FINAL TRANSCRIPT

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LTM - Q3 2005 Life Time Fitness Earnings Conference Call

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the Third Quarter 2005 Life Time Fitness Earnings Conference Call. My names is Gregory and I will be your coordinator for today.

(Operator Instructions)

I would now like to turn the presentation over to your host for today's call, Mr. Mike Robinson. Please proceed sir.

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

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

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In a moment Bahram Akradi, our Chairman and CEO will discuss key highlights from our third quarter and other recent events, following that I will review our third quarter 2005 financial information in greater detail.

Once we've completed our prepared remarks we will then take your questions until 11 am eastern time.

At that point in today's call an operator will give instructions on how to prompt questions.

Finally a replay of today's teleconference will be available on our website after 1 pm eastern time today.

Before I turn the call over the 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 - in today's earnings release and in our SEC filing.

Concurrent with this issuance of our third quarter earnings results we have filed a form 8K with the SEC. 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 turn the call over to Bahram.

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

Thanks Mike and good morning everyone. Once again, we're very excited to be with you to discuss our latest operating results and to update you on our company's initiatives.

I am pleased to report we had a strong third quarter and first 9 months of the year. this success is driven by our continued focus on our member's point of view. As Mike indicated we issued our press release earlier this morning and I would like to highlight a few items for you.

Revenue is up 28.3% for the quarter and 24.6% year to date. Net income is up 36% for the third quarter and 40% year to date. We increased the pretax margins in the quarter and our cash flow delivery remained very strong. Through September 30th 2005, we delivered over 80 million in cash flow from operations, up over 50% from 2004.

As we do on each call, I would like to highlight our 3 fundamental growth strategies, which drive our financial performances. The first is new center growth. Our 2005 plan calls for 6 new center openings. We open 3 of these centers in the third quarter, which makes 5 centers open so far this year. The Chanhassam Minnesota Center opened on July 8th, Austin Texas on September 2nd, Romeoville Illinois on September 9th. All opened to favorable reviews from several thousand members and guests attending our grand operating celebration and looking for more information about our unique healthy way of life centers and services.

We remain on track to open 6 centers, on time and on budget, our sixth center to open this year is San Antonio Texas, which is slated to open on December 9th.

Our second growth strategy is membership ramp. We closed the quarter with more than 345,000 membership in nearly - that's a nearly 21% year over year growth.

Our third growth strategy is increasing our in center revenues which grew over 40% for the quarter and is up 35% year to date. Average in center revenue per membership increased over 15% in the quarter to $78 from 67 in Q3 '04.

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We have many initiatives in progress that we're excited about and which should add to our overall in center revenue growth. One of these we have talked about is our group personal training where the revenue has increased over 90% for the quarter and over 60% year to date over the same period from the year before. Granted we started in a small numbers last year on this.

Our 0-2 cardiovascular program and our general fitness program have driven this growth.

Through our focus and commitment we continue to deliver on each of our 3 growth strategies, in addition we enhanced the life and fitness brand through our magazine, Experience Life and our events.

Early in the third quarter we held the Life Time Fitness Triathlon, which took place on July 16th. This continues to provide us with a powerful branding and marketing opportunity on a nationwide basis.

Our company and our management team remains focused on delivering solid results. Our large high quality centers with devoting one offering of sports and athletic, professional fitness, family recreation and sports and spa - and resort and spa offer a compelling value to a very broad market of customers throughout the United States.

We believe this model along with our relentless effort to deliver vital customer experience offers tremendous and continued opportunity for growth, increased power of brands and enhanced shareholder value.

Let me now turn it back over to Mike for more detailed discussion of the third quarter and year to date financial results. Mike?

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

Thanks Bahram. We continue to see strong financial performance. Lets start with revenue. For the third quarter we broke the $100 million mark in the quarter for the first time in the company's history. Total revenue was $101.6 million versus 79.2 million for the third quarter 2004, an increase of 22.4 million or 28.3%. revenue for the first 9 months of 2005 286.5 million, up 24.6% from last year. this strong growth was driven by total center revenues, which grew 22.6 million or 29.8% to 98.5 million for the quarter and is up 26.9% to 280.2 million year to date.

Our membership due stream, which represents 66.5% of total revenue grew 28.8% or 15.1 million in the quarter. Driven by our membership growth mainly at our centers that are in their first year of operations coupled with a favorable comparison of 3 center openings in the third quarter this year, versus only 1 center opening in the third quarter last year.

The dues annuity stream is up 26% to $192.4 million for the first 9 months of the year. enrolment fee revenue reported net of refunds represents approximately 5.2% of total revenue for the quarter, an increase to 5.3 million from 5.2 million last year. an increase of 1.8%. we are up 4.4% on a year to date basis increasing from $14.8 million to 15.4 million.

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 our membership growth for the first 9 months of 2005 has delivered solid enrollment fee growth. You can see that reflected in the growth of both the short and long term-deferred revenue on our balance sheet, which has grown 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 total revenue grew to $25.7 million up $7.4 million or 40.4% over last year's third quarter. This is due to general membership growth across our system as well as increased penetration to our existing membership base as evidenced by the more than 15% growth in average in center revenue per membership.

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Year to date in center revenues totaled $72.4 million, up 35.5% from last year. in center revenue continues to be the fastest growing segment of our business.

Other revenue totaled 3.1 million for the quarter, down from 3.2 million last year, primarily due to the planed phase out of our external retail channel of our nutritional products business. This was partially offset by increased revenue from media advertising sales in our Experience Life magazine and increased sponsorship revenue in connection with the 2005 Life Time Fitness Triathlon.

