FINAL TRANSCRIPT

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LTM - Q4 2007 Life Time Fitness Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the quarter four 2007 Life Time Fitness earnings conference call. My name is Michelle and I will be your coordinator for today. At this time, all participants are in listen-only mode. We will be facilitating a question-and-answer session towards the end of this conference. (OPERATOR INSTRUCTIONS). As a reminder, this conference is being recorded for replay purposes.

And I would now like to turn the presentation over to your host for today's call, Mr. Ken Cooper, Senior Director of Finance. Please proceed.

Ken Cooper - *Life Time Fitness, Inc. - IR*

Good morning and thank you for joining us on today's conference call to discuss the fourth quarter and full year 2007 financial results for Life Time Fitness. We issued our earnings press release this morning. If you did not obtain a copy, you may access it at our website which is www.lifetimefitness.com.

In a moment, Bahram Akradi, our Chairman and CEO, will discuss his thoughts on 2007 and his expectations for 2008 which complement the long-term vision of our Company. Following that, Mike Robinson, our CFO, will review our financial highlights in greater detail including specifics on our 2008 expectations. Once we have completed our prepared remarks we will take your questions until 11:00 a.m. Eastern time. At that point in the call, the operator will provide instructions on how to ask questions. I will close with a tentative date of our first-quarter 2008 call and our annual shareholders meeting. Finally, a replay of this teleconference will be available at our website at approximately 1:00 p.m. Eastern Time today.

Before I turn the call over to Bahram, I would like to remind everyone that this conference call contains forward-looking statements and future results could differ materially from the forward-looking statements made. Actual results may be affected by many factors including risks and uncertainties identified in this morning's earnings release and in our SEC filings. Concurrent with the issuance of our fourth-quarter and full-year results, we have filed a Form 8-K with the SEC.

Certain information in our earnings and information disclosed on this call constitute non-GAAP financial measures including EBITDA. We have included reconciliations of the differences between GAAP and non-GAAP measures in our earnings release and our Form 8-K. Other required information about our non-GAAP data is included in our Form 8-K.

With that, let me now turn the call over to our founder and CEO, Bahram Akradi. Bahram?

Bahram Akradi - *Life Time Fitness, Inc. - Chairman, President and CEO*

Thanks, Ken. 2007 was a great year for Life Time Fitness. We met and or exceeded our financial goals each of the fourth quarter of the year. In the fourth quarter, revenue grew nearly 23% and for the year, revenue grew 28%. Our net income increased 35% in the fourth quarter and 34.5% for the year. Mike Robinson will provide more color on our financials in just a few minutes.

I would like to highlight a few of the many great accomplishments for Lifetime. We continued to execute on a pricing strategy that helps ensure the long-term viability of each and every one of our centers. We continued the growth of our in center businesses which is the easiest way to connect with our members. Each business saw growth from better execution and/or new enhanced products and services such as TEAM Weight Loss and TEAM Fitness.

We saw great cost management come from our corporate functions which led to the leverage in G&A and centralized center management that we promised. We opened eight new current model centers and expanded our national presence to 15 states. We acquired another two centers including one in Minneapolis and another in Dallas, both of which will be completely remodeled this year.

We also moved into a new corporate office building next to our Chanhassen club bringing our team together from three separate buildings into one for greater efficiency, collaboration, and better execution of R&D projects at the Chanhassen location which we will call the corporate store from here forward.

While 2007 was an exciting year, I expect our success to continue in 2008. I am pleased to announce that we have again increased our unit growth expectation for 2008 this time from 10 to 11 centers in a mix of existing and new markets. Amongst these clubs are our first New Jersey location in [Forum] Park and our first two three-story clubs in Vernon Hills, Illinois and Houston, Texas.

In 2008, we continue with our member centric focus. This will include a launch of our updated website with significant changes that provide far better functionality and a member interest menu. There are many more great projects that we will share with you in the future calls that will continue to improve Lifetime as a leading healthy way of life brand.

Now I would like to spend a few minutes with the question I am sure all of you are anxious to know about, how is the economy affecting us? It is like biking into a headwind rather than having the wind at your back. I love this for a number of reasons. When things are easy, it is difficult to distance yourself from others. But it is during the tougher times that great companies find ways of doing things better, improve their product from the customer point of view, trim unnecessary fat, and pick up market share. The environment today is invigorating.

As it relates to membership activity, we grew our membership base by 12.5% in the fourth quarter. We believe this is an impressive growth especially given our center optimization focus and this tough economy. While this is slower growth than in recent quarters, it certainly demonstrated that we can grow more business in challenging economic environment. More importantly, we continue to grow our dues revenue significantly faster, in fact, over 900 basis points greater than membership growth. Again, this is our proof that we are executing our strategy.

We have solid growth goals for overall business in 2008 and as a management team, we are very focused on delivering. Lastly, before I turn this to Mike, I would like to emphasize that we are extremely excited about the success of our business model. We will thrive on the opportunity to improve ourselves and create a bigger distance between us and the others.

With that, I will now turn it to Mike Robinson, our Chief Financial Officer. Mike, here you go.

Mike Robinson - *Life Time Fitness, Inc. - EVP and CFO*

Thanks, Bahram. As Bahram indicated, we had an outstanding year. As I am providing details on this performance, I will provide 2008 guidance throughout my comments as appropriate. Also due to the very small impact of a couple of small one club acquisitions we did in the third quarter, I will be including those clubs in the results as consolidated.

