

FINAL TRANSCRIPT

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LTM - Q2 2007 Life Time Fitness Earnings Conference Call

Event Date/Time: Jul. 26. 2007 / 10:00AM ET

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PRESENTATION

Operator

Good day ladies and gentleman and welcome to the Second Quarter 2007 Life Time Fitness Earnings Conference Call. My name is Fab and I'll be your coordinator for today. At this time all participants are in a listen-only mode. We will conduct a question and answer session towards the end of this conference. [Operator Instructions]. As a reminder this conference is being recorded for replay purposes.

I would now like to turn the presentation over to Mr. Ken Cooper, Senior Director of Finance. Please proceed, sir.

Ken Cooper - *Life Time Fitness Inc. - Senior Director of Finance*

Good morning and thank you for joining us on today's conference call to discuss the second quarter 2007 financial results for Life Time Fitness. We issued our earnings press release this morning. If you did not obtain a copy, you may access it at our website which is lifetimefitness.com. In a moment, Bahram Akradi, our Chairman and CEO will discuss key highlights and share his thoughts on your business in the second quarter. Following that, Mike Robinson, our CFO will review the quarter and year-to-date financial information in greater detail.

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Once we have completed our prepared remarks, we will take your questions until 11 a.m. Eastern Time. At that point in the call the operator will provide instructions on how to ask the question. Finally, a replay of this teleconference will be available on our website at approximately 1 PM Eastern Time today.

Before I turn the call over to Bahram, I would like to remind everyone that this conference call contains forward-looking statements and future results could differ materially from the forward-looking statements made today. Actual results maybe affected by many factors including the risks and uncertainties identified in this mornings earnings release and in our SEC filings. Concurrent with the issuance of our second quarter and year-to-date earnings results we have filed a Form 8-K with the SEC. Certain information in our earnings release and information disclosed on this call constitute non-GAAP financial measures including EBITDA. We have included reconciliation of the differences between GAAP and non-GAAP measures in our earnings release and our Form 8-K. Other required information about our non-GAAP debt is included in our Form 8-K.

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

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

Thanks Ken. Before I comment on the quarter, I would like to reflect on the fact that we have just finished our 12th quarter as a public company. Our objective as a public company at the time of our IPO, and which continues today is to deliver on our promise to our shareholders with the same intensity and consistency that we deliver our promise to our members. We are committed and hope to continue on delivering what we promise you. To that end, I am happy to provide you with some highlights of our second quarter before Mike Robinson provides you with more full details.

We delivered another strong quarter, our revenue increased over 32%, and our net income increased over 33% during the quarter. Our operating margins were up a 150 basis point and membership grew over 24%. Again, these are all the results of executing on our plan. I remain has excited today as when I stood before you in 2004 presenting where I wanted our company to go. Our management team is focused on executing the plan that will have us serve millions of memberships. We continue to operate in a world with a strong acceptance and demand for our products, and I thank you for your continued interest in Life Time Fitness. We have had very strong growth in the past three years and future looks great.

With that, let me now turn it over to our CFO, Mike Robinson for a more detailed discussion of our second quarter financial results. Mike?

Michael Robinson - *Life Time Fitness Inc. - Chief Financial Officer*

Thanks, Bahram. As Bahram indicated, we're doing very well half-way through the year. For the second quarter total revenue was \$162.1 million, up 32.4% from last second quarter. We are up 32.5% year-to-date to \$315.2 million. The strong growth continues to be driven by two main factors, including membership dues growth of 32.4% for the quarter and 32.5% year-to-date. This growth continues to come in two form. The first is our membership plan for new centers where we target a three-year ramp period to at least 90% of our targeted capacity. Second is the continued mix shift higher dues rates at particular centers. For example, we now have 9 centers where new memberships are sold at advantage pricing which carries a \$79 individual monthly dues rate curve and is up from 4 centers earlier this year. Another positive indicator for us is the dues growth of 32.4% again outpaced membership growth during the quarter which was 24.5%.

