FINAL TRANSCRIPT

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LTM - Q1 2005 Life Time Fitness Earnings Conference Call

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PRESENTATION

Operator

[Operator Instructions]

I would now like to turn the presentation over to your host for today's call, Mr. Mike Robinson, Chief Financial Officer. You may proceed sir.

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

Thank you. Good morning and thank you for joining us on today's conference call to discuss Life Time Fitness' Q1 2005 Financial Results. We issued our first quarter earnings press release this morning. If you did not obtain a copy you may access our web site, which is www.lifetimefitness.com.

Bahram Akradi, our Chairman and CEO will discuss key highlights from our first quarter and other recent events and I will review Q1 2005 financial information in greater detail. Once we complete our prepared remarks we will then take questions until 11 o'clock ET. The operator will give you instructions on how to ask a question. A replay of our conference will be available on our web site after 1 p.m. ET today.

Before I turn the call over to Bahram, I would 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. And current with the issuance of our Q1 earnings results we have filed a Form 8-K with the SEC. Also to comply with the regulation G included in our earnings release is a reconciliation of differences between non GAAP EBITDA measures and GAAP financial information, which will be discussed later in this call. Other required information about EBITDA is included in our Form 8-K.

With that let me now introduce Bahram Akradi.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Thank you Mike, and good morning everyone. We are very excited to be with you to discuss our first quarter results. We are having a strong quarter, and achieved a great start to the year. The foundation of this success was driven by our continued focus on the member point of view and customer experience.

Revenue was up 20.4% for the first quarter as compared to the same quarter in 2004. Net income is up 44% for the first quarter. The increased operating margins in the quarter and our cash flow delivery remain strong. For the quarter we delivered $25 million in cash flow from operations, up 20% from 2004. During the quarter we continued to execute on our three fundamental growth strategies. First is new unit growth. Our 2005 plan calls for six new center openings. We opened our first center of this year on March 4 in Commerce Township, Michigan to very, very favorable reviews.

We expect to open our next center in Cinco Ranch, Texas, which is a suburb of Houston in June, and we are on track to open all six centers for the year. Our second growth strategy is membership ramp. We closed the quarter with over 325,000 memberships or nearly 22% year over year growth. New membership acquisition was strong in all regions we operate, culminating in a net membership growth of slightly more 25,000 memberships since the beginning of the year.

We continue to track with our aggregate membership ramp expectations in both Dallas and Houston markets and we plan additional locations in new and existing markets within Texas. Our final growth strategy is increasing our in center revenue, which grew over 31% to $22.7 million for the quarter. Average in center revenue per membership increased by 8% in the quarter to $75 from $69 in 2004. In center revenue growth from our personal training, spa, caf , and member activities is the result of further penetration from more marketing programs as well as new products and services such as a heart rate monitor – and nutrition coaching.

Through our focus and commitment we continue to deliver on these strategies. In addition, we enhance the Lifetime Fitness plan though our magazine Experience Life and our Triathlon, which is scheduled for July 16, 2005. As mentioned in our last earnings call, the event will be broadcast on NBC at 3 pm ET on July 16. I encourage all of you to tune in to that event.

In addition to new center growth, we're continuing our initiatives to enhance membership and in center revenue growth. Personal training saw traction in its cardiovascular assessment and training program as well as its nutrition coaches at our centers for diet and menu consultation. And we experienced a big response to our new caf merchandizing program, which was tested at Commerce Township with great results.

On the financial front we issued a press release last week regarding our new $200 million credit facility; this further strengthens our capital structure at attractive rates and provide us with a strong foundation to finance our growth objectives. Mike will discuss more details later in this call on this issue.

Our Company and our management team remain focused on delivering results. Our large, high quality centers with the 4 in 1 offering of professional fitness, sports and athletic, family recreation, resort &spa, offer a compelling value to a broad market of customers. We believe this model along with our relentless effort to improve the customer experience offers tremendous opportunity to continue to grow, build a meaningful brand and enhance our shareholder value.

Let me now turn it back over to Mike for more details, discussing the Q1 financial results. Mike?

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

Thanks Bahram. We had a great quarter, with strong matrix across the board. Let's start with revenue. For the first quarter total revenue was $89.3 million versus $74.2 million for Q1 2004, an increase of $15.1 million or 20.4%. This growth was driven mainly by total center revenues, which were $87.8 million for the quarter, up $16.9 million or 23.8% from Q1 2004.