On year to date basis, other revenue has decreased from 9.1 million to 6.4 million or down 30.1%.

Moving to operating expenses. The company's operating margin decreased from 22% to 20.8% as compared with the prior quarter and has delivered a September year to date operating margin of 20.6%, down from 20.8% for the same period last year. This decline in operating margin on a quarter and a year to date basis is due mainly to the waiting of centers in their first year which operate at lower margins as they ramp to maturity and the growth in our in center businesses which operate at lower margins. I'll talk about this more shortly.

Center operating expenses totaled $56.6 million for the quarter, up from 42.5 million for the third quarter last year. This increase of $14.1 million is due to increased payroll and other general costs to support the membership ramp and our - in our new center growth.

Year to date center-operating expenses were $159 million, up from $122 million for the first 9 months last year. for the quarter, total center operating margins as a percent of total center revenue decreased to 42.5% from 44% in the third quarter 2004, as expected. This decrease was due mainly to the weighting of new centers, which deliver lower margins as they ramp toward targeted capacity. We had 9 large centers in their first year of operation at the end of this quarter, compared to 5 centers including 1 small format center in the comparison last third quarter. As you would expect, in the ramp phase, centers in their first year of operation deliver less than half the EBITDA margins of a mature center.

Also, another factor is our continued growth in in center businesses, which comes at a lower margin but continues to expand our profit per square foot and our investment returns. Year to date operating - year to date center operating margins were 43.2% compared to 44.7%.

For the rest of the year we expect these margins to improve sequentially but still be down on a year over to year basis as growth in the lower margin in center businesses and weighting of newly opened centers and centers not at maturity will only partially offset, be offset by the better balance of presales combined with our continued drive for operating efficiencies.

Before moving to advertising marketing expense I wanted to take a moment to discuss utility costs of our company and our expectation of the current economy on these costs in the future.

Utilities currently comprised approximately 3% of our mature center revenue base, of this amount approximately 2/3rds comes in the from of gas and electric. Like other companies and individuals we've seen and heard warnings there will be increases in energy costs later this year and in 2006 due to world events. We are confident we can manage this potential increase with small prices changes and positive mix shifts, smart energy buying and conservation and the opportunities that exist for continued cost leverage in other areas of our centers.

Advertising and marketing expense was $4.2 million for the quarter, up from 2.8 million for the same period last year. As a percent of revenue, advertising expense rose from 3.6% last third quarter to 4.1% this third quarter. The variance from quarter to quarter is due to the transition from typical second quarter advertising campaigns to the third quarter and the increase to three center openings in the quarter.

On a year to date basis, advertising and marketing expense totaled $11.1 million, up from $9.3 million last year. which provided a 10 basis point improvement as a percent of revenue over the prior year.

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General and administrative costs totaled $6.5 million for the quarter, up from $4.3 million in last year's third quarter, due primarily to costs associated to being with the public company, including Sarbane's Oxley compliance expenses and investments in processes and focused on enhancing our member experience.

As a percent of revenue, G&A increased from 5.4% to 6.4% for the same reasons. Year to date, G&A expense totaled $20.4(ph) million or 7.1% of revenue, compared to 6.9% of revenue for the first 9 months of 2004 due to continue Sarbane's Oxley compliance initiatives as well as the systems and process initiatives related to continuing to enhance our member experience. Longer term, we expect G&A leverage to be a key component in driving operating margin expansion.

Other operating expenses, which include costs, associated with our Experience Life magazine. The nutritional and athletic divisions and our restaurant, Martini Blue, totaled $3 for the quarter versus 4.6 million last year. and year to date totaled $9.2 million, compared to $13.6 million last year. these decreases were mainly driven by the planned phase out of our external retail channels for our nutritional products business that I already mentioned.

Depreciation and amortization totaled $10.1 million, compared to $7.5 million in the third quarter last year and $28 million year to date compared to $21.4 million last year. this increase is due to depreciation on new centers, including the 6 new centers open in 2004 and the 5 centers open through September 2005. As a percent of revenue, depreciation has increased slightly from 9.5% last third quarter to 9.9% this quarter due to the weighting of immature new centers in our base.

Income from operations was $21.2 million for the quarter, compared to $17.4 million last third quarter, or up 21.8%. year to date, income from operations totaled $58.9 million, up $23.3 million from 47.8 million last year.

Interest expense, net of interest income declined to $3.3 million from 4.3 million last third quarter as we continue to manage our overall debt balances. Year to date interest expense is $10.4 million compared to $13.3 million last year. just a reminder here, that interest associated with construction of our new facilities is capitalized and incorporated in the total investment cost to the center. We expense interest costs once the center opens. We anticipate interest expense to increase moving forward as we have financed these centers. Our tax rate for the quarter is 41%, which is the same as last year.

That brings us to net income for the quarter of $10.7 million compared to 7.9 million last third quarter, or up 35.8%. our net income margin for the quarter increased to 10.6% from 10% last year. for the first 9 months of 2005, net income totaled $29.1 million up 40.4% from the $20.8 million for the first 9 months of 2004. and net income margin increased from 9% to 10.2%.

Total common shares outstanding at September 30, 2005 were 35 million. Weighted average fully diluted shared totaled 36.5 million for the quarter. Based on our 2005, third quarter, weighted average share count. Our diluted EPS for the quarter was 29 cents, up 31.8% from the 22 cents in the third quarter last year. On a year to date basis, our diluted EPS for the quarter was 81 cents compared to 65 cents last year.