In-center revenue grew by 35.8% in the quarter and year-to-date. This growth continues to be driven by our membership growth in new services products and programs in each of our in-center businesses. Better participation and use from our current members and optimizing the business functions for better more consistent operations.

Let me also take a minute to provide some highlights on other revenue metrics we track closely. Memberships at June 30, 2007 totaled 489,489 which was an increase of 24.5% from last Q2. With respect to revenue per membership, we generated a 6.3%

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increase to \$338 in the quarter. The in-center revenue per membership increased in the second quarter to \$98 or an 8.9% increase over last second quarter. Both of these are nearly identical to the rates we hit in the first quarter.

On a year-to-date basis, revenue per membership grew 6.4% to \$672 and in-center revenue for membership grew 8.9% for \$195. We generated a 6.6% increase in same store sales for the quarter and a 1.6% increase in the 37 month mature same store sales, as we continue to balance our membership levels with generating a very positive member experience. Year-to-date we generated growth of 7% for same store sales and a 2.1% growth on the 37 month mature metric. We continue to see a small amount of plan cannibalization in the quarter. In the second quarter, we had one center enter the 13 month comp base. There were no additions to the 37 month comp base. As a remainder, the centers obtained in July 2006 were not included in the same store sales calculation. They will enter the same store comp base in the 13th month like all other centers, which will be next quarter.

One of the most common questions we receive to our discussions with investors and analysts is centered around pressure we might see from consumer spending pullback in the macroeconomic environment. As I've said many times, we attract a higher-end demographic that is not easily influenced by increases in factors such as gas prices. Our experience has shown that they will pay for a differentiated and quality product, which we deliver. In addition, we believe people are treating the health club membership less of a discretionary spend and more of a core necessity.

With this context, we still continue to focus on four key areas to determine if consumer pressures would affect our business. The first is, our membership is ramping at an acceptable pace. This generally means at or above our unit growth rate. We have 24.5% membership growth rate over Q2 2006, a strong growth rate. And we continue to get pricing. We've achieved our goal of membership dues growth exceeding total membership growth for the 13th consecutive reported quarter. Third, we see any change in the attrition patterns. Our attrition patterns continue to remain stable. And finally, we have any effect on our in-center businesses. We continue to see acceptance in each of our in-center businesses and are very pleased with 8.9% growth in average in-center revenue per membership, especially in the like of some difficult comparisons last year.

Moving to our margin analysis. The company's operating margin increased to 20.7% from 19.2% as compared to the prior second quarter. This includes the incremental lease expense and operating expenses of the centers we acquired in July of 2006. This growth comes with our relentless focus on streamlining our business and delivering the same focus on the bottom-line as we did at the top-line. Year-to-date operating margin has increased to 19.7% from 18.8%. The main drivers of this margin improvement were 30 basis points of G&A leverage in excess of our lower center operating margins. 50 basis points of marketing leverage and 80 basis points of improvement in depreciation. The depreciation leverage was driven by the new lease centers which have a very low asset base.

The G&A margin improvement was driven in part by lower share-based compensation expense this quarter compared to last quarter, when we had a one-time increase in this expense driven by the vesting of two tranches of market performance-based options. Our center operating margin was 42% for the quarter as compared to 44% for the prior quarter. This was related to the incremental lease and operating expense for the WellBridge transaction last July which will not be anniversaries until the third quarter. If you take out the impact of the lease centers of this transaction, we had a slight center operating margin improvement this quarter.

Year-to-date our operating margin -- our center operating margin is 41.8% as compared to 43.8% for the same period last year. Again, the margin change is related to the WellBridge transaction. As we make our way down the income statement, income from operations was \$33.5 million for the quarter, up 42.4%. For the year, we are up 39.2%. Interest expense net of interest income increased to \$6.4 million from \$4.1 million last second quarter as we continue to grow our center base and the corresponding average debt balances. For the year, total interest expense was \$11.9 million.

In other capital structure news as previously announced, we enhanced our revolver facility in May. We increased the overall facility from \$300 million to \$400 million and increased our covenants which now include a total leverage ratio maximum of 4

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to 1, up from 3.75 to 1. We intend to use this revolver and long-term mortgages on our operating centers to fund our expansion for the foreseeable future.