For the fourth quarter, total revenue was $171.1 million, up 22.8% from last quarter fourth quarter. We were up 28.1% for the year to $655.8 million. Before I provide detail on the growth drivers, I would like to highlight a key change that we implemented on February 1 of this year. We rolled out a new membership naming convention which replaced the formerly complex sports advantage athletic levels with a user-friendly system of bronze, gold, platinum and onyx levels. This clarifies for members the clubs which they have access to and the additional in and out of club benefits to which they are entitled.

The initial member feedback has been favorable and we expect that this change will also drive upgrades as our members continue to see the benefit of higher membership tiers. On a go-forward basis, we will use colors to describe our membership levels.

Now moving to our revenue growth in the quarter, the strong growth continues to be driven by two main factors including membership dues growth of 21.9% for the quarter and 27.8% for the year. Just as important as this growth is the difference between our dues growth and our membership growth. As Bahram mentioned, the difference is over 900 basis points in the quarter and continues to show that we have elasticity in our pricing as we carry out our price optimization strategy.

For the year, we changed the classification of 13 centers most of which were gold to platinum, or sports to advantage in the old nomenclature. So far in 2008 we have changed 18 centers, most of which were from bronze to gold or sports to fitness in the old nomenclature. Further, we have enacted relatively small price increases to selected existing members in several of our markets so far in 2008. We expect to see that gap between news growth and membership growth converge later in 2008 as we complete our strategy of moving certain overcapacity clubs down in membership levels.

In center, revenue grew by 25.1% in the quarter and 31.7% for the year. This performance was led by personal training, our largest in center business and continues to be driven by new products, services and programs in each of our in center businesses and better participation and use from our new and existing members. In 2008, we believe in center businesses will continue to be one of the fastest-growing elements for the Company.

Let me also take a minute to provide some highlights on our other revenue metrics. Memberships at December 31, 2007 totaled 499,092, which was an increase of 12.5% from last fourth quarter. Our growth rate came down from the third quarter. As you know, we have been extremely focused on safeguarding the member experience at our centers. In the 10 mature centers where we specifically -- where we are specifically managing memberships down in capacity, we saw a decrease of over 5000 memberships from the beginning of the year to the end of the year.

We are passively managing another 10 mature centers down in capacity mainly with enrollment fee and marketing, and this resulted in an additional 3000 membership decrease from the beginning of the year. We recognize that this loss of membership creates some short-term pressure on several metrics including membership growth and mature same-store sales. However, we firmly believe it is the right long-term answer as our whole business is built around an optimal member experience.

From another perspective, in the fourth quarter total memberships increased about 7000 net units. Of this growth, approximately 3500 came from our two acquisitions and roughly 12,000 units came from our non-mature centers. Membership at the 20 mature centers where we are managing down membership levels declined by 4000 -- approximately 4000 memberships driven by our price optimization strategies and management of enrollment fees and marketing expense. Therefore we had a reduction of approximately 4000 memberships due to slightly higher attrition coming from centers where announced price increases and the economy. This represents less than 1% of our current membership base.

With respect to revenue per membership, we generated a 6.8% increase to $344 in the quarter. For the year, revenue per membership grew 6.2% to $1360. For 2008, we expect this to continue to be in the mid-single digits. Our in center revenue per membership increased in the fourth quarter to $93 or a 9.4% increase over last fourth quarter. We feel this second consecutive quarter sequential growth is excellent for the current state of the economy and helps further prove the strong demographic of our clubs.

For the year, in center revenue per membership grew 9.1% to $387. We continue to expect mid to high single digit growth in this metric in 2008. We generated a 5.3% increase in same-store sales for the quarter and we were down on our 37-month mature same-store sales by 0.5%. As mentioned earlier, we are experiencing some pressure in these metrics from the centers we are managing membership levels down to improve the member experience. Excluding the centers we are managing memberships down, our mature same-store sales grew 0.3% in the fourth quarter.

For the year, we generated growth of 6.1% for 13-month same-store sales and 0.8% for the 37-month metric. As expected, the seven acquired lease centers had limited impact on the 13-month comp because they began with a more mature membership base which we did not grow this year. We have two additions to the 13-month comp base and four additions to the 37-month comp base. For 2008, we expect mid single digits in the 13-store same-store sales and positive growth from mature same-store sales coming in the second half of the year.

The Company's operating margin increased to 22% from 20.1% as compared to the prior fourth quarter. For the year, our operating margin has increased to 21% from 19.6% in 2006. The main driver of this margin improvement in the quarter were 90 basis points of G&A leverage and 190 basis points of center operations leverage. This margin improvement was offset by slight increases in advertising and marketing where we invested in a TV campaign to build brand awareness and other operating depreciation and amortization.

As we look to 2008, we expect operating margins to expand slightly for the full year. This expansion will be driven by continued G&A leverage relatively flat to slightly improving center operating and marketing, and slightly increased depreciation as a percent of revenue driven by the completion of the remodels of the seven lease centers and higher center investments.

Our center operating margin was 43.9% for the quarter as compared to 41.9% from the prior quarter. For the year, our center operating margin is 42.5% as compared to 42.9% for the same period last year. This improvement in the fourth quarter is related to nonrecurring items we had last year for the transition of the seven lease center transactions including extras signage, extra customer assistance, immediate repair and maintenance that was addressed and restocking of supplies. In addition, general improvement of labor efficiency and better buying power lead to a lower per-unit in supply costs that also helped. The change for the entire year is related in the first seven months of the non-anniversaried results from the July 2006 lease center transaction.