Let me spend a minute on other operating data. The number of open centers as of September 30th 2005 was 44, compared with 35 as of September 30, 2004. memberships as of September 30 2005 totaled 345,818 compared to 285,975 memberships last year, up 20.9%.

EBITDA totaled $31.6 million for 3Q of 2005 compared to 25.1 million for the third quarter of 2004, up 25.5%. Year to date EBITDA totaled $87.7 million compared to $69.9 million last year, or up 25.5%. This increase is driven by pretax income, which is up 40.3% for the year. EBITDA margin was 31.1% for the third quarter, compared to 31.7% last third quarter and is 36. - 30.6% year to date, up from 30.4% for the first 9 months of 2004.

Same center revenue growth for centers in the 13th or more full month of operation for the third quarter totaled 7.9%. We added 2 centers to the same center revenue base for portions of the quarter. Same center revenue growth for mature centers, centers in their 37th or more full month of operation was 2%. If you were to include the impact of planned cannibalization on these 2 metrics the results would be 8.5% and 2.9% respectively for the 13th month and the 37th month calculations. We had

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planned cannibalization on our Novi, Michigan center, by our new Commerce Township Center, on our Warrenville Illinois Center by our new Romeoville Center. And primarily on our Bloomington Center by our new Chanhassen center.

Average revenue per membership totaled $298 for the quarter, compared to $280 for the third quarter of 2004, or up 6.4%. When you remove presale memberships from the calculation the average is 6.1%.

Average in center revenue per membership totaled $78 for the quarter, compared to $67 in the third quarter of last year, or up 15.2%. when you remove presale memberships from this calculation the increase was 14.9%.

Net debt to total capital at September 30 2005 was 44.7% compared to 44.3% at year-end 2004.

Turning to the balance sheet. Total assets have increased to $656 million, up $84 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 by 24 million to $234 million as compared to year-end 2004. current liabilities have decreased 16 million from year end 2004 due mainly to our new $200 million revolving credit facility and the corresponding refinance of approximately $32 million of short term debt to long term.

We use the facility to finance the construction and development of our new centers and for other general corporate purposes. This facility, when combined with our strong cash flow from operations provides the foundation for our future growth. In addition, please keep in mind that with the opening of our 3 third quarter centers we now have 13 centers without mortgage financing, which also can be used to fund our long-term development plan.

Total shareholder equity increase from 251 million at year-end 2004, to 288 million as of September 2000 - September 30th 2005 reflecting the reteamed(ph) earnings growth and stock option exercise activity during the year.

The company continues to deliver strong cash flow. Total year to date cash flow from operations was up $81 million, up $29 million, or 56% from last year.

During the first 9 months of 2005 we incurred $125 million in capital expenditures, of which 20 million was for maintenance cap ex at existing fitness facilities and corporate capital purchases. For 2005, we are raising our cap ex guidance from $180 to 185 million to 198 to 203 million. The reason for this increase is that earlier this month the company purchased 2 facilities. The first acquisition is a former high-end health club in Minnetonka Minnesota. This health club will be retro fitted to a 40,000 square foot athletic club and operate as a fitness center and spa experience that will open in early January 2006. strategically, this center is located in a very attractive demographic area between our Chanhassen and Plymouth trade areas.

The second acquisition is an existing building which one of our Minnesota centers is located. This was a move that will allow us to potentially expand the footprint of this center while at the same time control our future occupancy costs.

In addition to these 2 transactions, our centers for 2005 and 2006 continue to progress on time and on plan. We've already purchased the land for 5 of our 7 current model centers to open in 2006.

Let me discuss our continued top level annual and fourth quarter guidance for 2005. based on our strong year to date results, for the year 2005 we are again updating our guidance ranges, includes maintaining our expected revenue range at 22 to 24% or $381 to 387 million of revenue. This growth will be driven by 15% new center growth, our membership ramp and increased in center revenues. We expect fourth quarter revenue growth to be in this same range. We expect net income growth of 34 to 36%, $38.7 million to 39.3 million, up from 32 to 34% for $38.1 to 38.7 million. Again, driven by our growth strategies combined with operating efficiencies and our efficient use of capital.

For the fourth quarter we expect approximately 30% net income growth which is off of 54% net income growth last fourth quarter. We expect our 2005 total diluted shares averaged for the year to grow to approximately 36.3 to 36.5 million.

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Based on the penny above guidance we performed in the third quarter, our earnings per share guidance is now up 22 to 24% or a $1.06 to $1.08 up from the 23 - 21 to 23% or 105 to 107 guidance last quarter. And this is over the 87 cents we made in 2004. regarding our development plan, we told you we intend to open 6 centers in 2005, 7 centers in 2006 and 8 centers in 2007. that delivers approximately 15% unit growth.

We will open the smaller incremental center, which I previously discussed in 2006 to increase the number of centers to open that year to date. however, keep in mind, that this is not one of our current model centers but rather our 40,000 square foot center. We look at it as a 7plus1 in terms of unit growth.

As a reminder, in order to take full advantage of our marketing when acquiring memberships during a presale, its most likely that our website will be the first time you see the names of specific centers that we intend to open. At this point we've now listed the following 2006 centers on our website. Columbia Maryland, Allen Texas, which is a suburb of Dallas, South Jordan Utah, which is a suburb of Salt Lake and Minnetonka Minnesota.