As of today, we have 20 current model centers with an asset value in excess of \$400 million with no mortgage financing against them. Our tax rate for the quarter was 39.9% as compared to 36.9% last second quarter. Our tax rate was abnormally low last second quarter as you may recall due a Texas state income tax change that resulted in a one-time reduction in our state deferred tax liabilities.

Next quarter, we expect to recognize incremental tax -- state tax expense which is due to recent enactment of the new Michigan income tax and the resultant one time repricing increase in state deferred tax liabilities. We expect our Q3 2007 effective tax rate to approximate 42% and our total year 2007 tax rate to now be approximately 40.5%, up from 40%.

Net income for the quarter was \$16.5 million compared to \$12.4 million last second quarter, up 33.1%. Our net income margin for the quarter increased to 10.2% from 10.1%.

For year-to-date net income is \$30.6 million, up 34.2% and our net income margin has increased 9.7% from 9.6%. Total weighted average diluted common shares totalled \$37.5 million for the second quarter. We now expect our total weighted average diluted share count for 2007 to be approximately 37.7 to 37.8 million shares which is an increase of approximately 2% for fiscal 2007. Based on our 2007 second quarter weighted average share account, our diluted EPS for the quarter was \$0.44, up from \$0.33 in the second quarter of last year or 33.3%. Year-to-date our EPS was up 32.3% to \$0.82.

Moving to our operating data. The number of open centers at June 30, 2007 was 64, compared to 48 at June 30, 2006. Our current number of open centers is 65 with our Deerfield Township, Ohio opening earlier this month, our first center in the Cincinnati market. Of the 65 centers, 35 or 54% are current model and only 51% of all the centers have been opened three years or more which we classify are mature centers.

EBITDA totaled \$48.5 in Q2, up 34.9% from last second quarter. Year-to-date EBITDA is up 32.5% to \$91.2 million. EBITDA margin for the quarter was 29.9%, which is 60 basis points better than last year's second quarter. Our EBITDA margin year-to-date 28.9% which is comparable to the same period last year.

Cash flow from operations totaled \$66.2 million compared to 59.9 million in the second quarter of 2006. Cash outlays for capital expenditures for the quarter were \$116 million which includes approximately \$103 million related to growth for construction of new centers. To finance our growth, we will continue to use our strong operating cash flow combined with debt. During the second quarter, our overall debt balances grew by approximately \$95 million to \$528 million as of June 30. This includes \$285 million outstanding on our \$400 million revolver. Our net debt to capital ratio increased slightly during the quarter to a still low 53.9%.

Now, let me discuss our updated guidance for 2007. From a development perspective we expect to open 8 centers in 2007 of which 5 are already open. We plan for the last 3 centers to open in the fourth quarter. In addition, we will be buying land and starting construction for 10 centers we plan to open in 2008 including our fourth center in Houston and a second center in San Antonio market. We currently have all 10 centers under contract, including six land parcels that we've purchased. I would like to reiterate that our pipeline of potential sites is stronger than ever.

Our revenue guidance has increased 26 to 28% growth which equates to \$645 to \$655 million, up from our previous guidance of 25 to 27% growth of \$640 to \$650 million. We expect net income growth of 29% to 31% which equates the \$65.2 million to \$66.2 million, up from 28% to 30% growth or \$64.8 to \$65.8 million. This takes into consideration the one-time tax rate adjustment next quarter which I detailed earlier. This results in diluted EPS guidance of 27% to 29% growth which equates to a \$1.74 to \$1.76 per share, up from 26% to 28% growth or \$1.72 to \$1.75 per share. Regarding our CapEx guidance, as a direct result of the land and initial construction for the incremental tenth center to open in 2008 which we discussed last quarter and our expectations to begin purchasing some of our parcels of land for the 2009 openings earlier than typical, our 2007 CapEx

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expectations are now \$360 to \$380 million. We still expect to average approximately \$30 million per center for the centers to open in 2007.