Continuing down the income statement, income from operations was $37.6 million for the quarter, up 34.3%. For the year, we are up 36.7%. Interest expense net of interest income increased to $6.4 million from $4.9 million last fourth quarter as we continued to grow our new center base and our corresponding average debt balance has [grown].

However, there is a sequential decrease in interest expense due to our small equity offering in August of 2007. For the year, interest expense was $25.4 million as compared to $17.4 million last year. We anticipate interest expense to increase in 2008 as we finance new centers and our average debt balances grow. I will provide some additional information about our recent capital structure initiative shortly.

Our tax rate for the quarter was 39.7% as compared to 39.6% last fourth quarter. For the year, our tax rate was 39.9% which is the same as 2006. We expect our 2008 -- 2008 tax rate to be approximately 40%.

Net income for the quarter was $19.1 million compared to $14.1 million last fourth quarter, up 35%. Our net income margin for the quarter increased to 11.1% from 10.1%. For the year, net income was $68 million, up 34.5% and our net income margin has increased to 10.4% from 9.9%.

Total weighted average diluted common shares totaled 39.5 million shares for the fourth quarter. For the year, our average diluted common shares was 38.1 million. We expect our total year 2008 share count to be approximately 39.8 to 40.2 million shares, which reflects the stock offering completed in the third quarter of 2007. Based on our 2007 fourth-quarter weighted average share count, our diluted EPS for the quarter was $0.48, up from $0.38 in the fourth quarter of last year or 26.3%. For the year, our EPS is up 29.9% to $1.78.

Moving to our operating data, a number of open centers at December 31, 2007 was 70 compared to 60 at December 31, 2006. Our current number of open centers is 71 with our Parker, Colorado opening in early January. Of the 71 centers, 39 or 55% are our large current model and only 53% of all of our centers have been open three years or more which we classify as mature centers.

Beginning this quarter, we will update you on square footage growth. We feel square footage growth is as good a comparison point as unit growth. In 2007, we grew our square footage 17.8% to 6.8 million square feet as compared to 5.8 million square feet we had at the end of 2006. One thing to remind you is that we expect our square footage growth to come in the form of greenfield development. Acquisitions may occur opportunistically but they are not promised and shouldn't be expected. In 2008, we plan to grow approximately 16% or 1.1 million square feet.

EBITDA totaled $53.7 million in the fourth quarter, up 32.8% from last fourth quarter. For the year, EBITDA was up 32.7% to $197.7 million. EBITDA margin for the quarter was 31.4% which was 240 basis points better than last year's fourth quarter. Our EBITDA margin for the year was 30.1% which is up 100 basis points from 2006.

Cash flow from operations totaled $142.2 million in 2007 which grew 13% from the $125.9 million generated in 2006. This increase was driven primarily by our $17.5 million improvement in net income. Historically our operating cash flow has been in line with our EBITDA growth rate, however in 2007, we experienced a gap in these growth rates as operating cash flow grew by 13% and EBITDA grew by approximately 33%. The primary reasons for this relate to a higher proportion of cash taxes as related to book taxes and the growth in working capital in 2007 as we invested in in center retail initiatives.

We saw the operations cash flow growth improve as it relates to EBITDA growth sequentially from the third quarter to the fourth quarter. In 2008, we expect to grow -- close this gap even further as we anniversary our cash tax payments more closely approximating our book tax expense and take advantage of new investment tax breaks from the Federal Economic Stimulus Package just implemented.

Cash outlays for capital expenditures for the quarter were $106 million which includes approximately $73 million related to growth for construction of new centers and $33 million related to items such as updating our existing centers including the seven acquired lease centers, and our corporate infrastructure including our new corporate headquarters. For the year, we paid a total of $416 million in total capital expenditures. This was slightly higher than the guidance we provided in the third-quarter call as we purchased the land and started construction for our 11th club to open next year.

Of the $416 million of capital expenditures, $298 million related mainly to the class of '07, and class of '08 clubs; $20 million related to the class of 2009; and approximately $98 million related to other initiatives including approximately $25 million for the regular maintenance of our existing center base and corporate and general corporate purposes, $25 million for the remodels of the lease centers and approximately $50 million for acquisitions, and initial remodels of the two clubs acquired in 2007 and construction of our corporate office building which we moved into in December 2007 and other nonrecurring items.

During the fourth quarter, our overall debt balances grew by approximately $77 million to $565 million as of December 31. Our net debt to capital ratio increased in the fourth quarter to 49.2% as compared to 46.9% last quarter. In capital structure news, in January we amended our bank revolver agreement to increase the accordion feature from $25 million to $200 million. This would allow for a possible future increase of our revolver credit facility from its current $400 million capacity up to $600 million. In addition, we have been very active in analyzing and negotiating several long-term financing options including mortgages, debt private placements and sale leasebacks.

As I said for a long time, we are focused on trying to get the best use of capital for the Company. From a cost perspective, we believe it will all be within our expectations and goals. In a nutshell, base rates have gone down and spreads have gone up slightly more than that decrease.

In addition, just a quick reminder that we entered into a floating fixed-rate interest swap effective in early October. This locked in approximately $125 million of our revolver debt at slightly above 6% for three years. As of December 31, we have $67 million available on our revolver and as of today, we have 24 current model setups with an asset value in excess of $500 million with no mortgage financing against.

Before I move to the 2008 guidance discussion, I would like to make a few balance sheet comments. Inventories were up $5.6 million for the year and $1.6 million sequentially from the third quarter. This increase is related primarily to growth of our LifeCafe and LifeSpa product offerings and our continued success in selling heart rate monitors.