We will continue to use our quarterly conference calls to confirm these sites, which are currently in presale. At this time the last center to open this year, San Antonio is in presale and as Bahram said, is expected to open on December 9th.

For 2006 we plan to issue our stated, our detailed 2006 guidance in conjunction with our fourth quarter 2005 results early in 2006. that concludes our prepared remarks regarding our third quarter 2005 financial results. Our business fundamentals remain strong. 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 member point of view and a wow experience. With that we've completed our prepared remarks.

Bahram and I are happy to take your questions now. Greg if you could open the lines please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And your first question comes from the line of Mark Ruppe (ph) of Adams Harkness, please proceed.

Mark Ruppe - *Adams Harkness - Analyst*

Hey guys nice quarter. Was the Minnetonka facility more of a one-off or was it needed to balance the capacity of nearby locations?

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

Its just a area that does not support a large facility because of the geographical, difficulties, a large lake, but it is a wonderful area and we don't want not to have a presence for those customer base. This was an opportunity we could take on and we did it.

Mark Ruppe - *Adams Harkness - Analyst*

Makes sense, should we expect some of these in other areas, some point down the future as well then?

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

As we've mentioned before and I'm sure Mike has told you guys, when we talk to you guys about 7 centers, 8 centers, those numbers we're giving you, in our minds we're talking about large prototype facilities. So when opportunities comes for smaller boxes like this, it would be just an additional project that we will do on top of what we have already told you. And there will be some of these along the way, and when we come across them, the right opportunity to in fill some of our large boxes we will do that.

Mark Ruppe - *Adams Harkness - Analyst*

Perfect, and then on the center operating margins, I completely understand that you have a lot of units in their first year right now, will that flatten out next year as the base grows?

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

We expect that it will continue to improve, yes.

Mark Ruppe - *Adams Harkness - Analyst*

And then lastly, on the new destiny health partnership, does that give you any differentiating competitive advantage in those markets relative to the competition?

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

Yes it does, keep in mind that destiny health, we're very pleased with that destiny health announcement, but it's a fairly small relationship with a fairly small reach from destiny health's perspective but its one that we wanted to be in on the front end and it does give us a - some initial reach.

Mark Ruppe - *Adams Harkness - Analyst*

Okay, thank you guys.

Operator

And your next question comes from the line of Tony Gikas of Piper Jaffrey. Please proceed.

Tony Gikas - *Piper Jaffrey - Analyst*

Hi, good morning guys, nice job on the quarter. Couple questions for your, what is this - maybe I'll start here Mike, did you mean to say that energy costs are 3% of center operating expenses, maybe you could just clarify that and then what are the specific initiatives that you have available to you that you can implement to offset those increases in energy costs, pricing opportunities, where would those come, would that be in center or is this on membership revenues and then I have a couple quick follow ups.

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

Sure, a typical mature center runs about, its about 3% of revenue and again, the utility and the energy - electric costs are somewhere around 2/3rd, maybe a little less than that, of that total utility bill. We continually have many initiatives in place, obviously there's a tremendous focus as we build new clubs on energy savings initiatives, there are a number of those in place as you put in new centers, different boilers, more high efficiency boilers those types of things. We are always working and negotiating longer term strips for our energy, both our gas and electric and we obviously have purchase agreements in place, those that have been in existence and carry forward that clearly will lessen the impact of any significant increases. Beyond that, we always look for and have a number of initiatives on the cost side, including resource allocating, people allocation and resource allocation initiatives to continue to be more and more efficient that way.

On a price perspective, there is, as you look at our prices at $49 and $59 or the couple add ons or the family add ons, there are always ways that we can mix ins, just small changes, just a small change in price will certainly cover any of this, plus mix. By selling more sports membership versus typical fitness memberships which we've seen a tremendous track record of this year, we're able to raise our average dues well above any cost increase that will be incurred by potentially increased utility costs.

Tony Gikas - *Piper Jaffrey - Analyst*

Okay, a couple quick follow-ups. Your thoughts on member trends should the economy continue to slow the next 12 months. Second question, what are you experiencing in terms of increases to raw materials in terms of building new centers and then on the 7 centers you're expecting in '06, you indicated you purchased 5 of those locations, is that timing in line with your expectations or are there any centers that might be on the cusp of very, very late in the year.

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

No let me give you a - this is Bahram, Tony, we are in the final days of actually closing the last 2 properties. Everything is absolutely on track, we don't anticipate any problems or delays in our constructions for next year what so ever. We're pretty excited about that. We have a very, very proactive plans in place, many of them already in place, many of them are just about to conclude things we've been working on that mitigate the increase cost of construction.

So we don't, we still believe we can deliver the construction facilities based on what we have budgeted, we believe that very, very firmly because obviously we're working on bids now on many of these markets or we have (inaudible) bids on the clubs. So we just don't - because again, we control our destiny with our construction company and again, pro active in terms of what can we do to mitigate 300,000 out of cost here or $400,000 cost there, we've been on that and we've very, very, very pleased with the fact that we think we can deliver what we have told you guys before.

Tony Gikas - *Piper Jaffrey - Analyst*

And then member trends, should the economy slow, I would assume that's minimal, but your thoughts?

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

What we have told you guys and what the experience is, is the large portion of the membership, very, very large portion of the membership is completely really not effected by this because when you think about $40 or 50 or 60 a month, it's a small number and allows them a tremendous amount of healthy way of life entertainment for very little money. Its one of the last things they need to cut off, as things get expensive people may cut off a trip in a year that could cost them several thousand bucks and then they have more time to spend in the clubs because this replaces that extra time they have.

