FINAL TRANSCRIPT

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LTM - Q4 2005 Life Time Fitness Earnings Conference Call

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the Life Time Fitness Fourth Quarter 2005 earnings conference call. My name is Jen and I will be your coordinator for today.

[OPERATOR INSTRUCTIONS]

As a reminder, this conference call is being recorded for replay purposes. I would now like to hand the presentation over to Mr. Ken Cooper, director of Investor Relations, please proceed sir.

Ken Cooper - *Life Time Fitness Inc. - Director, Investor Relations*

Good morning, and thank you for joining us on today's conference call to discuss Life Time Fitness' fourth quarter and full year 2005 financial results. We issued our fourth quarter earnings release this morning. If you did not obtain a copy, you may access it at our website which is lifetimefitness.com.

In a moment, Bahram Akradi, our Chairman and CEO will discuss key highlights from 2005 including our fourth quarter and other recent events. Following that, Mike Robinson, our CFO will review our fourth quarter and full year 2005 financial information in greater detail. Once we've completed our prepared remarks, we will then take your questions until 11 am eastern time.

At that point in today's call, the operator will give instructions on how to prompt a question. Finally, a replay of today's teleconference will be available on our website after 1 pm eastern time today. Before we turn the call over to Bahram, I'd like to remind everyone that today's conference call contains forward looking statements and future results could differ materially from the forward looking statements made today.

Actual results may be affected by many important factors including risks and uncertainties identified in today's earnings release and in our SEC filings. Concurrent with the issuance of our fourth quarter and full year earnings results, we have filed a Form 8-K with the SEC.

Also, to comply with Regulation G, included in our earnings release there's a reconciliation of differences between non-GAAP measures including EBITDA and stock option expense effect comparison with GAAP financial information which will be discussed later in the call. Other required information about our non-GAAP data is included in our Form 8-K.

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

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

Thanks Ken, and good morning everyone. Once again, we are very excited to be with you to discuss our latest operating results and to update you on our company initiatives. I am very pleased with our performance in 2005. This success is a direct result of our company and what our company has built its foundation on, our promise to always deliver an exceptional member experience.

As Ken indicated, we issued our press release earlier this morning and I would like to highlight a few items for you. Revenue is up 26% for the quarter and 25% for the year. Net income is up 48% for the quarter and 43% for the year. We increased pre tax margins in the quarter and our cash flow delivery remains strong. In 2005, we delivered over $107 million in cash flow from operations, up over 33% from 2004.

Since our IPO, our three fundamental growth strategies have been the same. The first is new center growth. Our 2005 plan called for six new current model openings. All are open to favorable reviews. The fourth quarter marked the opening of our San Antonio, Texas center which opened December 9th.

During the quarter, we also completed the acquisition of our seventh opening which was a 70,000 square feet facility in Maple Grove, Minnesota. The acquisition allowed us to expand our presence in the Northwest corridor of the Twin Cities. Going forward, we will continue to look at and potentially execute such acquisitions on an opportunistic basis.

For 2006, we plan to open seven current model centers, one of which already opened in Columbia, Maryland on February 10th. We also opened one smaller format center in Minnetonka, Minnesota on January 11th. This is an additional club to the seven large format clubs we have committed to you earlier.

Our second growth strategy is membership ramp. We closed the quarter with more than 358,000 memberships or nearly 20% year over year growth. Our third growth strategy is increasing our in center revenue which grew over 39% for the quarter and is up over 36% for the year.

Average in center revenue per membership increased over 15% in the quarter and over 12% for the year. In 2005, we introduced many new programs and features which helped drive our in center business growth. We expanded our product offerings and launched a marketplace concept in our cafes.

We introduced a program called ClubTab which conveniently allows members to purchase products and services and charge to the credit card on file. And our strongest area of focus was to deliver better group training programs to our members. We continue to see this as the fastest growing component of our PT business.

The latest group training program to be rolled out is our TEAM Weight Loss program which helps members establish improved nutrition habits with the support of a nutritional coach while at the same time building a strong core exercise program directed by their professional TEAM Weight Loss trainer.

I'm very excited and proud of this unique program. After piloting TEAM Weight Loss in one center in 2005, we have rolled it out to 30 of our centers across the system in January. I would like to take a moment to discuss one other company initiative. Our long term plan is to see a 1 to 2% increase in our average dues annually.

We have a variety of ways to accomplish this such as increasing base rates, graduating memberships from an individual to family and upgrading memberships from fitness to sports. We introduced yet another way to increase our average dues by implementing a junior membership dues plan late in the fourth quarter.

Children under the age of 12 are charged $5 a month for all new memberships. This results in a very slow average dues increase and positive mix shift without effecting our base due rates. Our company and our management team remains focused on delivering solid results. The foundation of which has been and always will be based on delivering a wow experience for our members.

Like I have said before, if every detail is considered from a member point of view and by focusing the company on being a premiere employer to our over 10,000 team members, then financial performance and shareholder value will follow. Let me now turn it over to Mike Robinson for more detailed discussion on financial results. Mike?

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

Thanks Bahram. As Bahram stated, we continue to deliver strong financial performance. Let's start with revenue. For the fourth quarter, total revenue was $103.6 million versus $82.1 million for the fourth quarter 2004, an increase of $21.5 million or 26.2%. Revenue for 2005 totaled $390.1 million, up 25% from last year.