Our membership dues stream, which represented 68% of total revenue grew 23% to $11.3 million in the quarter driven by our membership growth mainly at 11 centers that are in their first or second year of operations. The dues revenue stream totaled $60.5 million for the quarter, up from $49.2 million last year.

Enrollment fee revenue represents about 5% of total revenue for the quarter, and increased to $4.7 million from $4.5 million last year, an increase of 3.9%. As you may recall we deferred enrollment fee revenue and related costs until the center is open, then recognize them over 36 months. Our historic center open schedule directly affects enrollment fee trends since our centers opened actually declined in 2002 and 2003 with five center openings in 2002 and four in 2003.

On a cash basis we had a strong first quarter in membership sales and you can see that reflected in the growth of both short and long term deferred revenue on our balance sheet which had deferred enrollment fee growth in excess of $3 million. In center revenue, which is primarily driven by personal training, caf s, spas, and member activities businesses that represents 25% of total revenue, grew to $22.7 million, up $5.4 million or 31.4% last year's first quarter due to general membership growth across our system as well as increased penetration for existing membership fees as evidenced by approximately 8% in average in center for membership.

In center revenue continues to be the fastest growing segment of our business. Late in the quarter, the Company took over operations of caf s in our Detroit market, although this had minimal impact on the results due to this strategic move to continue deliver excellent member experience. Other revenue totaled $1.5 million for the quarter, down from $3.2 million last year due primarily to our phase out of the external business, for our nutritional division offset by increased revenue from the media advertising sales in our Experience Life magazine.

Our focus on the nutritional products business is sales to our members through our caf s and via web site. Most of these sales are accounted in in-center revenue. Moving to operating expenses, the company delivered 50 basis points of operating margin improvement in the quarter from 18.9% last year to 19.4% for Q1 2005. Center operating expenses totaled $49.6 million for the quarter up from $39.1 million for the first quarter last year. This increase of $10.5 million is due to increased payroll and other general costs to support the membership ramp in new center growth.

For the quarter as expected total center operating margins as a percent of total center revenue decreased to 43.6% from 45% in the first quarter of 2004. This decrease was due to the opening of the four news centers opened late last year at lower start up margins and the strong growth in –in-center businesses which came at a lower margin but will continue to expand our profit per square foot and our investment returns.

For the rest of the year we expect these margins will remain flat to down slightly as growth in the low margin in center businesses, newly opened clubs will be partially offset by a better balance of pre-sales combined with our continued drive for operating efficiencies.

Advertising and marketing expense was $4.3 million for the quarter, slightly above the $3.7 million for the same period last year due to enhanced marketing campaigns to take advantage of the New Year's resolution audience at out centers. As a percent of revenue, advertising expense reduced from 5% last first quarter, 4.8% this year due primarily to a reduction in advertising related to the nutrition business.

We anticipate marketing expenses for the remainder of the year to fluctuate quarterly based on the pre sale and membership rampactivity. General & Administrative costs totaled $6.5 million for the quarter up from $5.9 million in the first quarter last year due primarily to costs associated with being a public company including Sarbanes-Oxley compliance expense. As a percent of revenue G&A declined from 8% in Q1 2004 to 7.3% this first quarter as we continue to achieve economies of scale across our infrastructure.

Other operating expenses, which include costs associated with our Experience Life magazine, our nutrition business and our athletic events division totalled $2.9 million for the quarter versus $4.6 million last year. This decrease was mainly driven by the phase out of our external nutritional business. We anticipate 2005 margins will improve as performance in this business continues to improve. Depreciation and amortization totaled $8.7 million compared to $6.9 million in the first quarter last year. This increase was due to depreciation on new centers including the six new centers opened in 2004.

As a percentage of revenue, depreciation has increased slightly to 9.4% last Q1 on to 9.8% this quarter, due to the weighting of immature new centers in our base. Income from operations were $17.3 million for the quarter compared with $14 million last first quarter or up 23.7%. Again operating income margin was 19.4% for the quarter compared to 18.9% last first quarter driven by lower advertising, lower general administrative and a reduction in other expenses as a percent of center revenue.

Interest expense, net of interest income declined to $3.8 million from $4.6 million last first quarter as our operating cash flow on use of IPO proceeds last year reduced our average debt balances. Just a reminder here, that interest charges associated with the construction of our centers are capitalized and incorporated in the full investment at the center. We anticipate 2005 interest expense to increase in the second half of 2005 as we finance new centers. Our tax rate for the quarter was 41%, which is the same as last year. That's only just for net income, for the quarter $8.1 million compared to $5.6 million last first quarter or up 43.8%. Our net income margin increased to 9.1% from 7.6%. Total common shares outstanding on March 31, 2005 were $34 million, weighted average fully diluted shares were $35.9 million in the first quarter, include the effect of the IPO share issuances and the preferred stock conversion on the closing date, which became effective June 29, 2004.