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As we go through even tougher times, I think just like any other business, you will have the strong operators and you will have the weak operators and there are operators that, I know there are, even in the good times they are working in a single digit margin and they will provide opportunities for their better operators who are going to stick around and deliver, so we have no worries about being able to deliver what we are committing to you guys in the future.

Mark Ruppe - *Adams Harkness - Analyst*

Okay, thank you guys.

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

You're welcome.

Operator

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

Brian Nagel - *UBS - Analyst*

Hi, good morning.

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

Good morning Brian.

Brian Nagel - *UBS - Analyst*

Congratulations on another good quarter. Couple questions, first off, in respect to your new center openings from our vantage point, you guys continue to open very, very strong. I was wondering if you could comment on, and as you open these new, larger centers, if you're see anything new in your process is membership still ramping in line with what we saw historically in cost and everything?

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

Good question and the answer is, again, we have centers today that I have never seen ramp as as strong as them in my 20 some years. And we have centers that they are a little lighter than our typical experience, but on average it's the same exact experience we have had in many, many years before. You look at our dues line and in terms of what we build in - in terms of the dues revenue that comes in automatically we are strongly ahead of what we have accomplished in the past. So we're not experiencing anything dramatic, we're not experiencing anything dramatically better or dramatically worse, it is business as usual.

Brian Nagel - *UBS - Analyst*

Then on the competitive front, anything new out of some of the centers you're maybe taking membership from, anything -

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

As we go to a new market, we basically look for some of the membership coming from other operators and some coming from just folks that have not been happy with the current landscape of health clubs and they maybe have not joined a facility and that experience has continued to be the same. We do not go into a market with the intention of putting somebody out of business that is not our mode of operation, we're just going in as we identify a market, a good market for us to build our facilities and serve the customers. And its some of both, you're going to see members departing other facilities because they charge way too much for the quality of their facility or services and we obviously provide a much better value proposition and therefore that's just a natural migration.

Also there are good competitors as we have mentioned in the past, when you look at the 24 hour fitness as an example, they compete with u s with apportion of the customer that comes to us, which is just purely the fitness customer, if somebody is interested only in fitness that's another alternative as Hampton Inn is a different alternative to a Marriott. But we believe, as we have said before, and we are demonstrating today in Texas, there is absolutely opportunity for those type of companies and ours to co-exist and each do a great job with their business model and have successful business going forward.

Brian Nagel - *UBS - Analyst*

Great and one final question, the facility you plan to open at Parsippany, is there any more insight when that one could open?

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

Yeah, I give you 2 answers on that, the answer is we have no insight on exactly when that will go through, we're still going through negotiations with the city and the DBA and trying to get that approval at this time, I cant tell you will it happen or not, what I can tell you is that variety of other alternatives in that market and we are - which we are working on and we are fully intending to open facilities in those markets in the next 18 to 24 months, open for business. I can't tell you any more details due to the competitive nature of this, but we're very excited about our potentials in the east coast, all together from north to south.

Brian Nagel - *UBS - Analyst*

Well thank you very much.

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

Thanks.

Operator

And your next question comes from the line of Paul Lejuez of Credit Suisse, please proceed.

Paul Lejuez - *Credit Suisse - Analyst*

Hey guys.

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

Hey Paul.

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Paul Lejuez - *Credit Suisse - Analyst*

Couple things, I guess as you looked at the third quarter were there any specific line items whether it be in the, one of the revenue line items or in the expense line items that came in more favorable or unfavorable as a plan than expected and if so just wondering what might have been behind that?

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

Not, not really. I mean, as you look at each of the revenue line items, we're obviously very pleased with the dues growth and we continue to look at the relationship of dues growth versus membership growth as a positive sign. We are very encouraged by the 40% in center revenue growth. But those are all within the scope of expectations as we look at the cost side. We knew that we have some, have a little bit of cost pressure on the margins just because of this tremendous heavy weighting of the immature clubs as they ramp up.

And we also knew that G&A, compared to last year, was a very difficult comparison, very low G&A cost last year compared to this year and we know we've got a number of initiatives primarily related to being a public company that we had to absorb. So no, what we are excited about is we think that this sets us up as we continue to look into the fourth quarter and into next year, we like the base line that we're establishing.

Paul Lejuez - *Credit Suisse - Analyst*

Great, would you expect a leveraged G&A in the fourth quarter?

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

I would expect a little bit of leveraged G&A in the fourth quarter, that's correct.

Paul Lejuez - *Credit Suisse - Analyst*

And any guidance as far as the comp expectation in the fourth quarter, high single digit, is that safe to assume?

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

Yeah, that's what - that's safe to assume.

Paul Lejuez - *Credit Suisse - Analyst*

Okay, then is there anything that you're seeing, any of the places that you might look where you could be seeing any signs of a slowing consumer as it relates to your business? Whether it be number or amount of visits or attrition a slight increase anything like that?

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

Let me answer it overall and then maybe Bahram can add some color to it. if you look at the numbers and if you look at - if you look at the 21% increased memberships and if you look at the - the one item that we looked at pretty closely was the 15% average in center revenue per membership growth in the quarter, that's a good number and so is this, is this sustainable, no, I

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wouldn't say that 15% is, but we were encouraged by those things so there's nothing, there's nothing on the surface that would indicate any significant, any significant changes out there. Bahram can you give a little bit of?