This strong growth was driven by total center revenues which grew $21.6 million or 27.3% to $100.9 million for the quarter and is up 27% to $381 million for the year. Our membership dues stream which represented 67.4% of total revenue for the year grew 25.6% or $14.4 million in the quarter, driven by our membership growth mainly at our centers that are in their first and second year of operations.

The dues annuity stream grew 25.9% to $263 million for the year. As we've discussed in the past, one of the ways we've been able to increase our dues without having a price increase to existing members is to convert a fitness center into a sports center after one of our extensive remodels or center refreshes, whereby all new memberships will be required to pay sports dues rather than being an elective option.

There's a $10 difference in monthly dues between the two membership types. Currently, approximately one third of our centers are sports designated centers and two thirds are fitness designated centers. Enrollment fee revenue reported net of refunds represented approximately 5.2% of total revenue for the year, and increased to $4.9 million for the fourth quarter from $4.8 million last year.

We're up 3.7% on a year-to-date basis, increasing from $19.6 million to $20.3 million. As you may recall, we defer enrollment fee revenue and related direct costs until a center is open then recognize the revenue and cost over 36 months. On a cash basis, our membership growth for 2005 has delivered solid enrollment fee growth.

You can see that reflected in the growth in both short term and long term deferred revenue in our balance sheet. In center revenue, which primarily is generated from personal training, cafes, spas, member activities business and represents 25% of total revenue for the year grew to $25.3 million for the fourth quarter, up $7.1 million or 39.3% over last year's fourth quarter.

This is due to general membership growth across our system as well as increased penetration for existing membership base as evidenced by the 15.8% growth in average in center revenue per membership in the quarter. In center revenues for 2005 totaled $97.7 million, up 36.5% from last year.

In center revenue continues to be the fastest growing segment of our business. Other revenue totaled $2.7 million for the quarter, down from $2.8 million last year primarily due to the planned phase out of the external retail channel for our nutritional product business.

We anniversaried the phase out in Q4, so comparisons should be more straightforward in the future. The decrease in revenue was partially offset by increased revenue by media advertising sales in our Experience Life magazine and increased rental income. For the year, other revenue decreased as expected from $11.9 million to $9.1 million, or down 24%.

Moving to operating expenses. The company's operating margin decreased from 21.7% to 21.3% as compared to the prior quarter and delivered full year operating margin of 20.7% down from 21% last year. This decline in operating margin on a quarter and full year basis is due mainly to the weighting of centers earlier in their life which operate at lower margins as they ramp to maturity and the growth in the in center businesses which operate at lower margins.

As we look to 2006, if you exclude the impact of share based compensation expense, we expect operating margins to expand slightly, driven by our G&A leverage and a more balanced mix of newer mature centers as we move to the second half of 2006. Center operating expenses totaled $57.3 million for the quarter, up from $42.7 million for the fourth quarter last year.

This increase of $14.6 million is due to our increased payroll and other general costs to support the membership ramp and new center growth. Full year center operating expenses were $216.3 million, up from $164.8 million for last year. For the quarter, total operating margins as a percent of total center revenue decreased to 43.2% from 46.1% in the fourth quarter 2004 as expected.

This decrease was due mainly to the weighting of new centers, which deliver lower margins as they ramp toward targeted capacity. We had 10 large centers in their first year of operation during the quarter compared to nine centers including one small format center in comparison to last fourth quarter.

As you'd expect in the ramp stage, centers in their first year of operation deliver less than half the EBITDA margins of the mature centers. Also, another factor is our continued growth in the in center business, which come at lower margins but continue to expand our profit per square foot and our investment returns.

Our 2005 center operating margins were 43.2%, compared to 45.1% last year. As we look to 2006, again, excluding the impact of share based compensation expense, we expect center operating margins to improve on year over year basis starting in the second half of the year as we have a better balance of new and mature centers.

Advertising and marketing expense was $3.4 million for the quarter, up from $2.9 million for the same period last year. As a percent of revenue, advertising expense decreased from 3.5% last fourth quarter to 3.3% this fourth quarter. The variance from quarter to quarter is due to less centers open in the quarter than last fourth quarter.

For the year, advertising and marketing expense totaled $14.4 million, up from $12.2 million last year, which provided a 20 basis point improvement as a percent of revenue from the prior year. As we look to 2006, advertising and marketing as a percent of revenue will fluctuate quarter to quarter based on pre sale activity and center initiatives.

For the year, we expect these costs as a percent of revenue to be flat or slightly up as we invest in programs highlighting our in center businesses. General and administrative costs totaled $7 million for the quarter, up from $5.7 million last year's fourth quarter due primarily to costs associated with Sarbanes-Oxley compliance and investments in processes and systems and focused on enhancing our member experience.

As a percent of revenue, G&A decreased from 7% to 6.8%. For 2005, G&A expense totaled $27.4 million, or 7% of revenue, compared to 6.9% of revenue for 2004, again due to the continued Sarbanes-Oxley compliance initiatives as well as systems and process initiatives relating to enhancing our member experience.

Longer term, again, excluding the impact of share based compensation expense, we expect G&A leverage to be a key component in driving operating margin expansion, starting in 2006. Other operating expenses, which include costs associated with our Experience Life magazine, the athletic events division, our restaurant Martini Blu and rental property costs totaled $3.5 million for the quarter compared to $4.7 million last year and the full year totaled $12.7 million compared to $18.3 million last year.