Based on the 2005 first quarter weighted average share count our diluted EPS for the quarter was $0.23 up from $0.19 in the first quarter last year. Let me spend a minute now on the operating data. The number of open centers at March 31, 2005 was 40 compared to 33 at March 31, 2004. Memberships at March 31, 2005 were 325,362 compared to 267,474 memberships last year up 21.6%. EBITDA totaled $26.3 million for the first quarter of 2005 compared to 21.2 million for Q1 2004 up 24.3%. This increase is driven by pre-taxi income, which is up 43% for the year.

EBITDA margin improved to 29.5% for the first quarter compared to 28.6% last first quarter. Same center revenue growth for centers in their thirteenth or more full month of operations to the first quarter totaled 8.2%. During the quarter we did not add any centers to the same center revenue base. Average revenue from membership totaled $290 for the quarter compared to $285 for the first quarter of 2004 or up 1.6%. When you remove pre sale memberships in the calculations the average grew 2.8%. Average in-center revenue per membership totaled $75 for the quarter compared to $69 for the first quarter last year or up 7.8%.

Again when you remove pre-sale memberships from this calculation the average grew 9.1%. Net debt to total capital at March 31, 2005 was 44.3%, which is consistent with year-end 2004. Turning to the balance sheet, total assets have increased to $587.8 million up $15.7 million from year-end 2004 due to increased land building and equipment from our new centers both recently opened and under construction. Total debt including maturities grew slightly by $1.4 million to $210.7 million. Current liabilities have increased $12.4 million from 2004 due to increased deferred revenue for membership acquisition as well as an increase in the current maturities and debt.

As Bahram mentioned earlier, we issued a press release last week, we had closed on a new $200 million five year credit facility with a Syndicate of eight banks including US Bank as leader arranger and J P Morgan and Chase Bank as a syndication agent. My thanks go out to both to US bank and J P Morgan Chase Bank as well M&I Bank, National City Bank, Associated Bank and MB Financial Bank. This revolving credit facility bears interest liable across the spread of 100 to 200 basis points based on our consolidated leverage ratio. This interest rate is balanced significantly from the cost of our previous facilities.

However, keep in mind that most of this interest is incurred during the construction phase and is therefore capitalized. This facility replaces our $55 million credit facility led by Antares Capital Corporation which was priced at LIBOR plus 400 basis points and our $75 million constructive facility led by US Bank, which cost us prime plus 50 basis points. We're going to use the facility to finance the construction and development of new centers and for other general corporate purposes. This facility combined with a strong cash flow from operations provides the foundation for our future growth.

These sources coupled with our many longer-term financing options including mortgages, potential sale-lease backs and others, we believe would fund our stated growth plans at very competitive cost of capital. Total Shareholders' equity increased to $250.6 million at year-end 2004 to $259.8 million as of March 31, 2005 reflecting – the retained earnings growth during the year.

The Company continues to deliver strong cash flow; total first quarter cash flow from operations was $25 million up $4.2 million or 20.3% from last year. During the quarter we spent $37 million in capital expenditures of which $7.5 million was for maintenance CAPEX for the existing fitness facilities and corporate capital purchases. For 2005 we maintained our $180 million to $185 million of CAPEX guidance as we complete our 2005 centers and procure the land and commence construction on 2006 centers.

Let me discuss our continued top level annual and second quarter guidance for 2005. We are planning on opening six new current model centers, all of which are either open or under construction. As we look to 2006 our plan is to have us opening seven new current model centers. Based on our strong Q1 results for the year 2005 we're raising our original guidance of 20% to 22% revenue growth to 21% to 23% growth or $377 to $383 million in revenue. This growth will be driven by 15% new center growth, our membership ramp and the in-center revenue growth.

We now expect income to grow by 30% to 32% or $37 5 million to $38 million compared to our original guidance of 28% to 30%, again driven by our goal strategies combined with operating efficiencies and general and administrative expense leverage. We still expect 2005 diluted shares to grow 1% to 2% to $36 2 million to $36.5 million range. Earnings per share guidance is now 20% to 22% or -($1.04 to $1.06) as compared to our original guidance of 18% to 21% growth over the $0.87 we made in 2004.

