'S EXTREME BODYSHAPING, INC.

Notes to Financial Statements (continued)

10. Financial Statement Impact of Transition to ASC 606

As described in Note 1, the Company adopted ASC 606 using the modified retrospective method on January 1, 2019. The cumulative effect of this transition to applicable contracts with customers that were not completed as of January 1, 2019, applied on an individual contract basis, was recorded as an adjustment to retained earnings as of that date.

As a result of applying the modified retrospective method to transition to ASC 606, the following adjustments were made to the consolidated balance sheet as of January 1, 2019:

	As Reported December 31, 2018	Restatement	As Restated January 1, 2019
Deferred revenue	\$ -	\$ 173,417	\$ 173,417
Deferred income taxes	67,200	(45,100)	22,100
Retained earnings	413,626	(128,317)	285,309

The monetary impact of adopting ASC 606 on each financial statement line item as of and for the year ended December 31, 2019 is as follows:

	As Reported December 31, 2019	Effects of ASC 606	Balance without ASC 606 Adopted
Intangible assets	\$ 226,333	\$ (128,217)	\$ 98,116
Total assets	<u>\$ 828,991</u>	<u>\$ (128,217)</u>	<u>\$ 700,774</u>
Deferred revenue, current	\$ 110,970	\$ (110,970)	-
Deferred revenue, net of current portion	163,489	(163,489)	-
Deferred income tax liability	<u>27,300</u>	<u>38,000</u>	<u>65,300</u>
Total liabilities	807,728	(236,459)	571,269
Retained earnings	<u>276,183</u>	<u>108,242</u>	<u>384,425</u>
Total liabilities and stockholder' equity	<u>\$ 828,991</u>	<u>\$ (128,217)</u>	<u>\$ 700,774</u>
Franchise revenue	\$ 68,658	\$ 331,042	\$ 399,700
Training revenue	<u>230,000</u>	<u>(230,000)</u>	<u>-</u>
Total revenues	1,544,392	101,042	1,645,434
Franchise costs	<u>85,434</u>	<u>128,217</u>	<u>213,651</u>
Total cost of revenue	<u>1,549,862</u>	<u>128,217</u>	<u>1,678,079</u>
Total operating loss	(5,470)	(27,125)	(32,645)
Deferred tax expense (benefit)	<u>5,200</u>	<u>(7,100)</u>	<u>(1,900)</u>
Net loss	<u>\$ (9,126)</u>	<u>\$ (20,075)</u>	<u>\$ (29,201)</u>

FARRELL'S EXTREME BODYSHAPING, INC.

Notes to Financial Statements (continued)

11. Subsequent Events

The Company's operations may be affected by the recent and ongoing outbreak of the coronavirus disease 2019 ("COVID-19") which has been declared a pandemic by the World Health Organization. The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Company is unable to determine the impact this will have on its operations.

Management has evaluated potential subsequent events through March 30, 2020, which is the date the financial statements were available to be issued.

EXHIBIT D
To Franchise Disclosure Document

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EXHIBIT E
To Franchise Disclosure Document

LIST OF FRANCHISEES WITH FRANCHISED STUDIOS THAT WERE OPEN AS OF DECEMBER 31, 2022

Franchisee	Franchise ID	Street Address	City	ST	Zip	Phone
Mark and Jenny Vohsman, Good Stuff Fitness, LLC	Championship View FXB	5850 Championship View, Suite 140	Colorado Springs	CO	80922	719-473-3921
Ariel Doctoroff, FXB 5280, LLC	Denver FXB	1547 South Colorado Boulevard	Denver	CO	80222	303-756-2639
Flynn McCartney and Pat Thomas, Transform Fitness, LLC	Bloomington-Hershey FXB	1804 South Hershey Road	Bloomington	IL	61704	309-664-1601
Flynn McCartney and Pat Thomas, Transform Fitness, LLC	East Peoria FXB	212 Veterans Drive	East Peoria	IL	61611	319-362-0075
Flynn McCartney and Pat Thomas, Transform Fitness, LLC	Peoria – Knoxville FXB	5832 N. Knoxville Avenue, Suite L	Peoria	IL	61614	319-362-0075
Flynn McCartney and Pat Thomas, Transform Fitness, LLC	Springfield FXB	3246 Ginger Creek Drive	Springfield	IL	62711	217-993-9820
Bill and Ashley Ryan, Sheri and Steve Rico, RYCO Fitness, LLC	Landmark FXB	430 S. Landmark Avenue	Bloomington	IN	47403	812-822-2712
Sean McAuliffe, P1/P2 Fitness, LLC	Columbus FXB	3230 N. National Road	Columbus	IN	47201	812-375-9920
Jan Arnold and Taryn Deenik	Greenwood FXB	3011 Meridian Meadows Road	Greenwood	IN	46142	317-884-6521
David Shilling, Finish Strong, LLC	Altoona FXB	1003 8 th Street SW	Altoona	IA	50009	515-867-1073
Joni Gammon, Fierce Fighters, Inc.	Ames FXB	605 East Lincoln Highway	Ames	IA	50010	515-509-4007
Andrew and Amy Sadler, A Sadler Investments, LLC	Ankeny FXB	121 N. 18 th Street	Ankeny	IA	50021	309-781-3832
Dan Harvey, Spartan Strength, LLC	Bettendorf FXB	2501 East 53 rd Avenue	Bettendorf	IA	52722	563-505-4240