These decreases were mainly driven by the planned phase out of our external retail channels, for our nutritional product business that I previously referred to. We expect these costs as a percent of revenue to improve slightly in 2006. Depreciation and amortization totaled $10.3 million compared to $8.3 million for the fourth quarter last year and $38.3 million for the full year compared to $29.7 million last year.

This increase is due to full year depreciation on the six centers opened in 2004 and the partial year depreciation on the seven centers opened in 2005. As a percent of revenue, depreciation has remained flat at 10% from the last fourth quarter to this fourth quarter. For the year, depreciation increased to 9.8% of total revenue in 2005 compared to 9.5% in 2004.

We expect depreciation to remain consistent as a percent of revenue in 2006. Income from operations was $22.1 million for the quarter, compared to $17.8 million for last fourth quarter or up 23.8%. For the full year 2005, income from operations totaled $80.9 million, up 23.5% from $65.6 million last year. Interest expense reported net of interest income decreased to $3.7 million from $4.2 million last fourth quarter as we continued to manage our average debt balances.

For the year 2005, interest expense was $14.1 million compared to $17.6 million last year. Just a reminder here that interest associated with the construction of our new centers is capitalized and incorporated in the total investment of the center. We expense interest costs once the center opens.

We anticipate interest expense to increase moving forward as we finance new centers. Our tax rate for the quarter was 35.1% as compared to 41.1% last fourth quarter. Our tax rate for the year was 39.4% as compared to 41% in 2004. This tax rate decrease is due to a corporate entity realignment that decreased our state income tax and revalued our deferred tax liabilities.

This revaluation resulted in a non-recurring income tax expense reduction of approximately $1 million in the fourth quarter or approximately $0.03 a share. We expect this business realignment will allow us to take our 2006 effective tax rate to approximately 40%.

That brings us to net income for the quarter of $12.1 million compared to $8.1 million last fourth quarter or up 48.1%. Our net income margin for the quarter increased to 11.7% from 9.9% last year. For 2005, net income totaled $41.2 million, up 42.6% from $28.9 million in 2004, and net income margin increase from 9.3% to 10.6%.

Total common shares outstanding at December 31, 2005, were 35.6 million. Weighted average fully diluted shares totaled 36.7 million in the fourth quarter and 36.3 million for the year. We expect our 2006 total weighted average diluted share count for the year to grow approximately 2% to approximately 37 million shares.

Based on the 2005 fourth quarter weighted average share count, our diluted EPS for the quarter was $0.33, up 43.5% from $0.23 in the fourth quarter last year. For the year 2005, our diluted EPS was $1.13 compared to $0.87 last year, or up 29.9%. Let me spend a minute on other operating data. The number of open centers at December 31, 2005, was 46 compared to 39 as of December 31, 2004. As of today, we have 48 open centers.

Membership as of December 31, 2005 totaled 358,384 memberships compared to 299,538 memberships last year, up 19.6%. EBITDA totaled $32.6 million for the fourth quarter of 2005 compared to $26.3 million for the fourth quarter of 2004, up 24.1%. We broke the $100 million mark in EBITDA in a year for the first time in the company's history as EBITDA in 2005 totaled $120.4 million, compared to $96.3 million last year, or up 25.1%.

This increase is driven by pre tax income which is up 38.6% for the year. EBITDA margin was 31.5% for the fourth quarter compared to 32.1% last fourth quarter and 30.9% for the year up from 30.8% for 2004. Same center revenue growth for centers in their 13th or more full month of operations for the fourth quarter totaled 8.5%. We added four centers to the same center revenue base for portions of the quarter.

The same center revenue growth for mature centers, centers in their 37th or more full month of operations in the fourth quarter was 2.6%. If you were to include the impact of planned cannibalizations on these two metrics, the results would be 9.1% and 3.4% respectively for the 13th and 37th month calculations.

The full year same center revenue growth metrics for the 13 month and 37 month were 7.7% and 2.2% respectively. If you include planned cannibalization for the full year growth metrics, are 8.2% and 2.9% respectively. Average revenue per membership totaled $297 for the quarter compared to $281 for the fourth quarter of 2004 or up 5.8%.

When you remove pre sale memberships from the calculation, the average is 6%. Average revenue per membership totaled 1$,171 for the year, compared to $1,119 in 2004 or up 4.6%. When you remove pre sale memberships from the calculation the average is 5.1%. Average in center revenue per membership totaled $75 for the quarter, compared to $64 in the fourth quarter of last year or up 15.8%.

When you remove pre sale memberships from the calculation, the increase is 16.1%. Average in center revenue per membership totaled $300 for the year compared to $267 in 2004, or up 12.5%. When you remove pre sale memberships from the calculation, the increase is 12.9%.

Net debt to total capital at December 31, 2005, was 46.6% compared to 44.3% at year end 2004. Turning to the balance sheet, total assets have increased to $723 million as of December 31, 2005, up $151 million from year end 2004 due to increased land, building, and equipment from our new centers both recently opened and currently under construction.

Total debt, including current maturities increased by $64 million from year end 2004, to $273 million. Current liabilities have decreased $9 million from year end 2004 due mainly to our new $200 million revolving credit facility and the corresponding refinancing of approximately $32 million of short term debt to long-term.

