

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## LTM - Q2 2005 Life Time Fitness Earnings Conference Call

Event Date/Time: Jul. 28. 2005 / 10:00AM ET

**THOMSON**  
★

[streetevents@thomson.com](mailto:streetevents@thomson.com)

617.603.7900

[www.streetevents.com](http://www.streetevents.com)

Jul. 28. 2005 / 10:00AM, LTM - Q2 2005 Life Time Fitness Earnings Conference Call

## CORPORATE PARTICIPANTS

**Mike Robinson**

*Life Time Fitness - CFO*

**Bahram Akradi**

*Life Time Fitness - Chairman and CEO*

## CONFERENCE CALL PARTICIPANTS

**Ed Aaron**

*RBC Capital Markets - Analyst*

**Brian Nagel**

*UBS - Analyst*

**Paul Lejuez**

*Credit Suisse - Analyst*

**Sharon Zackfia**

*William Blair - Analyst*

**Greg Mckinley**

*Dougherty & Company - Analyst*

**Tony Gikas**

*Piper Jaffrey - Analyst*

**Hardy Bowen**

*- Analyst*

**Scott Mushkin**

*Banc of America Securities*

**Doug Lovett**

*- Morningstar*

## PRESENTATION

**Operator**

Good day ladies and gentlemen and welcome to the second quarter 2005 Life Time Fitness Earnings Call. My name is Shawn and I will be your coordinator for today. At this time all participants are in a listen only mode. We will be facilitating a question and answer session following today's presentation.

[Operator Instructions].

At this time I would like to turn the presentation over to Mr. Mike Robinson, your Chief Financial Officer. Please go ahead.

---

**Mike Robinson** - *Life Time Fitness - CFO*

Good morning and thank you for joining us on today's conference call to discuss Life Time Fitness' second quarter 2005 financial results. We issued our second quarter earnings press 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 the second quarter and other recent events.

Jul. 28. 2005 / 10:00AM, LTM - Q2 2005 Life Time Fitness Earnings Conference Call

Following that I will review the second quarter 2005 financial information in greater detail. Once we have completed our prepared remarks we will then take your questions until 11:00 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 p.m. Eastern time today.

Before I 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 FCC filing. Concurrent with the issuance of our second quarter earnings results we have filed a form 8-K with the FCC. Also to comply with 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 the call. Other required information about EBITDA is included in our form 8K.

With that let me now turn the call over to Bahram Akradi.

---

**Bahram Akradi** - *Life Time Fitness - Chairman and CEO*

Thanks Mike and good morning everyone. We're very excited to be with you to discuss our second quarter and first six months of the year results. However, before I do that I would like to take a moment to say "Thanks". We are just pass the one year anniversary date of becoming a public company. It has been especially rewarding to meet and tell our story to our current and prospective investors as well as the analysts covering our Company. Thank you for taking the time to learn our story and help introduce our healthy way of life company to new areas of the country.

We had a strong second quarter and first half of the year. The foundation of this success was driven by our continuous focus on our member's points of view and always delivering a (inaudible) service. Revenue is up 24.8% for the second quarter and 22.7% YTD. And net income is up 43% for both second quarter and YTD. Increased pre-tax margins in the quarter and our cash flow delivery remains strong. For the first half of 2005 we delivered \$54 million in cash flow from operations, up nearly 50% from 2004.

As with each of our past calls with you I would like to highlight our 3 fundamental growth strategies which drive our financial performance. First is new Center Growth. Our 2005 plan calls for six new center openings. We opened our second center of the year on June 3 in Cinco Ranch, Texas which is a suburb of Houston. Just after the quarter ended we opened our third center of the year in Chanhassen, Minnesota on July 9.

Most opened to a very favorable reviews with several thousand members in just attending our grand opening celebration and seeking to learn more about our unique healthy way of life centers. We remain on track to open 6 centers for the year. This includes openings in Austin, Texas and Romeoville, Illinois in the third quarter and San Antonio, Texas which is slated to open in the fourth quarter. Columbia, Maryland is now expected to be our first center to open in early 2006.

Our second growth strategy is membership ramp. We closed the quarter with more than 335,000 memberships or nearly 21% year over year growth and new membership acquisitions remain strong in all regions we operate. Our third growth strategy is increasing our in-center revenue which grew over 34% for the quarter and is up 33% YTD. Average in-center revenue per membership increased by nearly 11% in the quarter to \$75 from \$68 in 2004. In-center revenue growth from our personal training, spa, caf s, and member activities is the result of further penetration for more tailored marketing programs within the centers as well as new products and services such as heart rate monitoring training, in group fitness, and personal training. An enhanced selection of Healthy Way of Life retail items within our Life Cafes.

On our first quarter earnings call we told you that we would elaborate as to the impact of our group personal training initiatives we're having within our personal training division. I caution you to remember we're still at the very beginning of the life cycle

Jul. 28. 2005 / 10:00AM, LTM - Q2 2005 Life Time Fitness Earnings Conference Call

of this program; however I'm very excited at the current results. Revenue for the group personal training has increased by 70% from last second quarter to this second quarter and we continue to exceed our plans.