For the second quarter our guidance is slightly higher revenue growth than the 20.4% achieved in Q1 and approximately 30% net income growth driven primarily by the income margin improvement and lower interest expense.

That concludes our conference regarding our first quarter 2005 results. As -a management team I'm very pleased with the results, and continue to focus on building a strong world company delivering solid results for shareholders as we continue to focus on a number point of view and operational excellence. Bahram?

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

All right, before we move into the Q&A period I want to address a couple of questions that have been asked frequently in the last couple of weeks. First, are we planning to accelerate new unit openings? Since last year we have increased the number of real estate and the development professionals in our real estate team and are searching for real estate opportunities from two to five people. Now as you all know the gestation period for land procurement and construction of our centers is as long as 1-1/2 to 3 years. We start to see more opportunities in the development pipeline towards the end of 2006 and 2007 from the expanded real estate team and efforts. -

However, at this time we are still only committing to six, seven and eight openings for years 2005, 2006 and 2007 respectively. The second question is whether or not there will be a -follow-on offering of our common stock. -For the number of clubs that I just committed to you as we said before the Company has no need to raise additional equity. So therefore the only reason that the company would initiate in a formal secondary offering of our common stock would be to increase the float and decrease any over-hang. At this time the company does not believe that the market conditions are right to conduct a secondary offering. However, we will continue to regularly evaluate whether or not a secondary offering or organized sale of the common stock will be in the best interest of the company and our shareholders. So with that I am happy to open up for questions.

QUESTIONS AND ANSWERS

Operator

Thank you sir.

[Operator Instructions].

Your first question comes from the line of Paul Lejuez of CSFB. You may proceed sir.

Paul Lejuez - *CSFB - Analyst*

Hi, Paul Lejuez, how you doing guys?

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Good morning, Paul.

Paul Lejuez - *CSFB - Analyst*

Good morning. Couple of questions I guess one, can you give us an update on some of the new group training sessions that you have been testing, how many quarters is that being tested in and what are the initial results?

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

different programs at different states. Our O2 program is for the cardiovascular-based group personal training is now deployed at most of the clubs. The training team has traveled across the country and is training people and put that in place and the result has been great, we have great reception to that, the members are very happy and I don't have any numbers, exact numbers for you but it is a successful program across the company. Couple of other programs that we have been working on in various stage, we have a program for kids between 8 and 14, 13, 16 years old.

It's an athletic performance enhancement program, we have developed the concept you know, the name, the trademark we have a hired person to lead the program and at this stage we are in the first test phase in our R&D for facility in Minnesota. Another program called Edge 123 again is a group personal training has been through a complete development over the last nine, ten months, the program has been completed. We have again trained the personal trainers that we would roll out this program and the first class in Minnesota is in progress right now with no results from that tests I can share with you.

And there a couple of other programs that are clearly at the design stage and nutritional coaching program has been rolling, we are now in 18 of the 40 open facilities and we have very good success with that. We're still fine tuning the program and adding more nutritional coaches to all the clubs so that hopefully over the next six to seven, eight months, by the beginning of '06 we hope to have nutritional coaches in all the facilities and program rolled in.

Paul Lejuez - *CSFB - Analyst*

Good, Mike did you give in center revenue excluding the new memberships, I might have missed that number?

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

The average in center revenue growth excluding a pre center memberships was 9.1%.

Paul Lejuez - *CSFB - Analyst*

No, no mention of '06 guidance, is it safe to assume that we are going to assume the same growth rates over a slightly increase guidance for '05?

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

We will give the updated guidance for 2006 later this year, so I really can't comment on it.

Paul Lejuez - *CSFB - Analyst*

No change in this?

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

No changes, no, no changes actually.

Paul Lejuez - *CSFB - Analyst*

Thanks and good luck.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Thank you.

Operator

Your next question comes from the line of Scott Mushkin of Lehman Brothers. You may proceed.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Scott are you there?

Scott - *Lehman Brothers - Analyst*

I am here, can you guys hear me?

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Yes we can.

Scott - *Lehman Brothers - Analyst*

Okay, sorry about that. I just wanted to clarify quickly the comments on the potential for secondary offering, is that no primary shares, is that how I'm understanding that or then you -- clarify that?

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

No right now there will be no secondary period. I don't believe that any of our shareholders or the original sponsors would be interested in where the market is at today and therefore we have no immediate plans of any secondary.