We use the facility to finance the construction and development of new centers and for other general corporate purposes. This facility, when combined with our strong cash flow from operations provides the foundation for our future growth. In addition, please keep in mind that with the opening of our San Antonio and Columbia centers, we now have 15 current model centers without mortgage financing and our acquisitions to date have been funded with operating cash and our revolver.

All can also be used to fund our long term development plan. Total shareholder equity increased from $251 million at year end 2004 to $308 million as of December 31, 2005, reflecting the retained earnings growth and stock option exercise activity during the year. The company continues to deliver strong cash flow, total 2005 cash flow from operations was $107.5 million, up over $27 million or 33.7% from last year.

In 2005, we incurred $190.6 million of cash costs for capital expenditures of which approximately $167 million came in the form of growth capital expenditures and approximately $23 million was for maintenance CapEx at existing fitness facilities and corporate capital purchases.

In addition, approximately another $10 million in 2005 capital additions were in payable at year end. Since these were not paid for in cash as of the end of the year, this amount is not included in the capital expenditure amount on the statement of cash flows. The growth capital expenditure amount does include our three acquisitions made in Q4, namely the 40,000 square foot high end health club in Minnetonka, Minnesota, the office building that is home to our Highland Park center and the 70,000 square foot large format center in Maple Grove, Minnesota.

I want to take a second to provide some additional detail regarding our Minnetonka and Maple Grove centers. The Minnetonka Center is 40,000 square feet and will have an initial targeted capacity of 2,000 memberships. It will operate with a higher dues rate, which start at $109 for individuals and we'll focus on the high end spa component of our business.

The Maple Grove center will have an initial targeted capacity of 4,000 memberships. It will operate as a sports center with dues that start at $59 for an individual. This acquisition allows us to expand our presence in the Northwest corridor in the Twin Cities. Our 2006 and 2007 centers continue to progress. We have already purchased the land and started construction on the remaining six current model centers to open in 2006.

Regarding our development plans, we told you we intend to open seven current model centers and one smaller center in 2006 and eight current model centers in 2007. That delivers approximately 15% unit growth. For 2006, we plan to open the following centers. Allen-Mckinney, Texas, which is a suburb of Dallas, Alpharetta, Georgia, which is suburb of Atlanta, Columbia, Maryland which is already open, Minnetonka, Minnesota, which is already open, Overland Park, Kansas, Palm Valley, Arizona, Scottsdale, Arizona and South Valley, Utah which is a suburb of Salt Lake City.

We will update you on our 2007 centers throughout the year as they begin pre sale on our website. Currently, no 2007 centers are in pre sale. Let me discuss our guidance for 2006. We expect our fundamental operations to remain strong in 2006 which will drive our expected revenue of $475 to $485 million, or 22 to 24% growth.

This growth will be driven by our 15% new center growth, our membership ramp and our in center revenue growth. On a pre FAS 123R basis, we expect net income of 50.7% to $51.3 million, or approximately 23 to 25% growth. We expect diluted EPS before the share based compensation expense to be $1.37 to $1.39.

Stock option expense under FAS 123R will be introduced in 2006 at which time the company will use the modified perspective method for its accounting. Our baseline option expense is expected to be approximately $0.09 per share. In addition, the company has certain market condition vesting options,granted at the time of our IPO, that have a strike price of $18.50, which may vest in 2006 and could add approximately $0.03 a share to our cost.

50% of these options would vest if our stock price remains above $40 for 60 consecutive days and the remaining 50% would vest if our stock price remains above $45 for 60 consecutive days. Assuming both the baseline and the market condition vesting options are expensed in 2006, we expect net income of $46.2 million to $46.8 million. This results in diluted EPS guidance of $1.25 to $1.27 per share.

We expect to incur $220 to $230 million for capital expenditures in 2006. This includes expending approximately $25 million, or $3.00 to $3.50 per square foot on maintenance capital expenditures as well as corporate initiatives. This is slightly more than the $3.00 a square foot we planned in the past due to our desire to include more finishes from our current model that have a proven return impact, such as our life studio, our group personal training areas and our spin room.

For the first quarter, we expect our revenue growth to be in the same range as our overall annual guidance for approximately 22 to 24% revenue growth and approximately 20% net income growth including share based compensation. The stock option expense for the first quarter is expected to be approximately $800,000 after tax.

For comparison purposes, the non-GAAP reconciliation will result in an estimated 25 to 30% net income growth, again, excluding stock option expense. That concludes our prepared remarks regarding the fourth quarter 2005 and full year 2005 financial results. Our business fundamentals remain strong as our management team will continue to focus on building a strong growth company which provides and opportunity for all our employees, delivers solid results for our shareholders and focuses on a member point of view and the wow experience. With that, we've completed remarks. Bahram and I are happy to take your questions now.

QUESTIONS AND ANSWERS

Operator

Thank you, sir.

[OPERATOR INSTRUCTIONS]

Your first question comes from Ed Aaron with RBC Capital Markets.

Ed Aaron - *RBC Capital Markets - Analyst*

Thanks, good morning and great job in the quarter once again. A couple questions for you, first, you've obviously seen strength in your store base. I was wondering if you could comment about maybe how much variance you're seeing across the different stores. In other words, how many stores would you say are performing above your internal plan and how many are maybe performing below.

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

Yes, obviously we don't comment on individual store performance. There is in general, there's a fairly low performance band. You do see a little bit better performance on clubs that have moved into the sports memberships. But that's really the key driver between them. For the most part, the band is quite narrow.