As I mentioned in the last call this group dynamics delivers more affordable training to our customers and expands our marketing of the members. Another new program which is being rolled out to all of our centers is called Club Tab. In essence, this program allows members to use their membership cards to purchase items for sale within a café and spa of the centers via a quick enrollment process. There are no fees. It is a membership benefit that has become an increasingly greater request from our membership base. Investment is minimal and we look to see a lift in the café and spa sales as well as in other retention tools for our memberships.

Through our focus on commitment, we continue to deliver on each of the 3 growth strategies. In addition we enhanced the Life and Fitness brand through our magazine, Experience Life, and our events. Our marquis event, Lifetime Fitness Triathlon, was held on July 16 and initial results are extremely positive. The event continues to have the richest price groups (ph) in the sport and was televised nationally and live again on NBC. The event continues to enhance our brand nationally and we anticipate exceeding 150 million brand interactions when the final marketing counter ends.

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

Let me turn it back to Mike for a more detailed discussion of second quarter and YTD financial results. Mike?

---

**Mike Robinson** - *Life Time Fitness - CFO*

Thanks Bahram. We continued to see strong financial performance across the board. Let's start with the revenue. For the second quarter, total revenue was \$95.6 million versus \$76.6 million for the second quarter 2004. An increase of \$19 million or 24.8%. Revenue for the first 6 months of 2005 totaled \$184.9 million, up 22.7% from last year. This strong growth was driven by total center revenues which grew \$19.9 million or 26.9% to \$93.8 million for the quarter and is up 25.4% to \$181.6 million on an YTD basis.

Our membership dues screen which represents 67% of total revenue grew 26% or \$13.3 million in the quarter, driven by our membership growth mainly at our eleven centers that are in their first or second year of operation. This dues annuities screen is up nearly 25% to \$124.8 million for the first 6 months of the year. Enrollment fee revenue reported net of refund represented about 5.7% of total revenue for the quarter and increased to \$5.5 million from \$5.1 million last year, an increase of 7.5%. We're up slightly on an YTD basis increasing from 9.6 million last year to 10.1 million this year.

As you may recall, we defer enrollment fee revenue and related direct costs until a center is open and then recognize them over 36 months. On a cash basis we had another good 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, with a deferred enrollment fee in excess of \$5 million since year end 2004.

In-center revenue which is primarily generated from personal training, cafes, spas, and member activities businesses and represents 25% of the total revenue, grew to \$24 million up \$6.2 million or 34.6% over last year's second quarter due to general membership growth across our system, as well as increased penetration for our existing membership base as evident by the nearly 11% growth in average in-center revenue per membership. YTD in-center revenues totaled \$46.7 million up 33% from last year. In-center revenue continues to be the fastest growing segment of our business.

Jul. 28. 2005 / 10:00AM, LTM - Q2 2005 Life Time Fitness Earnings Conference Call

Other revenue totaled \$1.8 million for the quarter, down from 2.6 million last year primarily due to the planned phase out of the external retail channel for our nutritional product business. Partially offset by increased revenue from the media advertising sales in our Experience Life Magazine. Our focus in the nutritional products business is sales to our members through our cafes and via our website. Most of these sales are accounted for in in-center revenue. Also, please keep in mind that the financial results of the Lifetime Fitness Triathlon are deferred until the event occurs which will be in the third quarter. But we still expect this event to be an investment for the Company. On an YTD basis other revenues decreased from 5.9 million to 3.3 million or 43.8% down.

Moving to operating expenses, the Company maintained its 21.4% operating margin as compared to the prior year's quarter. But it delivered a June YTD operating margin of 20.4% up from 20.1% for the first half of 2004. Center operating expenses total 75.2 million for the quarter up from 60.2 million for the second quarter last year. This increase of \$15 million is due to increased payroll and other general costs to support the membership ramp and new center growth. YTD center operating expenses were 102.4 million up from 79.5 million for the first half last year.

For the quarter, total center operating margins as a percent of total center revenue decreased to 43.7% from 45.3% the second quarter 2004 as expected. This decrease was due mainly the waiting of new centers which deliver lower margins as they ramp towards targeted capacity. We have 7 large centers in their first year of operations in this quarter compared to 4 centers including 1 small center in the comparison last second quarter.

Also, another factor is our continued growth of in-center businesses which come at a lower margin but continue to expand our profit per square foot in our investment returns. YTD center operating margins were 43.6% compared to 45.1%. For the rest of the year we expect these margins to be down slightly as growth in the lower center -- lower margin in-center businesses and the waiting of the newly opened centers will only be partially offset by the better balance of presales combined with our continued drive for operating efficiencies.

For example, by the end of the third quarter we expect to have 9 large centers in their first year of operation including 3 centers opened in the third quarter. This compares the 4 largest centers and 1 small center in their first year of operation in the third quarter of 2004. This waiting of new centers had the economic model first year margin delivery alone impacts operating margin by over 100 basis points.

Advertising and marketing expense was 2.6 million for the quarter down slightly from the 2.8 million for the same period last year. As a percent of revenue, advertising expense reduced from 3.6% last second quarter to 2.7% this year. The variance from quarter to quarter is due to the use of the longer lower cost member referral program instead of other marketing means such as direct mail and radio advertising during the quarter, and the reduction in advertising related to our nutritional business. On an YTD basis advertising and marketing expense total \$6.9 million up from 6.5 million last year. We anticipate marketing expenses for the remainder of the year to increase due to the high number of ramping centers and spa and presale activity.