Also as a reminder, this guidance includes \$40 to \$45 million of one-time unique expenditures related to the remodel of our leased centers acquired in July 2006, and the remaining construction of our new office building into which we plan to move in the fourth quarter.

For the third quarter, please keep in mind that we will anniversary the WellBridge transaction that added a net lease -- net 6 lease centers on July 27 which will affect many of our quarter-over-quarter comparisons. That said, we expect membership to grow slightly ahead of our unit growth plan which is approximately 16%. We also expect revenue growth of approximately 25%. We expect net income growth to be slightly lower than revenue growth in the quarter due in part to the expected one-time incremental state income tax expense discussed earlier.

That concludes our prepared remarks regarding the second quarter 2007 financing results. We continue to focus on executing the same plan we first spoke to you about in June of 2004.

With that, we are happy to take your questions.

Can the operator open the line for questions please?

QUESTIONS AND ANSWERS

Operator

[Operator Instructions]. And your first question is from the line of Michael Lassa. Please proceed.

Michael Lassa - - Analyst

Hi guys. I wanted to go into like the competitive landscape a little bit. I know in Columbus in the last 6 months or so there was a competitor -- community center type club that has closed and some of that traffic came into the Life Time Fitness Center in the market. And you know, obviously the WellBridge clubs were underperforming and it presented the opportunity for you guys to make that acquisition last year. How often are you finding that club when you put a facility in the area, some of the competitive clubs begin to underperform? And then how does that impact your ability to get pricing once the market changes?

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

It's a good question, this is Bahram. We are not focused on what happens to our competitors. We don't go to a market wishing for other people to do poorly and that's truly what the whole sentiment of the company is. We believe that in largely most of the United States, there is no comparable product to our facilities. From the overall standpoint, the full service and high-end and the moderate pricing, which has been the target of the Life Time Fitness.

So, as a result when we go to a market, we generally find a number of people who have chosen not to join other facilities because it hasn't provided them with everything they were looking for or we find people who will switch from facilities that again were not everything they were looking for, but was the only thing they could do because our type of product wasn't there. So, we do occasionally see a facility who was maybe operating marginally prior to us coming in the market, you know, get to the point where they obviously are operating negatively and they will choose to either close the facilities or they are forced to do that.

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That does happen. There is generally a migration of some of those members to our facilities. Also, there are -- depending on the type of the facility they close down, those customers maybe more appropriate for us or they maybe more appropriate for facilities like LA Fitness or 24-Hour Fitness. As an example, if a facility like Golds Gym or Bally's facility shuts down, most of those customers are more appropriate for LA Fitness or 24-Hour Fitness than ours. If a facility that's more of a community center, people are looking for family, they're looking for more complete array of products and services then our facilities are more appropriate.

So, you're going to see more of these type of things happening in the future years to come. As you will see more increased facilities from Life Time Fitness, LA Fitness, 24-Hour Fitness and more strength with those type of companies then the landscape of the Health Club business is going to change gradually in the several years to come. Hopefully, I answered your question.

Michael Lassa -- Analyst

You did. And perhaps if you could just touch a little bit more deeper on the pricing aspects. So, as you run into LA Fitness and 24-Hour Fitness more and more and there is more alternative for consumers, how often do you think pricing is going to come into play?

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

Thus, I think it's an important question and I want to emphasize our perspective on LA Fitness and 24-Hour Fitness one more time. We believe they are great companies and great models. We believe it's vastly different than our facilities in terms of the quality and the array of products. The customer base, I think there is clearly a customer that should go to an LA Fitness or 24-Hour Fitness, and a customer that should come to our space. I believe there is enough of both available in pretty much all the markets we choose to go in.

As a result, I will see those companies prevail and we should prevail. We offer a lot more in a Life Time Fitness box. The boxes are significantly larger and offer significantly more amenities and they do all of that at a higher level of quality and service. As a result, there should be a pricing difference in that so that it will segregate the memberships appropriately from our facilities to their facilities which once again creates the environment that our members choose to be in. We are going to focus on pricing more based on the experience of our customer then worrying about other people. We focus everything on doing the right thing for our customer at all times, we've done that for more than 15 years and that has been the reason for our success.