Accounts receivable was up $2.2 million for the year and $900,000 sequentially from the third quarter. This increase is related to the growth of our corporate businesses. As you know, we don't have accounts receivable in our core businesses, that being memberships as all memberships are on EFT and we recognize only cash received as revenue.

Prepaids are up $6.8 million for the year and up $4.1 million sequentially from the third quarter. We are up for the year primarily because this is where we classify land available for sale which totaled $5.4 million that we intend to sell within the next 12 months, hence a current asset. Other assets are up $12.7 million for the year and down $1.2 million sequentially from the third quarter. This year-over-year growth is related to increased intangibles from our acquisitions in 2006 and 2007 and additional long-term land available for sale.

Accounts payable was up approximately $4 million for the year reflecting normal business growth. We had a sequential decline of approximately $2.7 million related to the timing of option exercise with holding payables that was paid in the fourth quarter. Accrued expenses grew over $9.9 million from last year end and more than $3 million sequentially. 25% growth compares to 12% growth we had in the third quarter.

As a reminder, that lower than usual 12% growth third quarter was mainly related to having two centers open in October 2006 as compared to one center opening in October of 2007. We therefore had roughly $3 million of additional equipment that was to be invoiced, had been received in the third quarter of 2006 compared to the third quarter of 2007.

Deferred revenue grew 14.6% year-over-year which is down slightly from the 15.1% growth in the third quarter year-over-year. Deferred membership origination costs grew 30.4% year-over-year which is down from the 35.4% from the third quarter year-over-year.

When we look at our customer acquisitions costs, we evaluate several things. First, since our business model has enrollment fees of 3.7% of our total revenue base, it is the area we use as the break in the throttle for the membership dues stream, since we don't touch our discount dues. Our average enrollment fee is down from prior years because we are offering prospective members lower enrollment fees or the higher monthly dues memberships. Over the past few years, our average enrollment fee has come down approximately $20 per acquired member. This is occurring at the same time incremental members are paying $120 to $240 more per year in dues. We feel this is an appropriate offset.

Second in the area of membership origination costs, not unlike incentivizing the member with discount enrollment fees, we are incentivizing our member advisers to focus on the higher membership tiers by offering increased commission rates. Add to attracting a better sales force this year and you get approximately 15% increase in sales commission cost per membership acquired. Again, that is roughly $15 which in our opinion is a small cost for the acquisition of our higher dues membership which provides for a payback of this additional investment in just a few months.

With that, let me turn our attention to guidance for 2008. First from a development perspective as Bahram indicated, we will open 11 centers in 2008 as compared to the 10 we talked about earlier in 2007 and nine we initially communicated at our fourth-quarter 2006 call. Of these 11, 10 will be current model centers and one will be a large format center. Three of these planned centers will be in new markets including [Parker, Aurora] Colorado which opened in January and is our first center in the Denver area. Laurel Park, New Jersey which is the first center in the New Jersey/New York City area and West County, Missouri, which is our first center in St. Louis.

The other eight planned centers will serve to reinforce our presence in other existing markets including Atascocita and Houston City Center which will be our fourth and fifth clubs in Houston; Johns Creek in Mountain Brook, Georgia, which will be our third and fourth clubs in Atlanta; Loudoun County, Virginia, which is our third center in the Virginia/DC area; Mansfield, Texas, our eighth center in Dallas; Rockville, Maryland, which is our second center in Maryland; and Vernon Hills, Illinois, which will be our ninth center in Chicago. Of these, nine will be owned.

Regarding our specific financial guidance, over the course of the past several months, we have looked at our business, we have certainly seen pressures from the economy but we have also seen more opportunities to execute better. With that, our revenue guidance is 19% to 22% growth which equates to approximately $780 million to $800 million. We expect net income growth of 20% to 22% which equates to approximately $81.5 million to $83 million. This results in diluted EPS guidance of 15% to 17% growth which equates to approximately $2.05 to $2.08 a share.

Our CapEx guidance is to incur approximately $440 million to $460 million in net costs in 2008 of which we expect approximately $25 million to $30 million to be one time in nature for the remaining remodel of our seven centers leased in July and the two acquired and leased centers we took over in 2007. And $30 million to $35 million in maintenance CapEx for existing clubs and corporate purposes. This works out to approximately $3.50 per square foot for our centers and about $10 million for corporate initiatives.

Total new center CapEx construction -- total new construction CapEx will be approximately $380 million to $400 million including 11 centers for 2008 and the start of construction from the 11 planned centers in 2009. The average cost for the center for the class of 2008 works out to be approximately $35 million. This is an increase over our class of 2007 which was approximately $31 million. The increase is related to location which (inaudible) builds New Jersey and northern Virginia. In addition, we have two three-story centers in Houston City Center and Vernon Hills, Chicago which have roughly an additional 30,000 square feet of fitness space each.

This guidance also reflects the addition of the 11 centers planned to open this year as I mentioned earlier. We plan to fund these capital expenditures with cash from operations from revolving line of credit and additional long-term financing.

For the first quarter, we expect revenue and net income growth of approximately 20%.

That concludes our prepared remarks regarding our fourth-quarter and full-year 2007 financial results. On behalf of the entire executive team, I want to thank our national base of team members who deliver on our member experience and our business operations expectations. We all remain very excited about the future for Life Time Fitness.

We are pleased to take your questions now.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Tony Gikas, Piper Jaffray.