Franchisee	Franchise ID	Street Address	City	ST	Zip	Phone
Pat Thomas, Thomas Fitness, LLC	C.R. Boyson FXB	576 Boyson Road NE	Cedar Rapids	IA	52042	319-362-0075
Pat Thomas, Thomas Fitness, LLC	C.R. C Street FXB	5761 C Street SW	Cedar Rapids	IA	52404	319-841-2233
Pat Thomas, Thomas Fitness, LLC	C.R. Edgewood North FXB	5240 Edgewood Road NE	Cedar Rapids	IA	52411	319-832-0000
Pat Thomas, Thomas Fitness, LLC	Coralville – Oakdale FXB	2761 Oakdale Boulevard	Coralville	IA	52241	319-626-2285
Ryan Winter, FXB DSM, LLC	South Des Moines FXB	4230 Fleur Drive	Des Moines	IA	50321	515-287-2739
Mike and Jenn Nethery, MJN Fitness, LLC	Dubuque – Meinen FXB	2478 Meinen Court	Dubuque	IA	52002	563-564-7696
Scott Carpenter, Level X, LLC	Grimes – FXB	1451 SE 3 rd St, Suite 500	Grimes	IA	50111	515-986-0865
Pat Thomas, Thomas Fitness, LLC	Iowa City FXB	964 South 1 st Avenue	Iowa City	IA	52240	319-338-5878
Denise DeHamer and Nicholas Cicero, Success Unlimited, LLC	Urbandale FXB	8801 Hickman Road	Urbandale	IA	50322	515-251-3942
Angie Fuller, Ryan Sheridan, and Dan Hanawalt, DARE Fitness	Cedar Valley FXB	4507 Algonquin Dr, Suite C	Cedar Falls	IA	50613	319-234-2348
Ryan Winter, FXB EP True, LLC	EP True FXB	1905 EP True Parkway	West Des Moines	IA	50265	515-707-6042
Robyn Keller and Brittany Widman, B.R.E.W. Fitness	Albertville FXB	5262 Kyler Avenue NE	Albertville	MN	55301	763-777-1616
Cindi Nikituk, CK Hardcore Fitness, LLC	Andover FXB	2246 Bunker Lane Boulevard, Suite 205	Andover	MN	55304	763-276-9688