Scott - *Lehman Brothers - Analyst*

Right, I was just trying to clarify I got that point whether we would actually do some primary shares if and when the time came?

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Here the primary shares would -- if we add it would be very low, it would only did for purpose of if we expanded our growth rate as we had mentioned to you the current growth rate we have no need for bringing any additional equity and further more if we do something it will be either for expanding and hopefully improving a little bit because as you guys know the numbers and financing situations we do not need to bring in any additional primary dollars in.

Scott - *Lehman Brothers - Analyst*

Perfect, thanks for the clarification. I Just want a quick update on development cost. I know Mike talked a little bit about the capitalized interest, and I also wondering if you could, you know a lot of prices are popping as far as materials go and probably for real estate. I wonder if you could talk a little bit to that and then also may be follow on about you know, your abilities to raise prices to your members?

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Okay. From the first question, we see some mark to market fluctuations in the prices from the sub-contract as either due to labor or materials. It is regional, it's more dramatic regions. The benefit of having our own construction company and a number of units we have built with the same model and same exact product is that we are able to take people from different parts of the country moving around. And so far, we have been able to mitigate the increased costs fairly well on that front. And if it does go up, it wouldn't be a dramatic concern in terms of that it would completely change our rate of returns. And our rate comes back to how much would you have to raise the dues to mitigate, let's say an extra 5% or 10% to your construction cost. As you know, the value that we offer compared to any other organization in this space is so incredibly, you know, low in terms of our dollars of dues that we charge from what we offer that is enormous price -- at our will, we can have prices to our membership dues to mitigate the cost of extra construction.

Scott - *Lehman Brothers - Analyst*

Have you been raising prices at all?

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

In fact we've guided people and you should assume that in general, over a base to base -- assume 1%-2% and you should assume that, that's been feathered into the 2005 results also. We have raised prices very little every year. Just like Bahram said, as you know, 2% -- 1% -- 3%, it's in varying in those rate. We do know we have more ability to do that. It's just not direction that company has chosen. We have chosen to continue to deliver exceptional value to our customers and we will manage that as necessary going forward.

Scott - *Lehman Brothers - Analyst*

Perfect. Thanks very much guys.

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

Thanks.

Operator

Your next question comes from the line of Tony Gikas with Piper Jaffray. You may proceed.

Tony Gikas - *Piper Jaffrey - Analyst*

Good morning guys, great job in the quarter.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Thank you Tony.

Tony Gikas - *Piper Jaffrey - Analyst*

A couple of questions. Could you just maybe touch on the your satisfaction level with the membership ramp to those centers that were open during the second half of 2004. Were they a little better or worse or different than you had been expecting? Second question, (inaudible) just talked about some new marketing initiatives of the consumer or on the commercial side, and the second part of that question, being any new initiatives with any health care organizations and could those initiatives influence of occasion of any new center openings in the future?

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

Let me take the first one, please with the membership growth in the clubs opening last year, Bahram, do you want to touch on marketing initiatives?

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Yeah. Our marketing program has been regularly sanctioned. We are -- we do market in each of the markets or through different types of medium of marketing. In markets where our penetration into the entire metropolitan market is significantly less than the total population, we usually use mostly direct mail as the means of marketing. And we would sprinkle some additional stuff but it's a minor deal.

When it comes to markets where we have a lot more locations and coverage of the whole metro area like in Minneapolis, we do have some TV spots- we have you know, some campaign on the radio because we have facilities to cover the entire market. And we don't feel like any of our marketing will be raised at that rate. So that's clearly a function of that. Now when it comes to your second question regarding have we decided to build a location from the -- due to maybe a relationship with a partner like an insurance company or a hospital, that has not been something that you know, would make us grow -- build the crop for -- because of that particular reason. We believe, as I mentioned on the last call, this is a very, very exciting time from the standpoint that there are growing interest from the insurance companies and corporations to participate more in picking out either part of the initiation fee or part of the dues for either the insured or their employees.

So that's definitely a growing trend in that direction. As I explained, reasons for that is that the cost of a health club membership as a percentage of the cost of monthly premiums and/or total costs for health care has become a very, very insignificant piece over the last 12-15 years. And so therefore, I think as a result of that, we are going to continue to see companies trying to do this. They can do it virtually as a marketing piece- cost savings you know, on the other hand. So -- but we do not yet, as I mentioned, we do not incorporate any projections into our projections, any increase in our membership sales or something due to that. We are just being extremely conservative about that and we are going to continue to guide everyone to remain conservative because it's too early to say this is just a fad or is it actually a trend that will remain.