General administrative costs totaled \$7.3 million for the quarter up from 5.6 million in last year's second quarter due primarily to costs associated with being a public company. Including Sarbanes-Oxley compliance expense and investments in processes and systems focused on enhancing our member experience. As a percent of revenue G&A increased from 7.3 to 7.7% due in part to the public reporting expenses and the costs associated with our general management and a company wide department head leadership conference.

YTD G&A expense totaled \$13.8 million or 7.5% of revenue compared to 7.7% of revenue for the first half of 2004. This decrease is driven by the economies of scale we continued to realize from a shared service administration activities. I anticipate G&A expenses a percent of revenue will be higher in the third quarter compared to last third quarter as we continue our Sarbanes-Oxley compliance initiatives as well as systems and process initiatives related to continue enhancing our member experience. Longer term, we expect G&A leverage to be a key component in driving operating margin expansion.

Jul. 28. 2005 / 10:00AM, LTM - Q2 2005 Life Time Fitness Earnings Conference Call

Other operating expenses, which include costs associated with our Experience Life Magazine, our nutritional business and our athletic events division and our restaurant, Martini Blue, totaled \$3.2 million for the quarter versus 4.4 million last year. In YTD totals 6.2 million compared to 8.9 million last year. These decreases were mainly driven by the planned phase out of the external retail channels for our nutritional products business. A class one branding investment will be absorbed here in third quarter.

Depreciation and amortization totaled \$9.2 million compared to 7 million in the second quarter last year. And 17.9 million YTD compared to 13.9 million last year. This increase is due to appreciation of new centers including the 6 new centers opened in 2004 and the 2 centers opened through June 2005. As a percent of revenue depreciation has increased slightly from 9.1% last second quarter to 9.6% this quarter due to the waiting of immature new centers in our base.

Income from operations was \$20.4 million for the quarter compared to 16.4 million last second quarter or up 24.6%. YTD income from operations totaled \$37.7 million up 24.2% from 30.4 million last year. Again, operating income margin remained flat at 21.4% from the quarter compared to last year and YTD operating margins increased from 20.1% to 20.4%.

Interest expense, net of interest income declined to \$3.2 million from 4.4 million last second quarter as we continue to manage our average debt balance. YTD interest expense is 7.1 million compared to 9.1 million last year. Just a reminder here that interests associated with the construction of our new centers is capitalized and incorporated in the total investment of the center. We expense interest costs once a center opens. We anticipate interest expense to increase for the second half of 2005 as we finance new centers. Our tax rate for the quarter is 41% which is the same as last year's.

That brings us to net income for the quarter of \$10.3 million compared to \$7.2 million last second quarter or up 42.7%. Our net income margin for the quarter increased to 10.8% from 9.4%. For the first half of 2005, net income totaled 18.4 million up 43.2% from the 12.9 million for the first half of 2004. And net income margin increased from 8.5% to 10%. Total common shares outstanding at June 30, 2005 were 34.8 million. Weighted average fully diluted shares totaled 36.2 million for the second quarter. These totals include the effect of the IPO share issuance and preferred stock conversion on the closing date which became effective June 29, 2004. Based on the 2005 second quarter weighted average share count, our diluted EPS for the quarter was \$0.28 up from \$0.25 in second quarter last year. On an YTD basis our diluted EPS for the quarter was \$0.51 compared to \$0.44 last year.

Let me spend a minute on other operating data. The number of open centers at June 30, 2005 was 41 compared to 34 at June 30, 2004. Memberships at June 30, 2005 totaled 335,816 compared to 277,924 memberships last year, up 20.8%. EBITDA totaled \$29.9 million for the second quarter of 2005 compared to 23.6 million for Q2 2004, up 26.4%. YTD EBITDA totaled \$56.2 million compared to \$44.8 million last year or up 25.4%. This increase is driven by pre-tax income which is up 43% for the year.

EBITDA margin was 31.2% for the second quarter compared to 30.8% last second quarter and 30.4% YTD up from 29.7% for the first half 2004. Same center revenue growth for centers in their 13th or more full month of operations for the second quarter totaled 7%. During the quarter, we did not add any new centers to the same center revenue base. The same center revenue growth for mature centers, centers in their 37th or more full month of operations, was 2.4%. If you were to include the impact of planned cannibalization on these 2 metrics the results would be 7.5% and 3% respectively for the 13th month and 37th month calculation.

Average revenue for membership totaled \$294 for the quarter compared to \$282 in the second quarter of 2004 or up 4.3%. If you remove presale memberships from the calculations the average grew 4.2%. Average internal revenue per membership totaled \$75 for the quarter, compared to \$68 for the second quarter of last year or up 10.6%. When you remove presale membership from this calculation the average remained at 10.6%. Debt to total capital at June 30, 2005 was 43.2% which is down from the 44.3% at year end 2004.