Franchisee	Franchise ID	Street Address	City	ST	Zip	Phone
Cindi Nikituk, CK Hardcore Fitness, LLC	Blaine FXB	1510 109 th Avenue, Suite 160	Blaine	MN	55449	763-784-2401
Cheryl and Chris Soli, Live Life Love Fitness, LLC	Brooklyn Park FXB	9618 Colorado Lane	Brooklyn Park	MN	55445	763-316-6458
Casey Bloemke and Ed McNamara – Wolverine Fitness, LLC	Eden Prairie FXB	9627 Anderson Lake Parkway	Eden Prairie	MN	55344	952-522-3113
Robyn Keller and Brittany Widman, B.R.E.W Fitness	Elk River FXB	19140 Freeport Street NW	Elk River	MN	55330	763-777-1616
Robyn Keller and Brittany Widman, B.R.E.W. Fitness	Forest Lake FXB	808 Lake Street South	Forest Lake	MN	55025	651-464-4041
Jeremy and Jacque Whiteford, 4You Fitness, LLC	Mankato FXB	1170 South Riverfront Drive	Mankato	MN	56001	218-329-2266
Dale DeSteno and Chanell Leach, DRD Training, LLC	Maple Grove FXB	9893 Maple Grove Parkway North	Maple Grove	MN	55369	612-245-8933
Casey Bloemke and Ed McNamara – Wolverine Fitness, LLC	North Loop	304 6 th Ave N	Minneapolis	MN	55401	773-430-8660
Leslie Egan and Abby O'Reilly, Achieve Level 10 Fitness, LLC	Stillwater FXB	5825 Neal Avenue North	Stillwater	MN	55082	651-342-1063
Casey Bloemke and Ed McNamara – Wolverine Fitness, LLC	St. Paul FXB	477 Selby Ave	St. Paul	MN	55102	651-369-7272
Lorenzo Rollie and Lenore Schoenfelder, Level 10 Fitness, LLC	Rochester – North 52 FXB	4214 Highway 52N	Rochester	MN	55901	507-322-4243
Cindi Nikituk, CK Hardcore Fitness, LLC	Shoreview FXB	1037 West Highway 96	Shoreview	MN	55126	763-400-8707
Justin Gordon and Jillian Faber, Intense Fitness, LLC	White Bear FXB	1210 County Road J	White Bear Township	MN	55127	651-407-2942
Justin Gordon and Jillian Faber, Intense Fitness, LLC	Woodbury FXB	1960 Donegal Drive, Suite 10	Woodbury	MN	55125	651-407-2942
Nick Senior, Senior Enterprise, LLC	Bellevue FXB	2219 Capeheart Road	Bellevue	NE	68123	402-408-6404
Carol Wisecarver, Penny Mc Williams,	La Vista FXB	10351 Portal Road	La Vista	NE	68128	402-408-4143

Franchisee	Franchise ID	Street Address	City	ST	Zip	Phone
and Joe Stein, PJC, LLC						
Nicole Essink, Essink Energy, LLC	Lincoln-Yankee Ridge FXB	3900 Yankee Hill Rd, Ste 147 Rd, Ste 147	Lincoln	NE	68516	402-310-4026
Nicole Essink, Essink Energy, LLC	Lincoln-Meadowlane FXB	920 N. 70 th	Lincoln	NE	68505	402-310-4761
Melissa Bildt and Andye Serflaten-Lamm, FXB 402, LLC	Omaha Northwest FXB	4975 N. 120 th Street	Omaha	NE	68164	402-408-5818
Andrew and Erin Peters, Healthy at 7624, LLC	Midtown FXB	7610 Dodge Street	Omaha	NE	68144	402-201-2474
Mike and Penny Ranallo, Shinning Penny, LLC	Omaha West Dodge FXB	15791 West Dodge Road	Omaha	NE	68118	402-630-0362
Dan Coops, NPMA, LLC	Omaha 180 th & Q FXB	18101 R Plaza #3	Omaha	NE	68135	402-547-3381
Lisa Lanz, Virga Vitality, LLC	Hudson FXB	1301 Gateway Circle, Suite 400	Hudson	WI	54016	715-718-3603
Nicole Jackson and Jess Ammann, Stronger Together, LLC	Madison FXB	6060 McKee Road	Fitchburg	WI	53719	608-341-8497

List of Franchisees With Signed Franchise Agreements for Studios Not Yet Open as of December 31, 2022

Franchisee	Franchise ID	Street Address	City	ST	Zip	Phone
Laxmi Narasimhan, PRG Software Solution	Irvine FXB	NA	Irvine	CA		949-202-8972
Katie Lunde, FXB Anthem	Anthem, AZ	3668 W. Anthem Way, Ste B-132	Anthem	AZ	85086	720-594-8092

List of Franchisees Who Left the System in the Past Fiscal Year Ending December 31, 2022

Franchisee	City	State	Telephone or E-Mail
Tricia Helton	Fort Myers	FL	813-600-3742
Stephanie Wilson	Ankeny	IA	515-778-6941
Pat Thomas (1)	Bettendorf	IA	319-651-4346
Eric White	West Des Moines	IA	563-529-0725
Krista Berbig	New Hope	MN	612-875-6140
Zach Berbig	Plymouth	MN	763-383-1010
Jeremy Eppenbaugh	Omaha	NE	402-208-9585
Pat Gerleman	Little Elm	TX	214-223-5797
Nicole Trowbridge	Spring	TX	832-559-7671

Note (1) – These System franchisees still have one (1) or more active franchised Studios under other form(s) of franchise agreement with us, but did have their franchised Studio located in the City/State disclosed in the Chart above cease operations or otherwise exit the System.