Tony Gikas - *Piper Jaffrey - Analyst*

Okay, thanks guys.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Okay.

Operator

Gentlemen, your next question comes from the line of Chris Jones of Oppenheimer. Mr. Jones, you may proceed.

Chris Jones - *Oppenheimer - Analyst*

Well thank you. Just a couple of quick questions. In terms of the higher club operating expenses, you mentioned -maybe if you could provide us a little bit more color into that and obviously it seems to be a little bit higher than I was projecting or maybe a little higher than you were projecting, if you could just provide some greater color on that. Then also if you could just describe or talk about you know, the extended program and the cafe and the spa you indicated that you had -- into the new center that opened in the first quarter. And where do you see that in terms of the overall club base?

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

Thanks Chris. Let me talk about your first margin question and then I will have Barham talk about the products and services going into the cafes. We expected to have some decline in the center operating margins. We continue to expect and we deliver to grow our overall operating margins. The center operations is the confluence of two things again expected, I think I walked people through at end of the year in our guidance for 2005. When you combine the fact that we had four centers that opened in the mid -- in the late fourth quarter, they're early in their last stage, that's a pretty heavy weighting of low margin clubs that are coming into that overall pool.

That combined with something we will always be looking at and that is, as long as our in-center revenues continue to grow at a faster rate, they do come in at a lower margin. They come in and they increase the revenue per square foot, they increase our profit per square foot and they increase our overall returns but we experienced some margin pressure on those center operations line as this grows. Again not unexpected, it's what we certainly -have stated in a couple of months ago on the guidance call. And these costs are coming from you know, just put an example, the early part of a club operations, it will generally get the break-even EBITDA in the first three to six months of operation but it will have a slight drag as you move forward in that short period of time, also. Barham, do you want to talk a little bit about the new products coming in from the cafe and the merchandising program and Commerce Township.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Right. The merchandising, what we have done is looked at what we were offering in our facilities. And along with the path of delivering to the customer a healthy way of life approach, we looked to see on that wall of retail, what products should we put up there, what is the product that the customer wants from us. So, we tested a different approach that is more in-line with what I just told you. More SKU's of healthy way of Life products you know, organic food, personal care products that don't have preservatives, chemicals, et cetera in them. So, the Commerce Township facility first month compared to equal type of a market like (inaudible) Texas which is demographically and the number of memberships nearly the same, it nearly doubled our sales on that wall. Now, this was a test with a plan to convert the large clubs retail throughout this year to what we tested in Commerce Township. So we are really, really excited about that.

And we also took in the five facilities in Detroit market that a operator was running our cafes. We converted that at the beginning of March to our own operation just to make sure that we have consistency of delivery of products. So, those are the initiatives on that. Did I answer your question?

Chris Jones - *Oppenheimer - Analyst*

Yeah, thank you.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Okay.

Operator

Your next question comes from the line of Sharon Zackfia of William Blair. You may proceed ma'am.

Sharon Zackfia - *William Blair - Analyst*

Hi, good morning.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Good morning.

Sharon Zackfia - *William Blair - Analyst*

Just a few quick question at this point in the call. I was wondering if you could give us the loss from non-club operations in the quarter?

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

The loss from non-club operations.

Sharon Zackfia - *William Blair - Analyst*

You started breaking out in the 10-Q.

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

Yeah, hang on a second.

Sharon Zackfia - *William Blair - Analyst*

Thank you.

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

I have to dig it our bear with me. It's -- it looks like it's down about $38,000.

Sharon Zackfia - *William Blair - Analyst*

Okay. So, that's something where we will likely to see that swing in the profitability?

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

That's correct.

Sharon Zackfia - *William Blair - Analyst*

Okay, good.

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

Well --.

Sharon Zackfia - *William Blair - Analyst*

I know that that will be a lumpy quarter, this quarter. Okay.

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

Yeah, it's going to be lumpy and over time, but there is clearly tremendous focus on bring those business -- the margins in those business and the profitability up.

Sharon Zackfia - *William Blair - Analyst*

Okay. And then, secondarily can you give us any indication at what comp firing in major clubs?

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

Accounts for the first quarter were 3% for the mature centers and that includes some prime cannibalization.

Sharon Zackfia - *William Blair - Analyst*

Okay. Thank you.

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

Yeah.

Operator

Thank you. Your next question comes from the line of Michael Keara of Merrill Lynch. You may proceed sir.