Ed Aaron - *RBC Capital Markets - Analyst*

And is it span, its span becoming any more or less narrow over time?

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

It remains very consistent.

Ed Aaron - *RBC Capital Markets - Analyst*

Okay, and then have you given any consideration to accelerating your pace of store growth, just kind of given the performance?

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

I will take that, this is Bahram. We have and we have been working very diligently as we have mentioned. We have increased the number of real estate guys that have been working on deals while we will stay committed to providing what we have promised you, we expect to see more productivity coming out in the future. But at this point, we're only going to commit to the number of stores we have told you.

Ed Aaron - *RBC Capital Markets - Analyst*

Okay and then on the competitive front, have you seen any changes there, it seems like at some point, some others might look to emulate some of what you're doing out there.

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

I'd like to make a strong remark to your question, it's a great question. We have huge level of respect for competitors such as LA Fitness, 24 Hour Fitness and or Equinox. All of which have great models which are entirely different from the standpoint of the product, LA Fitness, 24 Hour Fitness, much, much, much more low cost driven from the model standpoint. They are great models but entirely different.

And Equinox is again a totally different model. Outside of those competitors, we do not see a competitor with capabilities large enough in ability to make a difference if they try to copy our type of box. They could, but it's not going to be in a meaningful, numbered across the country. Our box is extremely complex to get true development and through management and operations. So we feel confident right now that we can keep our lead in this space pretty strongly.

Ed Aaron - *RBC Capital Markets - Analyst*

And then lastly, and I'll just turn it over, just a quick one for you Mike, you might have already given us, and I apologize if I missed it, tax rate guidance for 2006?

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

I mentioned it in the conversation, we expect approximately 40%, so down from 41%.

Ed Aaron - *RBC Capital Markets - Analyst*

Okay, thanks.

Operator

Your next question is from Greg McKinley with Dougherty.

Greg McKinley - *Dougherty - Analyst*

Yes, thank you. I was wondering if you guys could give us a little more color on what you're seeing happen with your membership mix. In another words, over time, have you seen a greater concentration of families or couple memberships and is that changing as you enter your new markets I guess given local demographics and if there are any changes, can you help us understand how that might be impacting in store revenues or total revenues per membership? Thanks.

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

Good question, this is Bahram again. We don't necessarily work on changing the number of mix in the family, that's a function of demographics of the location we go to, how many singles people, how many family people, how many couples without kids are there.

And it's just going to take its own course based on demographics of the particular place, four or five mile radius we put the club in. We obviously give them enough variety of products and services that if they have families, they would have the incentive to get everybody involved in the program.

The more important mix is our members that are choosing to buy our sports membership instead of the fitness. Because obviously they would have access to all of these facilities across the country versus those that are only designated fitness plus the additional benefits to our sports membership. And that has been an active initiative on our end and the members are responding very well to it and our membership, as Mike mentioned earlier has been growing towards a higher mix of sports members.

Greg McKinley - *Dougherty - Analyst*

Okay and where was your sports membership mix and where is it right now.

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

Again, we're not going to comment on specifics on that. The sports designated clubs were in the 25% range when you look back a year or two ago and have moved up to 33%, so that's a part of it and obviously, in addition to that, there are those people who would voluntarily upgrade even though they go to a fitness club, would voluntarily upgrade and pay the additional $10 fees.

Greg McKinley - *Dougherty - Analyst*

Okay, great and just real quickly Mike and then a couple numbers, can you refresh real quick on CapEx for Q4 and '06 please.

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

Total CapEx for 2005 were a little over $190 million cash paid plus another $10 million incremental increase in payables. In 2006, we expect $220 to $230 million total CapEx.

Greg McKinley - *Dougherty - Analyst*

Great, thank you.

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

You're welcome.

Operator

Your next question is from Brian Nagel with UBS.

Brian Nagel - *UBS - Analyst*

Good morning.

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

Morning.

Brian Nagel - *UBS - Analyst*

Congratulations on another very strong quarter.

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

Thank you.

Brian Nagel - *UBS - Analyst*

Couple of questions. First off, as we look at your portfolio of openings in 2006, particularly the new markets you're entering, are there any factors that could make these more or less challenging that are specific to these new openings. More or less challenging compared to what you open historically?

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

Not at all. As we open clubs throughout the year, some open up with a little bigger bank and a little easier way for us to get the memberships to our desired ramp and some require a little more maneuvering and muscling to get them to our desired ramp and that has never been any different in 20 some years that I've been opening clubs.

We expect a mix between all of our products. We're not going to have a year that all of them are going to be above and all of them are easy and all are going to be, we're not going to have a year that's all going to be difficult. You should expect the same type of situations you've seen in the past in the future.

Brian Nagel - *UBS - Analyst*

Okay and the second question, with respect to churn, in some of your larger markets now, whether it be with Texas, Chicago, Minneapolis. Have you seen churn go lower than your company average?

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

You know, actually, the total, and I'll take you through the whole picture, it's pretty much consistent. Some markets are inherently more susceptible to having a higher churn, we always have had more churn in Arizona as a percentage of membership as we've had let's say in Minneapolis.

But on the other hand, we get a higher number of people joining the club. Those have been, while our total average stays very, very close to what we have told you guys, from market to market, we anticipate different type of a churn and then, mostly often see that.