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

EXHIBIT F
To Franchise Disclosure Document

STATE-SPECIFIC ADDENDA TO THE FDD AND/OR AGREEMENTS

ADDITIONAL STATE DISCLOSURES

If the franchise being awarded is subject to the franchise-specific laws of one (1) or more of the following states because (a) the franchise prospect is a resident of that state, and/or (b) the franchise rights being awarded in within that state, as applicable under the specific state statute(s) at issue, the addendum (or addenda) of that state set forth below will apply to the franchise documents and should be entered into with Franchisor.

ILLINOIS

ADDENDUM TO DISCLOSURE DOCUMENT

Notwithstanding anything in the FDD issued by Franchisor to the contrary, the parties agree and acknowledge as follows:

Illinois law governs the Franchise Agreement and Development Agreement with regards to any state-specific claim arising out of Illinois franchise laws or franchise regulations.

In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in the Franchise Agreement and/or Development Agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, a franchise agreement may provide for arbitration and/or mediation to take place outside of Illinois.

Your rights upon Termination and Non-Renewal are set forth in Sections 19 and 20 of the Illinois Franchise Disclosure Act.

In conformance with Section 4 of the Illinois Franchise Disclosure Act, any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.

ILLINOIS

AMENDMENT TO FRANCHISE AGREEMENT AND DEVELOPMENT AGREEMENT

The Franchise Agreement and Development Agreement are specifically amended as follows:

In recognition of the requirements of the Illinois Franchise Disclosure Act of 1987 (as amended), the parties to the attached Franchise Agreement and, if applicable, Development Agreement, agree as follows:

Illinois law shall govern the Franchise Agreement and Development Agreement with regards to any and all claims arising out of or based upon an Illinois franchise-specific law or regulation that is applicable to the sale/awarding of the franchise right(s) at issue.

In conformance with Section 4 of the Illinois Franchise Disclosure Act, any provision in a franchise agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, a franchise agreement may provide for mediation and/or arbitration to take place outside of Illinois.

Your rights upon Termination and Non-Renewal are set forth in Sections 19 and 20 of the Illinois Franchise Disclosure Act.

In conformance with Section 4 of the Illinois Franchise Disclosure Act, any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Amendment, understands and consents to be bound by all of its terms.

FARRELL'S EXTREME BODYSHAPING, INC. FRANCHISEE : _____

By: _____

By: _____

Title: _____

Title: _____

MINNESOTA

ADDENDUM TO DISCLOSURE DOCUMENT

In accordance with the requirements of the state of Minnesota the following disclosure should be read in conjunction with the Disclosure Document. Any inconsistency with the information contained in the Disclosure Document will be resolved in favor of this Minnesota Addendum.

Item 13 **Trademarks** is amended by adding the following:

As required by the Minnesota Franchise Act, Minn. Stat. Sec. 80C.12(g), we will reimburse you for any of your costs incurred in the defense of your right to use the Marks, so long as you were using the Marks in the manner authorized by us, and so long as we are timely notified of the claim and are given the right to manage the defense of the claim including the right to compromise, settle or otherwise resolve the claim, and to determine whether to appeal a final determination of the claim.

Item 17 – **Renewal, Termination, Transfer and Dispute Resolution** in each Chart disclosed in this Item 17 is amended by adding the following:

Renewal and Termination

With respect to franchises governed by Minnesota law, we will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4 and 5 which require, except in certain specified cases, that you be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the Agreement.

Choice of Forum

Nothing in the Disclosure Document or Agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes 1984, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

Releases

A general release shall not relieve any person from liability imposed by the Minnesota Franchise Law, Minn. Stat., Chapter 80C, Sections 80C.22.

These franchises have been registered under the Minnesota Franchise Act, registration does not constitute approval, recommendation, or endorsement by the Commissioner of Commerce of Minnesota or a finding by the Commissioner that the information provided herein is true, complete, and not misleading.

The Minnesota Franchise Act makes it unlawful to offer or sell any franchise in this state which is subject to registration without first providing to the franchisee, at least 7 days prior to the execution by the prospective franchisee of any binding franchise or other agreement, or at least 7 days prior to the payment of any consideration, by the franchisee, whichever occurs first, a copy of this Disclosure Document, together with a copy of all proposed agreements relating to the franchise. This Disclosure Document contains a summary only of certain material provisions of the Franchise Agreement. The contract or agreement should be referred to for an understanding of all rights and obligations of both the franchisor and the franchisee.