Michael Keara - *Merrill Lynch - Analyst*

Hi guys.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Good morning.

Michael Keara - *Merrill Lynch - Analyst*

I'm new in your club. I think we got or some of us got knocked off the call so I apologize if I am repeating anything. My question -- I got a couple of questions actually. One is, it seems like your sales came in a bit below your original guidance you issued back in February. What was the driver of that difference or the original forecast was it in comp, was it in new sales?

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

My guidance for first quarter was approximately 20% and we delivered 20.4%.

Michael Keara - *Merrill Lynch - Analyst*

I got 27% in my notes. And I'm mistaken on that. Okay, on these it's good that you couldn't quantify the impact of the upgraded personal training program, but could you tell us how you measure that? Is that sort of a hit rate basis, in other words, for example say 25% of your members are using personal training and now -- it's a new program you expect 30%, is that how you would measure it or --.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Well, I wish that 25% of members were using personal training because --

Michael Keara - *Merrill Lynch - Analyst*

I know I give you some.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

-- the revenues would triple for the company. But the -- it's a very small percentage. I think 6% -- 7% of our customers use personal training in general.

Michael Keara - *Merrill Lynch - Analyst*

Is that how you measure it though?

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

On an annual basis. So, we measured a total you know, number of members using personal training you know, in a given month and it's basically, subtraction of the percent of all members in a given month. Now, the way we are looking at group personal training is to see if we are getting people involved in the personal training and the group or the sessions are costing less than $30 a session that normally we just couldn't get at $60 or $70 you know or $80 a session.

Michael Keara - *Merrill Lynch - Analyst*

Okay.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

And anecdotally, yes we are getting a lot more people involved with better margins on those programs. But I can't give you any numbers yet --

Michael Keara - *Merrill Lynch - Analyst*

Okay.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

-- we will give you guys -- we will give you guys some numbers on the next call.

Michael Keara - *Merrill Lynch - Analyst*

Okay.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

On your questions.

Michael Keara - *Merrill Lynch - Analyst*

Now, it's apparent thus far to us at least that membership -- the membership part of your business that's you know, outside of sort of bond training. That seem in some ways non-discretionary and I think we get a personal survey and it seems like your membership fees are pretty consistent across the chain, but, as we started to see consumers sort of hold back demanding other retail sectors for a number of economic reasons, have you seen any of that at least in some markets where some of it is more discretionary services and there is like far being pulled back a bit?

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Not at all.

Michael Keara - *Merrill Lynch - Analyst*

Not at all?

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

No.

Michael Keara - *Merrill Lynch - Analyst*

Okay. Okay, guys, thanks.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

You are welcome.

Operator

And your next question comes from the line of Brian Nagel (ph)of UBS. You may proceed.

Brian Nagel - *UBS - Analyst*

Hi, good morning.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Good morning Brian.

Brian Nagel - *UBS - Analyst*

First question on your pre-sale activity. It seems that pre-sale is tracking very well for you guys. I wanted to know if there is something different you are doing in your marketing of your new clubs or if it's just a simply improving trend?

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Our Chief Operating Officer and our marketing group had set a you know, different set of goals for the new clubs pre-sales that were coming in and a different approach you know, it's more enhanced timing and you know, a much more better tracking of how we are getting these people a better goal set for that fixed for the month period of pre-sale and they are tracking right along the plan that they had written. So, things are going very well, we are very, very happy with the results of our pre-sales right now. And we are in mixed market as you know we are in Texas, we are in Chicago we are in, in Detroit, I mean for all of these different markets, Minneapolis, and all doing pretty well.

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

We have also introduced a couple of new I will call it programs, one is pre-sale web sign up. It comes out on a kind of a pre -- before our pre-sale center were open and a lot more signage surrounding of construction site which allows people (inaudible) etc to really get a feel for what's going on much earlier in the operation.

Brian Nagel - *UBS - Analyst*

Great. And the second question I had was -- I was recently in Michigan market and I noticed you guys were remodeling one of your older centers out there. Talk about some of this. Is this something you do often and what type of financial results or is -- do we see a pop afterwards or anything?

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Let me focus you back on what makes Life Time Fitness successful, is our customer and it's our customer experience. No customer wants to work out in a club where the equipment is old, the club is old, the carpet is old. So, as we have told you guys from day one, we have a systematic plan, we close every club down for two to three days every year and we close every club down for eight, nine days and go through a major remodel every five years approximately. Now, one club may be four years and another club may be six, okay. So, we evaluate on annual basis when we do our budgeting, what clubs needs to go through major remodel the following year, we schedule those and we take those clubs through.