When I went to D.C., I thought we would have a higher churn just because of the transient nature of the people who live there. We did have some additional churn in that market. Nevertheless, we have so many new people joining every month that it will completely offset each other.

Brian Nagel - *UBS - Analyst*

Okay, thank you very much and good luck.

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

You're welcome.

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

Thanks.

Operator

Your next question comes from Paul Lejuez with CSFB.

Paul Lejuez - *CSFB - Analyst*

Hey guys, Paul Lejuez, Credit Suisse. Few questions, Bahram you mentioned one of the changes was to increase the price I think of the child membership. Are there any other types of price increases you're testing now and can you talk about how many planned conversions of fitness clubs into sports clubs might be happening in '06?

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

Yes, at this point we don't plan to specifically convert a club that you can buy a fitness membership to strictly sports this year. However, our San Antonio and Maryland clubs that just opened up, both of those have opened up with only the option of sports membership. In San Antonio, initially we opened it up as a $49 option available and before we even opened the club we closed that option out and only made the $59 available.

As far as the children goes, this is an area we believe we offer a tremendous value proposition and maybe a little too much from the standpoint that families that have lots of children, a couple with three or four kids under age 12, they are in the club, they are utilizing the club and frankly they have no other provider that offers anything close to what we offer for their entire family.

So we basically decided to charge a very, very nominal price of only $5 a child a month for our use for children under 12 and we tested this in a handful of clubs in November, and then we rolled it out in December in all the clubs. And however, this is only, at this point, only for the members that have been joining from that point on.

We have not made any guarantees to anyone that existing members will be grandfathered and we will not make any commitment whether or not we will be changing the existing members to having them having to pay or not. And if you ask me the question, I will not answer you.

So, from the standpoint of opportunity in our, and flexibility to be able to manage our average dues as we have told you guys before, we feel extremely confident that we have a lot of flexibility in our pricing but yet we don't want to change the initial $49 or $59 price point across the system.

Paul Lejuez - *CSFB - Analyst*

Thanks, Bahram, second, if you think back to 2005 how you spent your time compared to 2004, what were the big changes and how do you think about spending your time in '06? How will that vary versus '05?

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

That's a good question. '04 took a lot of my time for the IPO, pre and post and in '05 I spent more of my time of where my passion is which is design of programs and space and new boxes, etc. And I would like to continue more migration in the design side of the business, whether it's a class, fitness or personal training or the different type of space or a spa program, doesn't matter.

That's where I feel like I have the opportunity to contribute the most to the company. Mike Robinson has done a great job of allowing me more time in the latter part of '05 to focus on that, since he's my boss, tells me where to go, what to do as far as the investment relations. He's done a great job allowing me to have more focus on those areas. And that's what I like to do.

Paul Lejuez - *CSFB - Analyst*

Great, and Mike, just a quick, could you tell us what option expense was in '05 and then also, I might have missed what you said about center operations in '06. Did you talk about getting leverage on that side of the P&L?

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

Let me answer, on the center operations piece, we do see that the mix will start to balance out a little bit more. Old clubs, mature clubs and new clubs in the latter halfs, we would expect to see some progress on that. I'm looking up now what the, if you hang on for a second here I'll tell you what total expense was for 2005, it was higher than what we are forecasting for 2006, primarily because we had three traunches of that stock option of those IPO stock options. We had three traunches of those IPO options addressed in 2005 because they hit strike prices of $25, $30 and $35. It was approximately $5.5 million last year, in 2005.

Paul Lejuez - *CSFB - Analyst*

Okay, great guys, good luck.

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

Thanks.

Operator

Your next question is from Scott Mushkin with Banc of America.

Scott Mushkin - *Banc of America Securities - Analyst*

Hey guys, Bahram, Mike and Ken, Ken, hope you're getting some sleep, I know you are there.

Ken Cooper - *Life Time Fitness Inc. - Director, Investor Relations*

Thanks.

Scott Mushkin - *Banc of America Securities - Analyst*

Anyway, a couple quick questions as far as kind of revenue growth goals as we go out. What I'm trying to figure out is as you've gotten higher incentive revenues with some of Bahram's great programs that he's designed, are your expectations are that when we see clubs out three years that the club experience will be enhanced enough to get the top number up?

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

We're not, certainly not guiding people to expect that the long term percent of comps would be above say that 2, 3, 4% range. That's really what we're targeting. We are obviously very encouraged by what we've seen in center revenue at the 15, 16% in center revenue per membership growth we saw in the third quarter and fourth quarter.

But again, I would not, I caution people to think that that's a repetitive in that mid teens rate forever. We are happy to look at targeting that in the high single to low double digit rate and that's, as we look at rollout of our new programs and that was really what we try to target.

Scott Mushkin - *Banc of America Securities - Analyst*

As I look at the numbers you guys reported, it's my sense that maybe this is wrong, that perhaps the clubs are just maturing much more quickly than they have in the past, is that a good...

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

No, not really, they are maturing at really approximately the economic model that we've laid out.

Scott Mushkin - *Banc of America Securities - Analyst*

Okay.

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

We are generating more revenue per member in our new boxes, more than trying to get more people faster. I want to ground all of you guys that these boxes run to our satisfaction and sometimes unfortunately beyond in terms of how fast they fill up.

And we keep continuing to talk to you guys about member experience and I want to make sure everybody understands that there is a balancing act and if we try to put too many members through a club too early in its life, it will not be the type of experience we like our members to go through.