MINNESOTA

AMENDMENT TO FRANCHISE AGREEMENT AND DEVELOPMENT AGREEMENT

The Franchise Agreement and, if applicable, Development Agreement are hereby specifically amended as follows:

In recognition of the Minnesota Franchise Law, Minn. Stat., Chapter 80C, Sections 80C.01 through 80C.22, and the Rules and Regulations promulgated pursuant thereto by the Minnesota Commission of Securities, Minnesota Rule 2860.4400, et seq., the parties to the attached Franchise Agreement (“Agreement”) agree as follows:

With respect to franchises governed by Minnesota law, Franchisor will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4 and 5 which require, except in certain specified cases, that Franchisee be given 90 days’ notice of termination (with 60 days to cure) and 180 days’ notice of non-renewal of the Agreement.

As required by Minnesota Franchise Act, Minn. Stat. Sec. 80C.12(g), Franchisor will reimburse Franchisee for any costs incurred by Franchisee in the defense of Franchisee’s right to use the Marks, so long as Franchisee was using the Marks in the manner authorized by Franchisor, and so long as Franchisor is timely notified of the claim and is given the right to manage the defense of the claim including the right to compromise, settle or otherwise resolve the claim, and to determine whether to appeal a final determination of the claim.

With respect to franchises governed by Minnesota law, Franchisor will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4 and 5 which require, except in certain specified cases, that Franchisee be given 90 days’ notice of termination (with 60 days to cure) and 180 days’ notice of non-renewal of the Agreement.

A general release shall not relieve any person from liability imposed by the Minnesota Franchise Law, Minn. Stat., Chapter 80C, Section 80C.22.

The franchisee cannot consent to franchisor obtaining injunctive relief. The franchisor may seek injunctive relief. *See* Minn. Rule 2860.4400J. A court will determine if a bond is required.

Nothing in the Disclosure Document or the Franchise Agreement (and, if applicable, Development Agreement) can abrogate or reduce any of your rights as provided for in Minnesota Statutes 1984, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction.

Any claims brought pursuant to the Minnesota Franchises Act, § 80.C.01 et seq. must be brought within 3 years after the cause of action accrues. To the extent that any provision of the Franchise Agreement or Development Agreement imposes a different limitations period for such claims, the provision of the Act shall control.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Amendment, understands and consents to be bound by all of its terms.

FARRELL’S EXTREME BODYSHAPING, INC. FRANCHISEE: _____

By: _____

By: _____

Title: _____

Title: _____

EXHIBIT G
To Franchise Disclosure Document

SAMPLE FORM OF GENERAL RELEASE

This General Release (“Release”) is made and entered into on this ____ day of _____, 20____ by and between FBX (“Franchisor”) and _____ (“Franchisee”).

WITNESSETH:

WHEREAS, Franchisor and Franchisee are parties to a LIME Painting Franchise Agreement (the “Franchise Agreement”) dated _____, 20__, granting Franchisee the right to operate a franchised business utilizing Franchisor’s then-current (a) proprietary marks and (b) system of operations, at the following location: _____

NOW THEREFORE, in consideration of the mutual covenants and conditions contained in this Release, and other good and valuable consideration, receipt of which is hereby acknowledged by each of the parties hereto, the parties hereto agree as follows:

Franchisee, for itself and its successors, predecessors, assigns, beneficiaries, executors, trustees, agents, representatives, employees, officers, directors, shareholders, partners, members, subsidiaries and affiliates (jointly and severally, the “Releasors”), irrevocably and absolutely releases and forever discharges Franchisor and its successors, predecessors, assigns, beneficiaries, executors, trustees, agents, representatives, employees, officers, directors, shareholders, partners, members, subsidiaries and affiliates (jointly and severally, the “Releasees”), of and from all claims, obligations, actions or causes of action (however denominated), whether in law or in equity, and whether known or unknown, present or contingent, for any injury, damage, or loss whatsoever arising from any acts or occurrences occurring as of or prior to the date of this Release relating to the Franchise Agreement, the business operated under the Franchise Agreement, and/or any other agreement between any of the Releasees and any of the Releasors. The Releasors, and each of them, also covenant not to sue or otherwise bring a claim against any of the Releasees regarding any of the claims being released under this Release. Releasors hereby acknowledge that this release is intended to be a full and unconditional general release, as that phrase is used and commonly interpreted, extending to all claims of any nature, whether or not known, expected or anticipated to exist.

To the extent applicable to this release and the scope of released claims,, each of the Releasors expressly acknowledges that they are familiar with the provisions of Section 1542 of the California Civil Code which provides as follows:

A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing a release, which if known by him or her must have materially affected his or her settlement with the debtor.