Tony Gikas - *Piper Jaffray - Analyst*

Thanks. Good morning, guys. A couple of questions. Could you just talk a little bit more about financing and where will financing come from looking forward? It looks like equity at this point is going to be dilutive. Credit facilities aren't going to cover this for too long so maybe just talk a little bit about that. You talked about nine of the 11 centers looking forward are going to be owned. Is there a little change of strategy there and what would that look like going a little bit more forward? And do you have visibility on financing for calendar '09? And then I have a follow-up.

Bahram Akradi - *Life Time Fitness, Inc. - Chairman, President and CEO*

Tony, this is Bahram. We feel extremely confident with activities that Mike and his team have right now that we will obtain necessary financing to maintain our growth. There are as he mentioned huge number of assets with no mortgage against them. It is not -- you know I want to kind of refer to the fact that back in the 2000 time period with only about $20 million of EBITDA, we were able to get financing in excess of $100 million and some for a bunch of facilities in a very tough financing environment.

We have so much assets available for financing, the question is not whether or not we get financing. The question is do we get it at the ratios that we want to get in terms of debt to the cost of construction and the building etc.? So we will be able to continue to expand the same way we have expanded in the past and that is truly not a concern. But there are many, many different initiatives that we are working on and I don't think we have the time to go through each and every one with you at this point.

Mike Robinson - *Life Time Fitness, Inc. - EVP and CFO*

Just a couple of comments, Tony. We have -- obviously we have worked with our bank group. We have got the ability to take our revolver up. We have a number of other things that we are working on very, very diligently. Your question on the nine owned, one of those is a pure lease center. That is in Rockville, Maryland. And then as we go to the East Coast, we will see more and more opportunities where you will have land lease situations or potentially a situation where it is an installment purchase sale or something like that. And that is what we are seeing in the other occasion and we will see that more as we look at other areas around the DC area, the New York City area, etc.

Tony Gikas - *Piper Jaffray - Analyst*

And then a quick follow-up. What has changed with your economic outlook? It seems like previously you didn't think that changes in economic conditions would have too much impact on the business. Is that still the case or are you seeing some headwinds already and maybe that is where I could ask you about Q1 new memberships and how they are ramping thus far?

Bahram Akradi - *Life Time Fitness, Inc. - Chairman, President and CEO*

This is Bahram. In the fourth quarter and as towards the middle of the quarter, we did see a stiffer headwind that definitely impacts the acquisition of new memberships. I know, Tony, I really have to make this comment hopefully once for you and the rest of the people on the call. You know the economy will go through ups and downs. I think the growth rates we have demonstrated in the last five or six months and what we have experienced in January and so far in February, are nothing to be ashamed of or be embarrassed about. We love it.

I love a tough economy every so often because we simply cannot distance ourselves as much as we like to. When you are going downhill and the wind in your back, it is easy, everybody can do it. When it gets tougher, it is not tougher just for us it is tougher for everybody else. This is going to provide a tremendous amount of opportunities in the next 24 months in terms of opportunities for better locations. There are many other retailers who are bailing -- they are big anchors who are not growing. We are seeing more and more developers call on us to use our facilities as the anchor for the facilities. So we really are excited about the situation we are in.

You know if we are managing the business like Wall Street looks at it from quarter to quarter to quarter, you know people can get a little bit too much into micromanaging. But the long-term view of what is going on right now is extremely exciting for us. We feel that we can continue to grow the business each and every quarter the way we have written our plans club by club, month by month. We will grow the business every quarter this year significantly.

And you know like I said, we have a great pipeline of additional facilities to come and you will see as time goes on lots of operators who are operating in a single digit margin are going to fall apart and there are members who will have to leave those type of clubs and go to the ones that survive. So I think we are positioned absolutely fantastic for taking advantage of what is to come in the next couple of years.

Tony Gikas - *Piper Jaffray - Analyst*

Okay, thanks guys. Good luck.

Operator

Greg McKinley, Dougherty.

Greg McKinley - *Dougherty & Co. - Analyst*

Yes, hi. It's Greg McKinley. A couple of questions. Mike, I am wondering if you could help us understand what your operating margins expansion would have been from '06 to '07 sort of on a like for like accounting basis excluding the impact of the lease centers and anything else you think was non-recurring in nature? I'm just trying to get a sense for the leverage and margins you delivered in '07 versus what you are implying for your '08 outlook.

Mike Robinson - *Life Time Fitness, Inc. - EVP and CFO*

The one time of the nonrecurring ended up being about 100, maybe a little over 100 basis points so it was about half of that margin [increase]. And as I look to 2007, we expect -- it all depends at the end of the day on what the mix of in center revenue is to the overall growth rate. But right now as we look at it I would expect flat maybe slightly improving center operating expenses through the year.

Greg McKinley - *Dougherty & Co. - Analyst*

And that is because you think your in center revenue growth is maybe going to be a little stronger or maybe it represent a little larger portion of the revenue mix?

Mike Robinson - *Life Time Fitness, Inc. - EVP and CFO*

That's correct. That's correct.

Greg McKinley - *Dougherty & Co. - Analyst*

And can you talk to us a little bit about that? I mean in terms of services being offered, what is driving your view for that grab at larger shares center revenues?

Mike Robinson - *Life Time Fitness, Inc. - EVP and CFO*

Well, it's a couple of things. We continue to see very strong performance on our personal training business. Personal training, we continue to grow the team-based aspects of that. We continue to grow the heart rate monitor sales. We have got a lot of connectivity points that have held up very, very strongly in this time. So that is the main driver of it.

We have seen good cafe growth as we have entered into the first part of this year. Again, it is just really a combination of many, many of those things. We continue to add new products. We have added new menus in the cafe. We continue to add new products and expand our line of retail products in this cause. We have got new programs going on in member activities that really identify and use our space better to allow for more fee-based programming. And those things are all -- they are all important and they are all going to be key to driving continued growth.