A club with 6,000 memberships in its first January, it's busier than a club with 11,000 memberships on its third January. So we are careful on the clubs not getting over ramped in terms of memberships. And we think we can do a better job yet in extracting more revenue per member and hopefully more on a voluntary basis where they want to buy additional products and services rather than us trying to force them to buy something, we want them to elect to buy.

We have been gathering and testing on ways to produce products and services where they would want to invest in more things that they would buy and we have been having very modest successes with that. This is what we're hoping for. So things are moving exactly in the direction we had hoped for. But I just want to make sure that, and everybody is clear, increasing the membership count beyond a comfortable level is not what we're looking for.

Scott Mushkin - *Banc of America Securities - Analyst*

That's great color. I have one final question. I think one of the questions I get a lot is how your model is going to react through an economic downturn. So I was wondering if you maybe want to get into this. The Detroit area is obviously been suffering quite a bit with what's been going on in the auto industry. I was wondering if maybe you can give us some color on how the clubs in that region are doing?

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

The clubs have always done well in that market when the market has gone through a downturn. There are offsetting factors, we've seen those people who feel like the pinch on the dollars is a need for them to drop their memberships versus people who feel like, well, now that I have extra time, this is the cheapest form of entertainment I can have and I need something to release stress and it's a great outlet for them.

So if you assume even if they are spending $60 a month in a box, it's only $2 a day. So if you have extra time on your hands, where can you get a cheaper past time. It is also healthy for you. So that's what we have kind of repeatedly told the street since before we were publicly held and that continues to hold true.

Scott Mushkin - *Banc of America Securities - Analyst*

Fantastic, thanks very much guys.

Operator

Your next question comes from Mark Rupe with Canaccord Adams.

Mark Rupe - *Canaccord Adams - Analyst*

Hey guys, congrats on the quarter. Just a quick question, you had mentioned on a prior call that about 6%, maybe 7% of your members maybe use the personal training program. Just curious to see if you see any kind of trends as a group programs and the test areas that we, in that 6% range are actually higher than that.

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

I can't give you a percentage, but I can tell you anecdotally that in our, most focused on tasked club, which is Chanhassen, Minnesota, we run through a much higher percentage than 6% of our members through some type of personal training related activity.

Whether they are doing a VO2-max or MAP test, if they are doing one or two sessions, buying a large number of sessions and definitively we are extremely, basically overflowed with number of people who want to get involved in the O2 or general fitness or general weight loss. So again, I don't have exact percentages to give you but anecdotally we have higher percentage of our members in that test club utilizing than the 6 to 7%.

Mark Rupe - *Canaccord Adams - Analyst*

Perfect. And then Mike, you mentioned that the maintenance CapEx on a per square foot basis was going to be a little bit higher in the upcoming year. And you cited a couple of things and I missed them.

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

Yes, we have, in the design of Chanhassen and several others, we have upgraded what we call a life studio which is the Pilates and Yoga areas as well as designated specific area for what Bahram just talked about, group personal training and in our spinning rooms which are very, very popular.

And from seeing the reaction to those in these new clubs, we will, in some of our major remodels that will go on in 2005, we will add these types of concepts in there. And that will drive our cost per square foot up a little bit. Again, when we do this, obviously there is some measured return that we're getting back from that, both from a customer experience perspective and increased profitability.

Mark Rupe - *Canaccord Adams - Analyst*

Have you defined how many major remodels there will be at this year?

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

We're going to do five major remodels this year.

Mark Rupe - *Canaccord Adams - Analyst*

Perfect thanks.

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

Thanks.

Operator

Your next question comes from Tony Gikas with Piper Jaffray.

Unidentified Audience Member

Hi guys, this is Steph listening for Tony. First, I just wanted, a couple of qualitative [questions]. On the cost of construction, can you speak of it to some of the rising materials costs, maybe some land acquisition costs where you see that trending now in '06 and maybe some early reads on '07. Does that change at all the membership level or the time frame for breakeven on the club economic model?

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

Yes, let me, again, from a big picture question, the economic model is built in such a way when do see increase in again, almost, the major driver for overall investment cost is where these centers are located. So as you expect, east coast a little bit higher priced, north a little bit higher priced than the south, etc.

That continues to be the main driver and the economic model is built in such a way that we can get the returns driven through the pricing structure in these different areas. And that has not changed at all. But specifically, if you look at costs, we've been running an average of about $22.5 million for all of our in center -- all of our current model centers through 2004. When you look at 2005 that average was in the range of $23.5 million, so up slightly. In 2006, we expect it to be in the $24 to $25 million range. And that's a combination of location and some higher-price -- some higher cost locations, as well as some increase in raw material costs. Bahram you want to comment at all on any increases there?

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

Yes. We have obviously been focussing on mitigating some of the natural cost increases that you are seeing across the nation. I was just at a large CEO business roundtable and it's a common problem for all retailers. The mall rents are going up dramatically, as well as construction costs going up. So, this is going to affect everyone. Now, our plan has been from long before, with our own construction company, to find ways to mitigate that.

We would have seen approximately a 50% increase in just the concrete costs in our facilities, had we not responded and developed our own concrete unit, which basically allows us to mitigate that cost. That's just an example of some of the things we have been doing. So, while we will see an increase in our construction and development costs, we will not see the similar amount of increase as other retailers or other competitors would have to deal with.