Turning to the balance sheet, total assets have increased to \$617 million up 45.3 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 current maturities grew slightly by \$1.1 million to 210.3 million. Current liabilities have decreased 15.3 million from 2004 due mainly to

Jul. 28. 2005 / 10:00AM, LTM - Q2 2005 Life Time Fitness Earnings Conference Call

our new \$200 million revolving credit facility, which was discussed on our last call and allowed us to refinance approximately 32 million of short term debt to long term. As a reminder on April 15th we closed the new \$200 million 5- year credit facility with assistance of 8 banks including US Bank as a leader ranger and JP Morgan Chase Bank as syndication agent.

This revolving credit facility increases our borrowing capacity significantly and lowers our interest costs. We will continue to use the facility to finance the construction of development of new centers and for other general corporate purposes. This facility 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 Chanhassen center we now have 11 centers without mortgage financing which also could be used to fund our long term development plans.

Total shareholder equity increased from 250.6 million at year end 2004 to 276.2 million as of June 30, 2005 reflecting the retained earnings growth through the year. The Company continues to deliver strong cash flow. Total YTD cash flow from operations was \$54 million up 17.7 million or 48.6% from last year. During the first half of 2005, we spent 83.3 million in capitol expenditures of which 15 million was from maintenance CapEx from our existing fitness facilities in corporate capital purchases. For 2005 we maintained our 180 to 185 million of CapEx guidance as we complete our 2005 centers and procure the land and commence construction on 2006 centers. We've already purchased the land for 4 of our centers to open in 2006.

Let me discuss our continued top level annual and third quarter guidance for 2005. Based on our strong mid year results for the year 2005 we are again raising our guidance range. This includes expected revenue growth of 22 to 24% or 380 to \$387 million dollars of revenue up from 21 to 23% growth. This growth will be driven by 15% new center growth, our membership ramp, and in-center revenue growth. Net income growth of 32 to 34% or 38.1 to \$38.7 million again, driven by our gross strategies combined with operating efficiencies and general administrative expense leverage. We expect our 2005 diluted shares to grow approximately to the 36.3 to 36.5 million range or up approximately 2%. Earnings per share guidance is 21 to 23% or \$1.05 to \$1.07 over the \$0.87 we made in 2004.

Regarding our development plan, we told you that we intend to open 6 centers in 2005, 7 centers in 2006, and 8 centers in 2007 that delivers 15% unit growth. In order to take full advantage of our marketing when acquiring memberships during the presale period, it is most likely that our website will be the first time that you will see the names of specific centers we intend to open. Many of you may saw last week that we started our online presales for 2 other centers to open in 2006. Allen Texas, which is a suburb of Dallas and South Jordan Utah which is a suburb of Salt Lake City. We will use our quarterly conference calls to confirm our sites which are currently in presale.

At this time all 3 remaining centers to open in 2005 are preselling memberships Austin, Romeoville and San Antonio. In addition, the following 2006 centers are preselling memberships; Columbia, Allen, and South Jordan. For the third quarter, our guidance is approximately 25% revenue growth and 25 to 30% net income growth which is off the 40% net income growth generated last third quarter. The third quarter net income growth will be driven primarily by the revenue growth.

That concludes our prepared remarks regarding the second quarter 2005 financial results. As a management team we will continue to focus on building a strong growth company which provides opportunities for all our employees, deliver solid results for our shareholders, and focuses on the members' point of view and that wow experience. With that we've completed our prepared remarks. Bahram and I are happy to take your questions now.

## QUESTIONS AND ANSWERS

### Operator

[Operator Instructions].

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

	<a href="mailto:streetevents@thomson.com">streetevents@thomson.com</a>	617.603.7900	<a href="http://www.streetevents.com">www.streetevents.com</a>	6
---	--	--------------	--	---

Jul. 28. 2005 / 10:00AM, LTM - Q2 2005 Life Time Fitness Earnings Conference Call

**Ed Aaron** - RBC Capital Markets - Analyst

Thanks, good morning. Nice quarter. A few questions for you, first I was hoping--you gave the number--your growth number for mature centers, could you give us that number from last quarter as well?

**Mike Robinson** - Life Time Fitness - CFO

Last quarter was 3%.

**Ed Aaron** - RBC Capital Markets - Analyst

Okay thanks. And then I was also hoping you could maybe talk about the in-center revenues any new categories that you might be working on rolling out?

**Bahram Akradi** - Life Time Fitness - Chairman and CEO

This is Bahram; right now we have a lot of initiatives with many of the fitness initiative programming initiatives, group fitness, and our rollout of the new marketplace, healthy way of life marketplace in our cafes. Those 2 major initiatives are going to take some time to rollout, execute properly, and work all the bugs out. We have lots of different ideas on how we can continue to provide more products and services that our members would want us to deliver to them, however we just have to handle those methodically make sure we deliver with the right level of execution and a proper training in rollout. So, you're going to see new products coming in as far in the future as I can think of just because of the time it takes to roll everything out properly.

**Ed Aaron** - RBC Capital Markets - Analyst

Okay thanks and then last question, last quarter you were fairly adamant in saying that you weren't planning on doing a secondary anytime soon has your thought process changed on that at all since then?

**Bahram Akradi** - Life Time Fitness - Chairman and CEO

Not at all. Right now from every perspective we're in a great position. We don't see a need to do anything different than what we are doing right now.

**Ed Aaron** - RBC Capital Markets - Analyst

Great thank you.