Greg McKinley - *Dougherty & Co. - Analyst*

Can you share with us any sort of attachment rates? I'm sure you guys track internally. I don't know if you want to talk about them publicly or not but how can we think about the portion of your membership base that is actively spending in the clubs? How do you guys measure that?

Mike Robinson - *Life Time Fitness, Inc. - EVP and CFO*

We look at it really -- we look at what the penetration is across each one of our businesses and we talk to you a lot about personal training where our penetration rate in personal training is less than 10% of our entire business, or our entire membership base. We are growing that penetration. We are growing that through more and more group types of classes. We don't give any specific details on that but our initiatives are all to grow that.

As we looked at -- the same thing is happening on the member activity side of the business. The same thing is happening on the tennis side of the business where we really try to measure penetration based on overall memberships and they continue to grow and it is because we are reaching out, we are providing more product, we are providing more service and better touch points for them.

Greg McKinley - *Dougherty & Co. - Analyst*

Okay, thank you.

Operator

Brian Nagel, UBS.

Brian Nagel - *UBS - Analyst*

Hi, good morning. A few questions. First off, Mike, with respect to the efforts to work down membership at the facilities you highlighted, how long do you expect that to be a pressure upon membership growth, at the Company?

Mike Robinson - *Life Time Fitness, Inc. - EVP and CFO*

You know, we are going to continue -- the combination of continuing to optimize, it's probably another I don't know couple quarter period for us.

Brian Nagel - *UBS - Analyst*

And so you highlight -- there were seven centers I guess in total you highlighted about 17 centers. Is that list going to grow or is it just continued at those centers?

Mike Robinson - *Life Time Fitness, Inc. - EVP and CFO*

No, it's not going to grow. It is not going to grow.

Brian Nagel - *UBS - Analyst*

And then I guess the next question I have with respect to those centers, if you are moving to -- I guess you could say maybe a more profitable membership -- have you seen any increase in in center revenue per member as you have worked down some of those [excessive] memberships?

Bahram Akradi - *Life Time Fitness, Inc. - Chairman, President and CEO*

Well as you can see again, we had a significant growth in in center businesses and I want to kind of give you guys a little color on that. Last year we made some changes in our cafes. It was not a good execution of a menu change so we had pressure on our cafes towards versus our goals and objectives. We have attacked that space in our Company right now and the store that we are kind of testing the new products, we are having phenomenal success with the reaction from the customers, everyday sales, etc.

So once again, as I will emphasize, you make changes and some of them will work and some will not work and then you just say I screwed up and you change and you move on again. And I think that is just a normal course of doing business the right way, admit your mistakes and make the changes. So we are really excited about what we can do in our cafes. We think we can continue to grow the personal training like we have been. I think we can dramatically grow our cafes revenue from last year over this year over last year with the changes we are making.

And there are many other parts of our business that I think we can be significantly sharper. We're retooling the member menu list for our customers and making sure all the programs that we offer are much more well designed from the customer viewpoint as they come in to get that particular type of product and service.

Being next to our Chanhassen store, which when we looked at moving 600 people from the corporate office we were in into the new office next to Chanhassen as a corporate store, it gives us the ability to on a daily basis work on sharpening all the products and services and make sure they in fact deliver the way we intend them to deliver, fine tune it, make sure it is perfect and then roll it out in the clubs.

So we are excited about what we are going to do this year. We are excited about the numbers. I think you're going to see good, good results throughout the year.

Brian Nagel - *UBS - Analyst*

Okay thanks. Just one more question. You said this time that you are already starting to see more of a headwind from the macro environment. Help us get a better handle on this, does that imply higher churn across the Company or does it imply maybe slower membership ramp at some of your new facilities? And how should we think about how to quantify that -- the greater headwind, the greater (multiple speakers)?

Bahram Akradi - *Life Time Fitness, Inc. - Chairman, President and CEO*

Will let me give you what I know. I don't know everything as you don't and nobody else really can tell exactly what will happen with the economy going forward. But here is the way it is. If it stays exactly as is today, if it doesn't get better or worse, we feel that we can deliver what we just told you as always we have only promised you what we know we can deliver. Right? Now if the economy goes in a significant additional headwind, I can't tell you what the answer will be.

But when you have the pressures that came last six or eight months you know, you will see the shake out take place and then after that it settles down. We feel that it has settled down. Those people who are staying are staying. Those people who dropped out dropped out and now it is just a matter of working hard to get the new people coming in because you run such a better program. And like I said, this is not necessarily all a crisis. It is an opportunity as well as an opportunity in a difficult time. So that is I guess all we know at this point but we are excited about it.

Brian Nagel - *UBS - Analyst*

So is there any way to quantify better exactly where you are seeing this?

Bahram Akradi - *Life Time Fitness, Inc. - Chairman, President and CEO*

When I say better?

Brian Nagel - *UBS - Analyst*

Better -- I mean, well is it more, is it a new facility phenomenon or is it an existing facility phenomenon?

Bahram Akradi - *Life Time Fitness, Inc. - Chairman, President and CEO*

No, no. Look, we haven't -- if I look at our club's performance over the last -- over the last several quarters and currently, the isn't a club that I don't like what is happening in there. We have grown the dues in most of these clubs where you guys are continuing to ignore that we grew our membership to 21.9% from last quarter and I just don't understand what part of that you guys are not seeing. All right. How many other businesses grow their business 22% last quarter?

