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March 24, 2006

**Re: ON JANUARY 1, 2006, SENATE BILL 581 MAKES THE FIRST SIGNIFICANT AMENDMENTS TO THE CONTRACTS FOR HEALTH STUDIO SERVICES ACT SINCE 1961 – ARE YOU READY?**

As part of your preparations for the new business generated by New Year's resolutions to get in better shape, have you remembered to revise your membership agreements and business practices to ensure compliance with Senate Bill 581 (SB 581)? Attached is a partial list of significant changes to existing law.

In 1961, the California legislature enacted consumer protection legislation known as the Contracts for Health Studio Services Act (the "Act"), California Civil Code section 1812.80, et seq. Although in the past 45 years, California's population more than doubled, and the options available to consumers in the health club industry increased substantially, the Act was never amended to any significant degree until September 2005 when Senate Bill 581, initially introduced by Senator Liz Figueroa, was signed into law by the Governor.

SB 581, which becomes effective on January 1, 2006, attempts to bring the Act more in line with the business practices of a modern health club. For example, the current \$1,000 statutory limit on the price of a membership contract, which has been in place since 1981, is increased to \$3,000 under SB 581.

To avoid exposing your club to liability for statutory violations, we recommend that you conduct a comprehensive review of your club's membership contracts to ensure compliance with SB 581 by the beginning of the New Year.

**Re: SENATE BILL 581**

December 15, 2005

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**BRADLEY &**

If you need assistance in this endeavor, please contact me, Fred Hayes, or my partner, Tom P. Gmelich by telephone [(818) 243-5200], or by email at: [fhayes@bglawyers.com](mailto:fhayes@bglawyers.com) (Fred) or [tgmelich@bglawyers.com](mailto:tgmelich@bglawyers.com) (Tom). Our law firm, Bradley & Gmelich, is an AV-rated law firm that specializes in representing health and fitness facilities throughout California. We are an associate member of both California Clubs of Distinction (CCD) and the International Health, Racquet & Sportsclub Association (IHRSA).

Sincerely,  
Bradley & Gmelich

A handwritten signature in black ink, appearing to read "Frederick B. Hayes". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Frederick B. Hayes  
(818) 243-5200

P.S. Best wishes for a successful and prosperous New Year!

Enclosure

**SENATE BILL 581**  
**AMENDS CONTRACTS FOR HEALTH STUDIO SERVICES ACT**  
**EFFECTIVE JANUARY 1, 2006**

Senate Bill 581 (SB 581) becomes effective on January 1, 2006, and makes significant changes to existing law, including the following:

- Existing law prohibits any contract for health studio services from requiring payment from the member in excess of \$1,000. SB 581 increases this statutory limit to \$3,000, including initiation or initial membership fees. This limit is raised to \$4,400 starting in 2010.
- Existing law permits a member to cancel their membership agreement within 3 business days after the membership agreement is signed. SB 581 increases this time period from 3 days to 5 days, and provides additional time periods of up to 45 days in which a member may exercise a right to cancel the agreement, depending upon the fees charged for membership;
- SB 581 requires that all membership contracts now provide a description of the services, facilities and hours of access to which the member is entitled; and
- SB 581 permits a member to cancel their membership if the Club eliminates or substantially reduces the scope of its facilities; however, a member cannot cancel under this provision so long as the membership agreement informs the member that the Club reserves the right to make changes to the type or quantity of classes or equipment offered and the Club's changes are reasonable under the circumstances.
- SB 581 also imposes strict requirements on any money received by a health club operator for selling memberships to a health club that has not yet opened for business. Any such funds must now be held in trust in a trust account established with a state or federally chartered bank or savings association, and the health club operator cannot use or encumber any of the trust funds until five days after the health club opens for business.
- SB 581 also makes clear that it is not intended to prohibit month-to-month health club membership contracts.

If you have any questions concerning SB 581 and its potential effect on your membership agreements, please contact either Frederick B. Hayes, or his partner, Thomas P. Gmelich. Both Tom and Fred can be reached at 818-243-5200, or by email at: [fhayes@bglawyers.com](mailto:fhayes@bglawyers.com) (Fred) or [tgmelich@bglawyers.com](mailto:tgmelich@bglawyers.com) (Tom).