**Operator**

And your next question comes from the line of Brian Nagel with UBS.

**Brian Nagel** - UBS - Analyst

Good morning. Congratulations on another very good quarter. A couple questions, first off with respect to your recent activity that looks to remain very strong here in the future as it was in Q1. I'll ask, are you guys doing anything--is there something



Jul. 28. 2005 / 10:00AM, LTM - Q2 2005 Life Time Fitness Earnings Conference Call

different you're doing with your presales or is it just a reflection of better market recognition in the marketplace as you open new centers?

**Bahram Akradi** - *Life Time Fitness - Chairman and CEO*

Generally, as we have told you guys before, you can go to different markets and get a different initial reaction. When the clubs open up and people actually can realize the difference in the product, Brian, and then things generally even out, but one of the things that we're noticing very very gradually is that there is more recognition. Even when we go to a new market like Maryland there are many people who have at some point seen clubs where there have been traveling visiting their friends or relatives or the people who have moved away from our clubs into markets that we don't have clubs and those people are the first people who come in to join the facilities and we're seeing a little more of that. But we're not doing anything dramatically different in our marketing.

**Brian Nagel** - *UBS - Analyst*

Okay. Second question with respect to your in-center revenue again that was very strong here in the quarter, Mike I think last quarter you provided us a number that showed a sense of what that growth would have been excluding the effects of presales. Do you have that?

**Mike Robinson** - *Life Time Fitness - CFO*

For the second quarter 10.6% was equivalent both excluding...

**Brian Nagel** - *UBS - Analyst*

...Okay. The same okay great. Okay thank you very much and good luck on your next quarter.

**Bahram Akradi** - *Life Time Fitness - Chairman and CEO*

Thanks.

**Operator**

And your next question comes from the line of Paul Lejuez with Credit Suisse.

**Paul Lejuez** - *Credit Suisse - Analyst*

Hey guys. Paul Lejuez.

**Mike Robinson** - *Life Time Fitness - CFO*

Hey Paul.

Jul. 28. 2005 / 10:00AM, LTM - Q2 2005 Life Time Fitness Earnings Conference Call

**Paul Lejuez** - Credit Suisse - Analyst

A couple questions, one now that you've been in the public eye for a year and others have kind of seen your success of the model have you seen any new competitors spring up or have you seen changes in the way that existing competitors are planning their businesses ?

**Bahram Akradi** - Life Time Fitness - Chairman and CEO

I think that's a great question as we mentioned last time we think that our competitors do a great job with the models that they have, and to my extent of knowledge I think they should be happy with their level of expertise in the model that they deliver. So we haven't seen any major moves towards what we're doing and we're not expecting anything dramatic at this point either.

**Paul Lejuez** - Credit Suisse - Analyst

As far as new competitors, any new big boxers coming out?

**Bahram Akradi** - Life Time Fitness - Chairman and CEO

No, not at all.

**Paul Lejuez** - Credit Suisse - Analyst

Okay, second I think on the last call you guys spoke a bit about ramping up your real estate team and that process was already in place, can you give us an update on the progress there and any reason to think that they are finding properties faster than you were anticipating ?

**Bahram Akradi** - Life Time Fitness - Chairman and CEO

Okay. Here's how I'm going to answer your question. We're going to still reconfirm our commitment to open obviously the 6 clubs this year, 7 clubs next year, and 8 the year after. Having said that you have to do your own kind of judgement. We do have much more force in our real estate team and obviously we will see more opportunities come through the pipeline. Now, how those things will come out on the other side I will make no comments about that right now other than what we've told you.

**Paul Lejuez** - Credit Suisse - Analyst

Okay great and finally Mike I think when you're talking about G&A in the third quarter you said that it would be higher was that in dollars or was that a percentage?

**Mike Robinson** - Life Time Fitness - CFO

It's both dollars and percentage.

**Paul Lejuez** - Credit Suisse - Analyst

Up pretty significantly then, in dollars then.

Jul. 28. 2005 / 10:00AM, LTM - Q2 2005 Life Time Fitness Earnings Conference Call

**Mike Robinson** - *Life Time Fitness - CFO*

Yes, that's correct.

**Paul Lejuez** - *Credit Suisse - Analyst*

That was third quarter only or was that third and fourth?

**Mike Robinson** - *Life Time Fitness - CFO*

It's really third quarter.

**Paul Lejuez** - *Credit Suisse - Analyst*

And then fourth quarter?

**Mike Robinson** - *Life Time Fitness - CFO*

We expect to start to see that leverage come back again.

**Paul Lejuez** - *Credit Suisse - Analyst*

Great, thanks guys. Good Luck.

**Bahram Akradi** - *Life Time Fitness - Chairman and CEO*

But all of them in line with our budget. So its not anything that's not budgeted for.

**Paul Lejuez** - *Credit Suisse - Analyst*

Definitely. Thank you.

**Operator**

And your next question comes from the line of Sharon Zackfia with William Blair.

**Sharon Zackfia** - *William Blair - Analyst*

Hi, good morning.

**Mike Robinson** - *Life Time Fitness - CFO*

Good morning Sharon.