So when you are looking at this, when I look a lot of these membership -- stores where we have brought the membership counts down, we have actually grown the dues revenues in those stores. So I don't -- there is -- I am telling you there is no part of our business I don't like. I am excited about what we are doing. I am excited about our growth rate and it is a little tougher but it is not -- we are not losing money. We are making, we are gaining memberships in all the ramping clubs and we are growing dues in even some of the mature clubs where they have 11,000 memberships and we think that is too many members.

We are trading a few hundred memberships or 500 memberships for a little bit higher dues. The net-net, most cases the average dues is actually up. I mean the dues revenue per month for the club is actually up. So it is not -- there isn't a sad story in here.

Brian Nagel - *UBS - Analyst*

Okay, thank you. That's helpful. I appreciate all the color and good luck next quarter.

Bahram Akradi - *Life Time Fitness, Inc. - Chairman, President and CEO*

Thank you.

Operator

Ed Aaron, RBC Capital Markets.

Ed Aaron - *RBC Capital Markets - Analyst*

Great, thanks for taking my question. I was hoping that you could maybe talk a little bit about the consideration that you gave to your price increases that you implemented after the first of the year. I mean obviously you talked for a while about the price elasticity in your business, but just how do you know what the right balance is in a slower environment? And how do you have -- having seen maybe some signs of slowing trends with the consumer, how did you develop the confidence to take the price that you took after the first of the year?

Bahram Akradi - *Life Time Fitness, Inc. - Chairman, President and CEO*

It is purely based on member experience, how busy our clubs are. If you drive to the parking lot of many of our clubs, you can see our business is successful and robust. Members are coming in. They are joining the club. We gained a significant number of memberships in January, you know from in our clubs. We just don't see the -- again, as I just said to you, we don't see a problem with growing the dues revenue of our Company by 20% plus. It seems like I keep saying to you guys we are not concerned. We like what is happening and you guys keep thinking something bad has happened. It is a tougher economy (multiple speakers)

Ed Aaron - *RBC Capital Markets - Analyst*

Bahram, Bahram, I guess my question is more just trying to figure out where the equilibrium is because I've had a lot of appreciation for your price elasticity and I am just -- I'm trying to get a handle on how much of the dry powder so to speak you might have used. That is all.

Bahram Akradi - *Life Time Fitness, Inc. - Chairman, President and CEO*

Well, I don't think we have used the dry powder to try -- let me try to get this shaped for you. We are not changing prices because of trying to hit a certain number of revenue. We are changing prices because we want to do the right price point for the members' experience. So I'll walk you guys through this like this.

If I have a club that is sitting at 5000 memberships and it has just opened up two months ago and it doesn't really -- is not ramping faster than our normal business model ramp, the customer experience is not crowded and uncomfortable, whatever, we don't raise the price. If I open a club that opened the same amount of time ago but now it is ramping at 6000 or 7000 memberships only the second or third month or fourth month in -- from the grand opening and it is too busy, we may actually raise the price so that it slows down so the customer experience doesn't get uncomfortable.

We are only as good as the brand that we are delivering to these customers and that brand is what they think. So the way we think about price increases is purely based on the member experience and then we have over the years, we have created all these different prices from club to club, market to market and we are trying to standardize these price points closer to each other with the membership system that Mike explained to you, with bronze to gold to platinum and onyx. And as we are formulating our long-term plan is over the next two or three years clubs will be -- all the clubs that are bronze are probably people paying the same exact point point, and today we are playing catch-up.

Now our decision on the economy is do we raise the dues only a couple of bucks for them on this catch-up period and wait until our economy is more robust and then maybe go up five bucks? Or do we have so many members in that club that we feel like regardless of the economy, we are going to bump them up $6 or $7 right now and then do another jump the next couple of months, couple of years.

When you do this you know in a macro discussion, it is difficult to explain to you that here is what we did on 30 clubs but when you look at it from a micro standpoint, every club pricing has its own logic and it is based on condition of that club and the membership counts in that club and the ramping of that club, each one of those are made. Now, we still have a number of clubs in my opinion at a $49 or $59 price point with a customer receiving a value far beyond what they are paying.

Now are we going to go change all of those next month or next quarter? Definitely not. We are methodical about all factors, customer experience, the economy, the attrition rates, the sign-up rates, etc. And we are doing the best strategy that we can think of for each of our clubs. Hopefully that explains that to you.

Ed Aaron - *RBC Capital Markets - Analyst*

It does. Thank you. And then I just want to ask one other question. And maybe more for you, Mike, on the average cost of the new clubs, $35 million for '08 versus kind of the lower $20 million range just a couple, three years ago. I understand it is about location, but just can you maybe walk through like one example of it? I think you said that one of the reasons why it is going to be going up this year, one of the clubs that is contributing to that is like the one in the DC area. If memory serves, when you opened your Columbia area facility a couple of years ago, I mean that was still in kind of the mid to high $20 million range so I guess I'm trying to maybe use that as an example of understanding why it would be that it is entirely about location.

Bahram Akradi - *Life Time Fitness, Inc. - Chairman, President and CEO*

Okay, let me take that. This is Bahram again. First of all, that club was not in the high 20s, it was in the low 30s. Secondly, we have -- I have made at least a couple million dollars in additional changes to each box in terms of the quality of what we are putting in, the size of outdoor pool, the outdoor buildings we are putting in on the outside of the building, better shower areas, etc., etc., etc..