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

Paul, I think as we've told you guys before, we have so many different initiatives in terms of how can we improve our business. We always are looking to see how we can improve and as I have mentioned before we have a host of opportunities that we can improve the way we do things, our member, in center revenues, the way we sell memberships and training programs etc. so I can tell you confidently that I expect the business to have easy days as the years go buy and bumpy days when you look at the overall business environment. That's when strong companies demonstrate that they can find ways to deliver what they have promised and we believe that we can do that, very confidently here, we look ahead and we're very confident that we can deliver what you guys are expecting to see out of us. Don't over expect, listen to what Mike is guiding you and I think we can deliver that and that's all I can tell you.

Paul Lejuez - *Credit Suisse - Analyst*

Great. Thanks guys. Good luck.

Operator

And your next question comes from the line of Ed Aaron of RBC Capital Markets. Please proceed.

Ed Aaron - *RBC Capital Markets - Analyst*

Thanks, good morning.

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

Good morning.

Ed Aaron - *RBC Capital Markets - Analyst*

A few questions, first on the membership growth this quarter, it was pretty similar to what we saw last quarter, and it was overall a good number but (inaudible) would have actually it might have accelerated because you had 4 new centers open this quarter. Could you just maybe clarity that?

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

Yes, we have been focusing on a little bit more, rather than on the units, but on the mix of the units. So really what we want to do is we're balancing the traffic in our clubs by not trying to just increase the membership count, but maybe making sure that the membership revenue, the dues line is going up according to our plan and then some. We're very successful in what we are putting together strategically in that front. Now, we're very happy with the membership growth, there's nothing that I want to apologize for in any shape or form, but what we are doing right now is by design and its working very well.

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

The other thing to keep in mind is you really have to look at not just the quarter that the center opens but the proceeding 4 or 5 months, which are also very good. We opened 4 centers in the fourth quarter last year. We opened 3 centers in the third quarter this year. you've got some balance there also. you've got to, you can't just look at the quarter itself.

Ed Aaron - *RBC Capital Markets - Analyst*

Okay, and then can you talk about the club tab where you're unrolling that out and how - and to what extend it might be benefiting the in center revenue?

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

Yeah, club tab, we are now rolled out in all centers with the exception of the Minnesota market we're working to finalize that and really its, we're still in the enrollment stages, going to members, asking them to enroll. I cant give you a specific lift number on this other than to say that we believe that where it will impact us, we believe, and we're seeing indications that in the third quarter is in the caf , its really not in the large dollar spa or personal training areas, its in the caf with, we expect to see lift in dollar pur - in numbers of transactions and that's a part of this 15% in center revenue growth that we saw in the quarter.

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

Let me add to that, in regard to Minnesota, as you guys know, other than the Chanhassen facility, which we actually operate that caf ourselves the rest of this clubs that have a caf in Minnesota, it is operated by a third party and that's the only market that is operated by a third party. The club tab is in Chanhassen, as well as the other markets as Mike mentioned. The process is that a member who wants to use the club tab has to go to administrative desk and elect to be able to do that. Now we're seeing a steady increase in number of members walking up to the admin desk and wanting to have that opportunity, but just because we have rolled it out in lets say Old Orchard in Chicago, doesn't mean all of those 11+ thousand memberships have already gone through that administrative process. But we're seeing more increase and I think its early on to give you guys any meaningful data. Once we have in a club or we basically have had half the members elect to use the club tab, then we can tell you with accuracy of numbers what type of membership, what type of revenue lift we see in certain parts of the business due to that.

Ed Aaron - *RBC Capital Markets - Analyst*

Okay.

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

It's just early on.

Ed Aaron - *RBC Capital Markets - Analyst*

And 2 more questions if I could. 1 could you maybe comment on Texas and what you're seeing there, it does seem like enrollment fees have come down a little bit and then secondly, with respect to '06 guidance, I think last year in the third quarter you gave guidance for '05 is there any particular reason why you're holding off for an extra quarter this time.

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

I'll take the Texas question and I'll hand over your guidance to my boss, Mr. Robinson here. Let me take you through Texas, Texas is a fantastic market for us. Now as we've mentioned to you guys, we play with initiation fees from market to market, depending on what stage we're in. when the clubs are at mature stage and we don't need to put more members through them we bring the initiation fee up. When we are ramping facilities we have the initiation fees lower. Well in Texas all clubs are new and we're still ramping the memberships so we play with the initiation fee to get the memberships in on the desired ramp. So that is nothing unusual and it's going very well. I emphasize again we've had great success in Texas, we have one of our most successful clubs I have ever seen in 24 years of being in this business, in Texas so I'm just not going to, I mean we've gone over the Texas issue with you guys every quarter. It is going really well, we've got more clubs that we're interested in, in that market. So now I'm going to hand it over to Mike about the guidance.

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

Your question on guidance, we actually issued 2005 guidance in July in our first conference call as a public company and we did that early because we were an IPO and wanted to give people a sense of that. As we mature a little bit we think it is just fundamentally more prudent to issue that guidance early on in next year, it's just a change in our approach.

Ed Aaron - *RBC Capital Markets - Analyst*

(inaudible) great quarter.

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

Thanks.

Operator

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

Sharon Zackfia - *William Blair - Analyst*

Hi good morning.

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

Morning Sharon.

Sharon Zackfia - *William Blair - Analyst*

Not to hammer a dead horse further here, but understanding that you use initiation fees or enrollment fees in the ramp process, I'm just curious whether or not you've had to play with your initiation fees at all in light of what appears to be a softer consumer environment and also, whether you've had to change your approach to marketing at all?