Unidentified Audience Member

Okay thanks, just a couple others. Bahram maybe you can speak to the five that was in the box that you alluded to earlier with the [light] studio and also the spinning studio. Any other opportunities within the box to shift some pieces around to make opportunities for those type of in center services?

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

Yes, as far as the services goes, I have made a few changes, a couple of different areas on the workout floor, the Pilate and the Yoga special studio as Mike mentioned, the separate spinning room. I also have been working on some additional improvements on just the functionality and the core of the club. However, they are slight and modest changes and members and other folks may not even be aware of it, unless I point them out to them. We are pretty excited about all the new improvements coming in across the system. We are making some minor changes in our prototypes, layout of the massage rooms in the spa or the caf layout. Just make a slight improvements to what we already have that is working very well.

Unidentified Audience Member

Great, my last one. Mike if you can maybe speak to some of the usage metrics that you highlight or have highlighted on your tours, typical trips per week by your members, maybe some of the [rates] of in center services to the member base? Do you know how many children, on a monthly basis, you push through some of your mature clubs?

Michael Robinson - *Life Time Fitness Inc. - CFO, EVP*

Bahram go ahead if you want to --.

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

We have a good count of how many children come through the club, how many go through the day care. Obviously, with a computerized system we have a complete read out of how many kids are in our system as a whole, versus - those are children under age 12 , versus the adult membership, which is all members 12 and above that we actually count as number of members. So, I can't give you a detailed breakdown of club by club or, location by location, but we do have a couple hundred thousand children under age 12 in our facilities.

Operator

Your next question is from [Michael Rafner] with Lehman Brothers.

Michael Rafner - *Lehman Brothers - Analyst*

Bahram I hope you still have time to teach your Monday Spinning classes given all that you have going on.

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

I do, and I always do teach my classes.

Michael Rafner - *Lehman Brothers - Analyst*

Good. When thinking about the possibly of accelerating [inaudible] opening during the next call it two years, how do you guys view the trade off between accelerating revenue growth, and perhaps the impact on profitability? And might that impact your decision of timing -- of new center timing?

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

We have not, really Mike and I have never worked on a plan that would have a reduction of our earnings from what we have planned out in a time we went through IPO. So, we think if -- we've always told the Wall Street that if we are going to increase, we are going to increase in a fashion were we can still maintain what we have promised, in terms of the net income increase.

The one thing that is for sure is, the margins as a whole will then have a little of the pressure on them obviously. But we want to be able to mitigate the negative cost of the additional stores in the first year, by over-performance of others, so that we can always meet our numbers. Now, if there is a strategic reason that makes since for the company to increase the numbers, and then let the Wall Street know that there is going to be an impact for a year or 18 months before this will reverse and be a positive, we will let you know that.

Michael Rafner - *Lehman Brothers - Analyst*

Okay. That's helpful. Thanks [inaudible].

Operator

Your last question comes from [Dan Mikadio] with ASC Advisors.

Dan Mikadio - *ASC Advisors - Analyst*

Hi, regarding the two acquired clubs in Minnesota. I was wondering if you could comment on the changes you've made or you have planned, and the member response to those changes.

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

Yes. I'll take that. This is Bahram. The first club we acquired really wasn't a club that -- doesn't resemble anything like what we acquired. To us, it is just a brand new facility, that's Minnetonka facility. We bought a -- traditionally there was a total of about 23,000 square feet, with an 18,000 square feet opportunity to expand, but not utilized. And, we completely redid the entire facility it doesn't resemble anything like what it was. So, it is really more like a new concept opening of a facility that is an acquisition. We just acquired the property and created a new type of facility.

The second one, which is Maple Grove. That model is actually relatively close in terms of the offerings to our Eagan or Woodbury facility which is about a 94/95 prototype model. And we have plans to spend approximately the same amount of money we spend in one of our large major remodels about a1.5 million or so in that facility. And we believe that with that amount of money, we can get that club to look and feel just like a 70,000 square feet Life Time Fitness box, which would be like I said a earlier prototype model.

Dan Mikadio - *ASC Advisors - Analyst*

So, will you need to advertise more to attract members to Minnetonka while I guess the Maple Grove facility might be -- might have maintained more of it's existing members?

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

Yes, we are better than track where we wanted to be on Minnetonka already and the amount of memberships we are - the [new] people walking in and signing up is well in line with what we hoped, and then some. So, we feel very very good about the way that product is going forward. It's a high-end touch -- it's a Life Time athletic, Life [guard] facility downtown. We feel very very good about the type of product that is there. It isn't going to require a lot of marketing, we believe that word of mouth will do the job on that facility. Minnetonka -- Maple Grove it's going to blend in our overall marketing for Twin Cities. It shouldn't be a problem to acquire the appropriate number of members to keep that club on a desired ramp.

Dan Mikadio - *ASC Advisors - Analyst*

Okay. Terrific.

Operator

Ladies and gentlemen, this concludes our question and answer session. I would now like to turn the call over to Mr. Ken Cooper for closing remarks.

Ken Cooper - *Life Time Fitness Inc. - Director, Investor Relations*

With no more questions I'd like to thank everyone for participating. We look forward to reporting to you our first quarter 2006 results, tentatively [scheduled] for Thursday, April 27, 2006. For this and all other key dates, please see our events section, within the investor relations on our website. Thank you, and goodbye.

Operator

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