A club like Novi you know, was nearly 800 to a 1000 memberships above and beyond where we target these clubs. While we can push that many people through, I don't personally like the customer experience. So, just like Mike Robinson told you and we opened Commerce Township only within eight miles out to take some of those members into a new facility. So, we are planning a what you would call planned cannibalization but it's really to enhance the customer experience. Now, we open up the other club with that much more memberships I had asked about. The second thing is, you will need to get more membership at this facility, and the answer is no, we are full and so therefore it's not really designed to attract thousand more memberships, it's designed to maintain the quality of the brand and the quality of the customer experience. All of those expenses are into our capital planning model, into the guidance, into the depreciation schedule that you know, it's is all being shared with you by Mike.

Brian Nagel - *UBS - Analyst*

Great.

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

Just understand a little bit on that we have got five remodel schedule for 2005, most of which, most of that actually takes place in the first half of the year.

Brian Nagel - *UBS - Analyst*

Congratulations on a great quarter.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Thanks.

Operator

[Operator Instructions]. Your next question comes from Greg McKinley(ph) of Dougherty and Company. You may proceed.

Greg McKinley - *Darley and Company - Analyst*

Thank you. Bahram, could you provide us a little more color on your comments around company operations and caf s, that's more just a consistency of customer service rather than a cost cutting initiative?

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

There was really no cost cutting initiative at all. We had a couple of gentlemen that I entered into a business deal with them about five, six years ago when we you know, started expanding out in Minneapolis, initial intent was to have folks do our caf s and spas and we wouldn't do that ourselves. And we have our relationship with very, very good people it wasn't a bad experience from that standpoint, it just became very cumbersome as we were trying to improve the customer experience overall. There were just too many conflicts within this space.

Greg McKinley - *Darley and Company - Analyst*

Okay.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

But, then we decided to start you know, building our own caf s and spas, we went back prior to the time we were public would took over those spas in Detroit that a different operator was running and they became you know, internally operated spa's. The caf s had still been operating in Detroit, Columbus and in the seven location by these two gentlemen, and we just did a you know, at first time instead we really liked to run these things ourselves to make sure it has the consistency across the system you know, and the customer experience.

Greg McKinley - *Darley and Company - Analyst*

Okay.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

As Mike mentioned, the financial impact of that should be miniscule to non-mentionable this year. We think that, it will just be the right thing to do for our customer experience and our management.

Greg McKinley - *Darley and Company - Analyst*

Okay, one other things you mentioned when talked about your Commerce Townships retail SKU test is that you would like to compare it to play out as similar demographics in memberships is that fair to say then Commerce Township being that young of it's center has already achieved membership levels that we you know, compared to our center that's over a year old?

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

No, no, no.

Greg McKinley - *Darley and Company - Analyst*

Okay.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

No we are comparing at the time of the opening, first month the grand opening month.

Greg McKinley - *Darley and Company - Analyst*

Okay.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

You know, what type of the membership counts we had and the demographic and amountof that memberships you know, matching (inaudible) as an example.

Greg McKinley - *Darley and Company - Analyst*

Okay

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

We have very, very successful opening at Commerce Township, as we mentioned earlier however the memberships -we want up to be at that level --

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Greg McKinley - *Darley and Company - Analyst*

Okay.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

-- after two months, we match membership.

Greg McKinley - *Darley and Company - Analyst*

Yeah, okay. Just a couple of quick numbers Mike that I didn't quite catch, the excluding pre-sales that $290 per member would have been what again?

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

2.8%.

Greg McKinley - *Darley and Company - Analyst*

Okay, and your Q2 net income gross percentage was?

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

Net income, the guidance is approximately 30%.

Greg McKinley - *Darley and Company - Analyst*

Okay, thank you and a good quarter.

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

Thank you, great.

Bahram Akradi - *Lifetime Fitness - Chairman, Chief Executive Officer & President.*

Any other questions?

Operator

Gentlemen, you have no further questions at this time I would like to turn the call back over to you for closing remark.

Mike Robinson - *Lifetime Fitness - Vice President & Chief Financial Officer.*

Thank you. Thank you everybody for participating. We look forward to reporting to you on our second quarter 2005 results and that will be scheduled for July 28. For this and all other key dates please see our revamped events section within our Investor Relations section on our website. Good bye.

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.