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

Sharon we have not, we have not changed our initiation fee strategically across the system. So the answer to your question is no, because what we are doing if we are taking one market down or a dozen clubs down its no different than what we've done in the past. Now, if it does happen that in the future the business slows down and the consumer gets a little more sensitive and we have to lower the initiation fee to get the customer in, as we have said all along, that's not a big deal to us because the initiation fee isn't a big factor in our financial model. We will lower it to make sure we get the units we need into the door, okay?

But right now it is nothing unusual, the marketing there's a whole different story. I think that basically as the company looks into the future for marketing there are challenges with marketing based on the fragmentation of the marketing channels and I don't want to get into a discussion on that on this call, but we're all over it, we know what we need to do to deliver our membership counts, we're excited about it and whatever happens we will find a way to get what we need to do.

Sharon Zackfia - *William Blair - Analyst*

Have you started to experiment at all with using the Internet more aggressively versus direct mail?

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

We are receiving substantial number of leads through our email - through our internet channel, so where you would go back a year ago and you wouldn't have anything on our statistic report about the internet leads we are getting quite a bit of internet leads today naturally and that's still and area of opportunity for us to have a more robust opportunity for someone to go in there and search out more about Life Time Fitness. But overall we have strategies about marketing that I believe will deliver the membership counts that we need with ease and I'm not going to get on that topic again, that's where I think is our competitive advantage will come in play and I'm not going to be sharing it over the phone.

Sharon Zackfia - *William Blair - Analyst*

Well, i dont want you to give away your competitive advantage, thanks so much.

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

Okay.

Operator

And your next question comes form the line of Greg McKinley of Dougherty. Please proceed.

Greg McKinley - *Dougherty - Analyst*

Thanks. Guys could you just refresh our member real quick here, in terms of the new fee based programs that have been rolled out to your centers in recent quarters, I'm trying to get an understand is what's new in the centers and what the timing of those introductions were. That might be a boost in your in center spending.

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

Okay, the 2 centers - the 2 programs that we have rolled out in majority of our clubs are general fitness and O2 cardiovascular training. We've seen great success, steady performance on those and those are now entrenched into all the programs. We have a new program that I've been working on for over a year in development. We have tested it, we are currently at 2 session of this program going in the Chanhassen facility and this is the one I'm most excited about is a, what we call team weight loss, which is trademarked, and we are working on rolling that out, it requires combination effort from personal training and nutritional coaching in our staff so we have the ability to roll that out by beginning of the year which is the weight loss time of the year, into at least about 28 of our facilities across the system. Looking very forward to roll that out, I think that's one that probably will address a large number of our members, I'm not going to tell you more about that either until we can share with you actual results.

Greg McKinley - *Dougherty - Analyst*

Okay and then Bahram, those first 2 you mentioned, general fitness and cardio training. When did the majority of those centers receive those program?

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

That we were rolling out throughout the year and by the third quarter we actually had most of the clubs operating with that, therefore that kind of a large increase in the group personal training, if you notice we talked about a 90% increase in the group personal training for the quarter, versus the 2004 quarter with 2004, we had the general fitness but we didn't have '02 rolled out. so by doing the '02 we almost doubled that, okay?

Greg McKinley - *Dougherty - Analyst*

Okay. And then, finally, Mike, just wanted to confirm when you're reporting your same center revenue growth of 7.9% that is including the way you defer an account for enrollment fees.

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

That's correct.

Greg McKinley - *Dougherty - Analyst*

Yes, okay thank you.

Operator

And your next question comes from the line of Scott Mushkin of Bank of America Securities. Please proceed.

Scott Mushkin - *Bank of America Securities - Analyst*

thanks guys, yes, a lot of my questions have been answered, but just quickly as you look out into '06, and the needs for borrowing, how do you kind of look at the higher interest rate environment we're likely to see?

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

Well we look at it, obviously we're very, very active in looking at that, trying to determine when and how to lock in if we determine to lock in for mortgage rates, etc. We built into our own return models fairly significantly higher interest rates than currently exist and also believe that even in a higher interest rate environment, we've got a significant opportunity to lower the long term borrowing costs from what we have at 8.25 on our books today. So it's always something that's very active on our minds and feel we're well positioned to take advantage of.

Scott Mushkin - *Bank of America Securities - Analyst*

Okay and then just a couple quick things. I noticed you guys didn't mention any hurricane impact at all, I guess, was there? I know you have a bunch of clubs out in Houston.

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

We have 3 clubs - this is Bahram, Scott - we have 3 clubs in Houston area, what we did do is we shut those clubs down immediately and sent our, all of our team members, created opportunity for them to actually go to our clubs in Dallas and provided opportunities for them to have a shelter and have whatever assistance they may have needed. We lost 3 small trees off of one of our sites, so there was no physical damage. We obviously lost 5 days of business but, it's an insignificant number and obviously you can see our third quarter numbers, we have no excuses for what we have delivered.

Scott Mushkin - *Bank of America Securities - Analyst*

Okay, then 2 more quick ones and I'll let you guys go. Separate entrances to the spa, I know you've talked about that before, have you done that yet or are you considering doing it in '06 when you open?

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

Separate what?

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

Entrances to the spas. Rather than coming through the main doors.

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

Yes, we will not have separate entrances to the spas, I don't know where that has come about but I don't have any desire to have multiple entrances into our facilities, we need to control who comes and who goes and the way its going to be done is the way its being done right now.