Jul. 28. 2005 / 10:00AM, LTM - Q2 2005 Life Time Fitness Earnings Conference Call

**Sharon Zackfia** - *William Blair - Analyst*

I've a quick question given your concentration in Minneapolis and Chicago, how does the heat affect you if at all in terms of new membership growth or attrition? It's been very hot here I'm assuming it's hot as well in Minneapolis.

**Bahram Akradi** - *Life Time Fitness - Chairman and CEO*

Sharon I wish I could tell you it has a pattern or any sort of dramatic affect but it doesn't business as usual. We are--as you can see with our numbers that we have delivered to you we are very close to what we budget at all times. They're just a non-event.

**Sharon Zackfia** - *William Blair - Analyst*

Okay and Mike I just wanted to clarify, on the G&A in the third quarter are you saying that the dollars are going to be up sequentially or year over year?

**Mike Robinson** - *Life Time Fitness - CFO*

Year over year.

**Sharon Zackfia** - *William Blair - Analyst*

Okay Thank you.

**Operator**

And your next question comes from the line of Greg Mckinley with Dougherty & Company.

**Greg Mckinley** - *Dougherty & Company - Analyst*

Thank you. Bahram you talked a little bit about a couple of the in-center revenue tests you guys have going on between group training and I believe what you called Club Tab, can you give us some color as to are you seeing big spenders in your club spend more or are you tracking a larger percentage of your memberships that spend in the club?

**Bahram Akradi** - *Life Time Fitness - Chairman and CEO*

Yes. That's a great question and it's both. One of the things as I mentioned last time we didn't do a great job in the early part of this company to allow the members to choose what they want to buy and how much they want to spend. We've kind of had one type of membership and very limited selection of additional class of services they could buy.

As we have been just learning more and more and more about our business and about our customers, we realized that there are different types of customers in our clubs because of the broad market appeal. Therefore, we are just getting better and smarter in understanding what the different segments of our membership wants and try to give them what they want to buy from us rather than try to sell them what we want to sell them. That sounds more like cliché than it is reality, but in reality I can tell you right now that it's really an impactful way of looking at our future business.

The group personal training is going to increase the penetration to a more number of memberships with a lower number of revenue coming from each of those people but as a whole increasing the total revenue in training. And the things like Club Tab

Jul. 28. 2005 / 10:00AM, LTM - Q2 2005 Life Time Fitness Earnings Conference Call

will just make it easier for the members to have more money to spend the money more conveniently for themselves rather than, "Oh, I don't have my wallet or I don't have \$2 cash in my hand", they can just come in and we can id them right by the cash register with their picture coming up on the cash register and then they can go ahead and buy what the want to buy. So, a combination of both.

---

**Greg Mckinley** - *Dougherty & Company - Analyst*

And can you remind us, the group training, how many centers is that in? Has that moved to most centers at this point?

---

**Bahram Akradi** - *Life Time Fitness - Chairman and CEO*

We rolled out successfully our '02 Cardiovascular group training in all the clubs now. We have great success; we also have General Fitness which is a grouped personal training again in all the clubs. A couple more programs that are going to come about, they've been only in 1 or 2 clubs now, the tests are complete, the programs are complete but it's going to take a significant amount of time in the next 6 to 12 months to rollout in all the clubs. Our group -- our weight loss program and our Edge 1-2-3 which is designed for a very very very top line athletic person. So for the 2 opposite ends of our membership, one is the new beginner needing to lose some 30, 40, 50 pounds of weight and one is for kind of a in-shape athlete.

---

**Greg Mckinley** - *Dougherty & Company - Analyst*

Yes, okay. And just to help us maybe measure a little bit how you're seeing spending change with more members contributing to the spending dollars in the club, is it fair to say that in the past there's like an 80/20 rule that applied and now it's sort of 70/30? Do you guys look at it that way at all?

---

**Bahram Akradi** - *Life Time Fitness - Chairman and CEO*

I'm going to let Mike look at--you know I focus more on making sure the programs are what the customer needs and Mike...

---

**Mike Robinson** - *Life Time Fitness - CFO*

...Anything that we talk about is going to be antidotal in a sense that you know obviously we are looking across our entire membership base to see where we can provide services which enhance--I just don't have a good answer. I would --antidotaly I would say yes. Services and programs we are designing are designed to have purchases from more members but I just don't have a number.

---

**Greg Mckinley** - *Dougherty & Company - Analyst*

Okay. And then just one quick follow up. Mike you mentioned your Q3 guidance briefly, I missed that and then secondly can you just remind us of sort of a development lag from when you identify a center location to when it opens?

---

**Mike Robinson** - *Life Time Fitness - CFO*

Sure, Q5 approximately a 25 to 30% net income growth. And that net income growth was against a strong comparison last year of about 40%. The development cycle, it varies. It can be as short as maybe 18 months, maybe 6 months from property identification through entitlement and then another 10 to 12 months of construction. Upwards of 3 plus years, just given the differences on a locale by a locale basis in working through all of the land purchase and entitlement process.

Jul. 28. 2005 / 10:00AM, LTM - Q2 2005 Life Time Fitness Earnings Conference Call

**Greg Mckinley** - *Dougherty & Company - Analyst*

Alright, thank you and nice quarter.

**Mike Robinson** - *Life Time Fitness - CFO*

Thank You.