Each of the Releasors hereby specifically and expressly waives all rights that it may have under Section 1542 of the California Civil Code or any similar provision of law in any other jurisdiction. This Release shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law. Releasors acknowledge and agree that they have read the terms of this Release, they fully understand and voluntarily accept the terms, and that they have entered into this Release voluntarily and without any coercion.

IN WITNESS WHEREOF, the parties hereto have executed this Release as of the date first above written.

FRANCHISOR

FRANCHISEE

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

EXHIBIT H
To Franchise Disclosure Document

STATE EFFECTIVE DATES

The following states require that the Franchise Disclosure Document be registered or filed with the state, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin.

This Franchise Disclosure Document is registered, on file or exempt from registration in the following states having franchise registration and disclosure laws if an effective date is noted below for the state:

STATE	EFFECTIVE DATE
CALIFORNIA	Not filed
HAWAII	Not filed
ILLINOIS	Pending
INDIANA	Pending
MARYLAND	Not Registered
MICHIGAN	March 4, 2023
MINNESOTA	Pending
NEW YORK	Not filed
NORTH DAKOTA	Not filed
RHODE ISLAND	Not filed
SOUTH DAKOTA	Not filed
VIRGINIA	Pending filed
WASHINGTON	Not filed
WISCONSIN	April 30, 2023

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

EXHIBIT I
To Franchise Disclosure Document

RECEIPTS

RECEIPT

This disclosure document summarizes provisions of the Franchise Agreement and/or Development Agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If FARRELL’S EXTREME BODYSHAPING, INC. offers you a franchise, it must provide this disclosure document to you 14 days before you sign a binding agreement or make a payment with the franchisor or an affiliate in connection with the proposed franchise sale. New York and Rhode Island require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreements or payment of any consideration that relates the franchise relationship. Michigan requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement, or the payment of any consideration, whichever occurs first.

If FARRELL’S EXTREME BODYSHAPING, INC. does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and in the state agency listed on Exhibit “G.”

The Franchisor is FARRELL’S EXTREME BODYSHAPING, INC, located at 8510 New York Avenue Urbandale, Iowa 50322. Its telephone number is (515) 770-7295.

Issuance Date: April 27, 2023.

FARRELL’S EXTREME BODYSHAPING, INC. authorizes the respective state agencies identified on Exhibit “A” to receive service of process for it in the particular state.

I received a disclosure document dated April 27, 2023 that included the following Exhibits:

- A – List of State Administrators and Agents for Service of Process
- B –1 Franchise Agreement
- B –2 Development Agreement
- C – Financial Statements
- D – Table of Contents of Manual
- E – List of Franchisees and Franchisees Who Left the System
- F – State Specific Addenda
- G – Sample Release Agreement
- H – State Effective Dates
- I – Receipts

A list of the names, principal business addresses, and telephone numbers of each franchise seller offering this franchise is as follows:

Individual, Corporation or Limited Liability Company Information:

By: _____

Name of Entity: _____

Print Name: _____

Address: _____

Title: _____

Telephone Number: _____

Date: _____

KEEP THIS COPY FOR YOUR RECORDS.

RECEIPT

This disclosure document summarizes provisions of the Franchise Agreement and/or Development Agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If FARRELL’S EXTREME BODYSHAPING, INC. offers you a franchise, it must provide this disclosure document to you 14 days before you sign a binding agreement or make a payment with the franchisor or an affiliate in connection with the proposed franchise sale. New York and Rhode Island require that we give you this disclosure document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreements or payment of any consideration that relates the franchise relationship. Michigan requires that we give you this disclosure document at least 10 business days before the execution of any binding franchise or other agreement, or the payment of any consideration, whichever occurs first.

If FARRELL’S EXTREME BODYSHAPING, INC. does not deliver this disclosure document on time or if it contains a false or misleading statement, or a material omission, a violation of federal law and state law may have occurred and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and in the state agency listed on Exhibit “G.”

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- H – State Effective Dates
- I – Receipts

A list of the names, principal business addresses, and telephone numbers of each franchise seller offering this franchise is as follows:

Individual, Corporation or Limited Liability Company Information:

By: _____ Name of Entity: _____

Print Name: _____ Address: _____

Title: _____ Telephone Number: _____

Date: _____

PLEASE RETURN THIS COPY TO US: By mail to FARRELL’S EXTREME BODYSHAPING, INC. at 8510 New York Avenue Urbandale, Iowa 50322; Attn: Lance Farrell