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

And by having them come through that front door, even though it could be a non-member, we've always got the opportunity to sell a new membership.

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Scott Mushkin - *Bank of America Securities - Analyst*

Okay great, and then, finally the 40,000 foot club you bought is that going to be a new kind of experiment or is that just a smaller club?

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

Let me elaborate on that just a little bit, that facility, just want to make sure, we did not buy - this is going to - the club is - we bought the real estate and we are opening a new club, so it will be a new Life Time facility and its more or less along the type of facilities we currently have, and I'm very excited about it, its going to have a heavy spa component because of the geographical location and type of customers who live in the near immediate area of this facility. So we're looking very forward, we've had only a couple days of new membership drive and its been fantastic, so we're pretty excited about that as an additional facility for '06 opening, granted it will be a significantly a smaller impact as a large prototype.

Scott Mushkin - *Bank of America Securities - Analyst*

Could you then end up evolving into a kind of a smaller prototype where you go to more wealthier areas with or is that a stretch?

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

Okay, let me just say this to you, we have had a collection of clubs in Minnesota and more or less a change of facilities outside of Minnesota and we have always told the street that as we go to different markets where we have had numerous large boxes open, when the opportunities come where we can do something that absolutely makes sense we may do a 40 or 50 or 60,000 square foot facility. We may even do a 20,000 square foot facility, if it makes sense, but I would never lead into a market with a 40,000 square foot facility, that is not how we like to brand Life Time Fitness, now once the brand is completely established in a market and people understand Life Time Fitness as a four-in-one healthy way of life facility, then we will add opportunistic facilities only as they make total sense and there would be an opportunistic situation. So I hope that answers your question.

Scott Mushkin - *Bank of America Securities - Analyst*

It does and thanks so much again for your time.

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

Thank you very much.

Operator

And your next question comes from the line of Hardy Bowen of Arnold and Blelschroeder(ph). Please proceed.

Hardy Bowen - *Arnold Blescher - Analyst*

Arnold Blescher(ph). I guess you guys and the cheese steak factory are the only things that people aren't going to give up in the economy, apparently.

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

Well, we hope that.

Hardy Bowen - *Arnold Blescher - Analyst*

Bahram, in selling more sports memberships, does that mean that more of the new clubs have to be sports clubs, or do we sell that without them technically being sports clubs?

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

We're selling more of that - if it was a club, a sports club where they have to have the $59 membership to go to, that's already a program into our membership dues that way, or into our plan. So where we're getting the better mix is inside of our clubs that that also a $49 or even maybe a $39 membership is available but the customer electively will choose to buy the sports membership so that they have access to the free amenities that is offered with the sports membership and they have access to all the sports clubs and the fitness clubs across the system.

Hardy Bowen - *Arnold Blescher - Analyst*

Right, okay, and on the group cardiovascular program. Are we trying to sell those to non-members to generate more members, is there any potential there or is, in your mind, just a matter of converting present members to these programs.

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

No, absolutely not, you have to be a member to be in the club working out, etc and we do sell people the opportunity to buy a one day pass for 20 or 25 bucks to come into the club but that customer isn't going to join an O2 program, is generally maybe someone whose traveling or whatever. So the cardiovascular group fitness, group personal training is for the member and many of our clubs, as you know, they are at membership capacity so we're not really in dying need of trying to sell a lot more memberships, we're just replacing the members who drop out.

Hardy Bowen - *Arnold Blescher - Analyst*

Okay, sounds good.

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

Thank you.

Operator

And your next question comes from the line of Michael Lasser (ph) of Lehman Brothers. Please proceed

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

Morning.

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Michael Lasser - *Lehman Brothers - Analyst*

Thanks for taking my question.

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

Morning.

Michael Lasser - *Lehman Brothers - Analyst*

You talked about clubs that ramp up at different rates, are there any factors that explain or perhaps predict how quickly a club might ramp, perhaps it might be local management or geographic factors.

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

Let me give you a perspective on that its mostly - first of all there is still within a very tight bandwidth, we are still not experiencing clubs that they are so far above or below the desired bandwidth that we would have to deploy a different type of strategy.

So to answer your question it's not a significant modification to what we are doing, we're still operating the same way and getting the results we desire as a whole. The clubs that are a little lighter could be due to a variety of different reasons, it could be just a general nature of the market and number of health club operators who have been marketing very, very heavily into the market and desensitized the consumer. It doesn't mean we cant get those members, it just takes a little longer sometimes to get them in, have them experience the difference. So some of the markets may be a little different, it could be season the time of the - we don't try to season necessarily. When we can get the job done through the, entitlement and approval and start construction we start. Now that club may open at the - a club may open at the opportune time from a seasonality of a particular market and may open up completely at the opposite side of the season, so those all of those can play a factor, but nevertheless right now we're looking at our membership ramps and we think we can get every club to the desired membership revenue.

Michael Lasser - *Lehman Brothers - Analyst*

Sounds good. Thank you very much.

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

You're welcome.

Operator

And gentlemen, I'm showing no further questions at this time. Ladies and gentlemen, this concludes today's question and answer session. I would now like to turn the call back over to management for any closing remarks.

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

Thank you. I'd like to thank everybody for participating. We look forward to reporting to you on our annual results for 2005, tentatively scheduled for Thursday February 16th 2006. for this and any other key dates please see our events section within the investor relations section of the website. Thanks and good-bye.

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

Thanks. Bye.

Operator

Ladies and gentlemen thank you for your participation in today's conference this concludes the presentation, you may now disconnect. Good day.

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