**Operator**

[Operator Instructions].

And your next question is follow-up from Paul with Credit Suisse.

**Paul Lejuez** - *Credit Suisse - Analyst*

Hey Mike can we just talk about comps in the second half, are we looking for comps to continue high single digits?

**Mike Robinson** - *Life Time Fitness - CFO*

Yes, I would expect--we've start to get a couple of centers that will come in at a comp basis in the second half of the year. I would expect a modest increase in comps as we look to third quarter and fourth quarter.

**Paul Lejuez** - *Credit Suisse - Analyst*

Modest increase as compared to the second quarter?

**Mike Robinson** - *Life Time Fitness - CFO*

Yes.

**Paul Lejuez** - *Credit Suisse - Analyst*

Okay. Thank You.

**Operator**

Your next question comes from the line of Tony Gikas, Piper Jaffrey.

**Tony Gikas** - *Piper Jaffrey - Analyst*

Good morning gentlemen, congratulations on a great quarter and a great Triathlon event. First, Bahram you alluded to some of the initiatives you are addressing in your cafes and spas can you provide a little bit more color? I know it was rolled out, just I believe in Commerce Township in the first quarter is that now in all centers?

Jul. 28. 2005 / 10:00AM, LTM - Q2 2005 Life Time Fitness Earnings Conference Call

**Bahram Akradi** - Life Time Fitness - Chairman and CEO

No, it's not in all but we are probably --but it doesn't--somewhere between 8 to 12 facilities already with the marketplace kind of retailing. To give you a perspective again we are significantly better in--first of all, all the new facilities are opening up with that and we have rolled it out to some of the large facilities that opened without marketplace. But our results are just continually proving that this is a right change and anecdotally we are even higher percentages of retail sales on our walls, as I say in Chanhassen which just opened up, we have already exceeded in 18 days or 20 days more sales off of our retails than we did even in Commerce Township. So it's going very very well.

**Tony Gikas** - Piper Jaffrey - Analyst

Great. And then my second question is regarding some of the partnership programs that you use with the corporations and insurance companies to draw members are you seeing increased traction there?

**Bahram Akradi** - Life Time Fitness - Chairman and CEO

You know what I see is that it is actually becoming more understood by the people who are insured by Blue Cross Blue Shield or Medica; the people are fully taking advantage of what they can get. The \$20 or more that they get back if they use the club eight times. As I have mentioned before, we do not incorporate anything into our budgets for additional memberships because of this, but we can see that the population out there is generally taking advantage of the opportunity if they have it available to them.

**Tony Gikas** - Piper Jaffrey - Analyst

How many centers is that rolled out into, how many markets?

**Bahram Akradi** - Life Time Fitness - Chairman and CEO

Right now we are more less heavily in Minnesota with Medica and Blue Cross Blue Shield. And I know that other programs like that exist in other parts of the country with other large health club operators. I think it's going to be something that we're going to see more of system wide.

**Tony Gikas** - Piper Jaffrey - Analyst

Excellent. Thank you guys.

**Operator**

And your next question comes from the line of Hardy Bowen (ph), (inaudible), please go ahead.

**Hardy Bowen** -- Analyst

(Inaudible), that was pretty good. Good quarter. I think that the membership dues per member were up about 4% and I think in the first quarter they were pretty much flat or just up a little bit and I'm wondering why that's changing. Is that price increase? Is it new clubs coming on at higher membership dues than the old clubs or what's going on and what's the change between the first quarter and the second quarter?

Jul. 28. 2005 / 10:00AM, LTM - Q2 2005 Life Time Fitness Earnings Conference Call

**Bahram Akradi** - *Life Time Fitness - Chairman and CEO*

That sounds like 6 questions. I am just kidding. It's a combination of our effort in providing options for the members to choose what they want to buy, an opportunity for them to buy more mix of a sports memberships versus just a fitness type membership and having more facilities that require the sports membership as the base membership to go into. It's been very very positive. It's just the way we're presenting the membership to our members right now.

**Hardy Bowen** - *Analyst*

Okay. And internet reservations this has been rolled out to the whole system or where are we here?

**Mike Robinson** - *Life Time Fitness - CFO*

We use presale --we use an internet based presale and we started rolling that out late last year. And we find that it is a good way to introduce to a market as we go in and really start ramping up the marketing efforts and the branding efforts within these communities.

**Hardy Bowen** - *Analyst*

And have we rolled it out as far as people making reservations for in-center activities at this point in time?

**Mike Robinson** - *Life Time Fitness - CFO*

Not at this point in time.

**Hardy Bowen** - *Analyst*

Is there a plan to do that within the next 3 to 6 months or where are we in our thoughts?

**Mike Robinson** - *Life Time Fitness - CFO*

We are definitely working on that but we don't have an introduction period yet.

**Hardy Bowen** - *Analyst*

And lastly what's happening with New Jersey and what's the outlook for the East Coast? I mean New Jersey is notoriously a difficult place to get permitting for anybody although usually people are happy once they open in New Jersey but they have a hard time getting there.