So then furthermore you know, we come across opportunities there where we know if we spend you know significant -- and I don't want to use numbers for all sorts of competitive reasons -- but we may spend twice, 2.5 times the amount of money for land as we did before on some of these boxes and then the construction costs despite the fact that the economy is slowing down. So it has -- we were seeing 15% and 16%, 17% changes in the construction costs, apples and apples and that slowed down to 2% or 3%, or 4% right now which we expect that is the way it is going to be.

But the change in the -- the change in the big number is mostly locations. We are going to areas where we are going to charge $119 a month or $99 a month easily and get you know 8000, 9000, 10,000 memberships in these boxes at those prices. And the cost of building the 110,000, 115,000 plus the outdoor box and 650 parking spaces, etc. and/or the 145,000 square feet box it's just bigger because we are building more square footage and more amenities.

So again, the economics are going to all work. They will all work in all of those facilities. It will be the same rate of returns on those and the facilities we spent $24 million on.

Ed Aaron - *RBC Capital Markets - Analyst*

Thank you.

Operator

Sharon Zackfia, William Blair.

Sharon Zackfia - *William Blair & Co. - Analyst*

Good morning, Bahram, I am glad you are having fun because it is not as much fun on this side of the phone.

Bahram Akradi - *Life Time Fitness, Inc. - Chairman, President and CEO*

Well, I tell you, Sharon, I hope that what you guys know that we like I have said, we like what we are doing. We like the position we are in and I think it is going to be lots of opportunities ahead. But go ahead with your question.

Sharon Zackfia - *William Blair & Co. - Analyst*

Sure. It does sound like -- I understand your dues are robust but it does sound like you saw some slowdown in new member additions and I think that is kind of what everyone is trying to get to on the call. I mean have you seen -- it sounds like you have seen that maybe stabilize going into the first quarter. I know you just went through your highest selling season in January. So can you give us some comments on whether that is continuing to be a struggle?

And I think in the past you have talked about potentially lowering enrollment fees or increasing marketing to stimulate new member additions. Is that something you have started to do or are contemplating?

Bahram Akradi - *Life Time Fitness, Inc. - Chairman, President and CEO*

The membership coming into the guest traffic, coming in to join the clubs are definitive definitely slower. That is what we are talking about headwind and you have to work harder, you have to spend more money in marketing, you have got to pay more incentives to your salespeople, you have to reduce the initiation fees. You have got to do all those things to bring in additional members or make it easier for them in tough times to come in.

But I emphasize that for someone going to one of our clubs and spending $60 a month on average let's say for a membership or $750 in a year, in a tough economy and you think about how many days a week they can come in and have pastime, healthy pastime in a club versus going on one vacation for $700 or $800, we feel strong that during these times we are maintaining all of our membership. We are not seeing a mass change in the attrition rates. We are not seeing a change in our customer behavior. It is just a little -- you have to be tougher to get that membership into the door and you have to have -- make the necessary adjustments. But the long-term effect of that is going to be a minuscule change in the overall success of the Company and long-term plan.

Sharon Zackfia - *William Blair & Co. - Analyst*

So is the issue the new guest traffic or is it conversion and are you seeing a regional differences there?

Bahram Akradi - *Life Time Fitness, Inc. - Chairman, President and CEO*

Actually we didn't see. We looked carefully at this, is this a regional deal? Are we seeing anything softer in one market or another? And frankly, it is pretty even across the system and it is, like I said, it is a slower traffic for new membership sign-up that naturally shows up. So you have just got to work harder to go get it.

Sharon Zackfia - *William Blair & Co. - Analyst*

Do you have any kind of new interesting initiatives to try to generate more of that traffic? I know that is something you probably haven't had to do in a while but you have lived through cycles like this before.

Bahram Akradi - *Life Time Fitness, Inc. - Chairman, President and CEO*

Right. And first of all, the way we approach the business myself and the rest of management is we are always thinking about how we can make ourselves better. And there is no better time than times like this because it forces and gets everybody's attention not just five guys at the front being the cheerleaders. Everybody jumps in.

We have a whole -- and I mean I honestly want to call it a revolutionary way of the way we are looking at how we are going to interact with our members in this next year. And we are going to have these things rolled out in the next 90 days and you will see the way we address the customer with a different programming, programming will be significantly more robust and gives the members, make Life Time Fitness the place to be for them if they want to go cycling, if they want to do outdoor cycling, or indoor, indoor running or outdoor.

We are going to create more sticky programs for our customers across the menu of member interest. And we are a long ways into the thought process and planning stages. We are at the earlier stages of getting things rolled out for execution so we are super excited about what is going to come.

Sharon Zackfia - *William Blair & Co. - Analyst*

And this is probably a question for Mike and then I will end it there. I think, Mike, you said mid-single-digit comps for 2008 and I was just wondering if that is going to be a pretty consistent pattern over the year or if there is something that would be weighted more towards the back half of the year?

Mike Robinson - *Life Time Fitness, Inc. - EVP and CFO*

I think what you will see is that we will -- the comps will grow slightly as you get in through the year.

Sharon Zackfia - *William Blair & Co. - Analyst*

Thank you.

Operator

That concludes the question-and-answer session for today. I will now turn it back to Mr. Ken Cooper for closing remarks.

Ken Cooper - *Life Time Fitness, Inc. - IR*

Thank you for joining our call today. We look forward to reporting to you our first-quarter 2008 results which tentatively has been scheduled for Thursday, April 24, 2008 at 10 a.m. Eastern. Our annual shareholder meeting will also take place on that day in the afternoon at our new corporate office in Chanhassen, Minnesota. Until then, we appreciate your continued interest in Life Time Fitness. Thank you and goodbye.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a great day.