**Bahram Akradi** - *Life Time Fitness - Chairman and CEO*

There's good news and bad news on that. Parsipany is a scale in the ga-ga land. We're still in pursuit of getting the zoning approvals and keep just getting delayed and delayed and delayed. The good news is we have several other sites in that market that I have been negotiating on and we feel like we will come to the market with even more force. And it's not just New Jersey, it's New Jersey, it's pretty much--we have a small real estate office right now in the East coast and somebody who has many



Jul. 28. 2005 / 10:00AM, LTM - Q2 2005 Life Time Fitness Earnings Conference Call

many years of experience in that market and as a result we're getting pipeline and it's getting much more exciting for us for the future. So we are pressing it and we can't wait to be in the market and we will get there.

**Hardy Bowen** -- Analyst

Okay sounds good.

**Operator**

And your next question comes from the line of Scott Mushkin, Banc of America Securities.

**Scott Mushkin** - Banc of America Securities

The number that Mike gave, 2.4% same center revenue growth over three plus years is that the correct number?

**Mike Robinson** - Life Time Fitness - CFO

Yeah, our thirty seventh month of operation, 2.4% and then when you adjust--that includes cannibalization. We've got to plan cannibalization predominately in the Detroit market. When you adjust for that it's a little over 3%.

**Scott Mushkin** - Banc of America Securities

A little over 3%. So when you look at like growth and I know there's been some thoughts over this in the marketplace over you guys accelerating your scripts, what is growth? I guess a lot of people haven't talked too much about the comp in same center growth, I was wondering--I was kind of surprised that number is not higher given the strength we saw in center to center sales. What do you do with a three plus year centers to get that number moving higher? And is that a focus?

**Bahram Akradi** - Life Time Fitness - Chairman and CEO

I want to emphasize what I have told everyone for over a year now since the IPO efforts. Our mature centers generate an enormous margin, great on revenue, great EBIDA and I am completely focused as I have told you guys before on delivering an unbelievable value like new condition and we want to make sure we don't create an environment that we're trying to nickel and dime the members to the point where we start losing our reputation. That will never happen. I'll never allow it. We will continue to deliver the quality that we talked about to the customer. These clubs are generating a lot of revenue, a lot of EBITDA, great margins.

Now when we add margins at spas a best case scenario are 10 to 15% margins in the cafes are small. Margins in personal training are for our company because we pay more to our trainers are in the 15 to 17% margin. There're not areas where you are going to keep seeing increased margins coming from that perspective. So when you look at the same store growth and we have basically a model that we're looking for and when they get to that maturity the number we told you guys, that 3 to 4% is what we want to continue to focus on in a long term basis. So we are very very happy.

And this is coupled with, as Mike said, taking some of those clubs when we open new clubs sometimes deliberately you put them where we can take away some of the members from the other clubs because they're over membered. We don't want the customer experience to get damaged. So all of this--just want to make sure that the investors doesn't get locked in expectations of having something so great continue to do bigger and bigger and bigger. We have plenty of opportunity to grow the earnings of the Company, the revenues of the Company as we expand the footprints of the Company in the many many years to come.

Jul. 28. 2005 / 10:00AM, LTM - Q2 2005 Life Time Fitness Earnings Conference Call

**Scott Mushkin** - Banc of America Securities

Alright thank you very much.

**Operator**

Your next question comes from the line of Doug Lovett (ph) with Morningstar.

**Doug Lovett** - - Morningstar

Good morning guys. I've got two questions for you. The first on targeted memberships for centers, you said that you have a target of about 35% for year one and 90% for year three. Just wondering if you could comment on if you're hitting those targets?

**Mike Robinson** - Life Time Fitness - CFO

We said we have a target of approximately 35% after the grand opening month, not at the end of the first year. And in excess of 90% after three years of operation and we're very pleased with where we are in memberships.

**Doug Lovett** - - Morningstar

So would it be reasonable to assume that those numbers are pretty good?

**Mike Robinson** - Life Time Fitness - CFO

Yes.

**Doug Lovett** - - Morningstar

Okay. And secondly, could you comment on-I know here in the Chicago market they're several hospitals that have been opening fairly large and pretty nice centers that are comparable to yours. Have you seen any pressure here in Chicago and have you also seen similar centers in other areas?

**Bahram Akradi** - Life Time Fitness - Chairman and CEO

You know when we went to Chicago there was already many, many large nice hospital based facilities and community centers. We have not been affected by them. I think that the overall perspective is that the way we do not only the facility but the programming and services, the feelings of the customers in this space. For one reason or another it's a more comprehensive comfortable feeling for the customer. They have not affected our clubs whatsoever.

**Doug Lovett** - - Morningstar

Okay thanks.

Jul. 28. 2005 / 10:00AM, LTM - Q2 2005 Life Time Fitness Earnings Conference Call

**Operator**

And at this time I am showing no further questions, I'd like to turn it back to Mr. Michael Robinson.

**Mike Robinson - Life Time Fitness - CFO**

Thank you. I'd like to thank everybody for participating. We look forward to reporting to you on our third quarter 2005 results, tentatively scheduled now for October 27th. For this and all other key dates please see the events section within our investor relations section of the website. Thanks and good bye.

**Operator**

Ladies and gentlemen this now concludes this presentation. You may now disconnect. Have a great day.

**DISCLAIMER**

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2005, Thomson Financial. All Rights Reserved.