Michael Lassa -- Analyst

Okay.

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

Customer point of view is the ticket.

Michael Lassa -- Analyst

And then with all that said, where were the clubs that were converted to advantage boxes this period?

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

It's not a factor of LA Fitness or 24 Hour fitness or other facilities. These are facilities where we believe that demographics and the number of our memberships support the change in the pricing. You know, as I have mentioned to you guys, I am focused on membership. We changed clubs in Columbia, Maryland. We changed the clubs in Chicago. We changed the club in Denver and in Dallas market. So basically what we are -- it's in all different types of states but these are clubs where we looked at and we thought the memberships are full, the daily traffic is very good, the customer -- you know, if there is anything that we could do better is make sure the club doesn't get over crowded. And therefore we adjust the pricing to manage the flow of the customer base in the club and control the experience.

Michael Lassa -- Analyst

Okay and two last financial questions. Number one can you quantify the stock option impacting. I know you said you did have it in effect, but perhaps you could give it in absolute terms and then what it added to the EPS for the period?

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

We had two -- kind of two comparable or significant changes from second quarter last year to second quarter this year. One was stock option expense. The increment was around \$1 million on an after-tax basis, but at the time we had a significantly lower tax rate in the second quarter of last year and adding and the net of all of that between the stock option expense and the tax rate was \$300,000 to \$400,000. So, effectively pretty much neutralized.

Michael Lassa -- Analyst

And then, there was a reclassification in the income statement, change in investment in unconsolidated group was moved from investing to operating cash flow, any particular reason why?

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

It's just a way it should flow. That's all.

Michael Lassa -- Analyst

Okay. And then the last question, the WellBridge Club that were acquired last year brought in 25,000 additional members, how are the membership levels at those club compared to where they were last?

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

Membership levels are up. The membership levels have followed the plan and the thought process that we had when we originally did the acquisition. It's interesting though as you move more and more in and they get blended into the Life Time Fitness family, you start to see a melding and that's some of the memberships moving to Home Clubs that were former Life Time Clubs and vice versa. So, the further in we get, it just shows that the strategy of working and moving and looking at this in its entirety in the market truly clearly works itself out.

Michael Lassa -- Analyst

Okay.

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Michael Robinson - *Life Time Fitness Inc. - Chief Financial Officer*

One thing guys I want to add about the WellBridge and I am sure you guys will ask later so hope I cover it now. Our experience thus far is that the bump in the sentiment of the members of the club happens when we are 100% complete with the construction and months to follow. Thus far, we have only completed one facility on a 100% basis and that's the Maple Grove in Minnesota. There is significant difference in the customer sentiment, member sentiment in that Club and the financials.

The other facilities many of them have had significant amount of the changes already taking place; however, again the customer is somewhat happy to see those changes coming in and they like it a lot. But they also are anxious for the entire construction remodel to be over and be in a more comfortable environment. So, we expect, I expect to see a better improvement in the remainder of the WellBridge acquisition, once we are 100% complete with those construction, I do not anticipate the completion of all of those to be complete before the middle of the year next year. That's when I believe we can finish all the remodels from these 6 - 7 facilities

Michael Lassa - *Analyst*

Okay. Thank you very much for taking my question.

Michael Robinson - *Life Time Fitness Inc. - Chief Financial Officer*

You are welcome.

Operator

Your next question is from the line of Paul Lejuez from Credit Suisse. Please proceed.

Paul Lejuez - *Credit Suisse - Analyst*

Hi guys. Paul Lejuez.

Michael Robinson - *Life Time Fitness Inc. - Chief Financial Officer*

Hi Paul.

Paul Lejuez - *Credit Suisse - Analyst*

Just wondering about the pattern of in-center revenue. Historically speaking when you open a club, what does in-center revenue look like, you know, in the first couple of months on a per member basis? Do they spend more in the beginning testing the different in-center services out and then does it taper off or does it build throughout the membership's life, so that's the first part. And I am just wondering if what you're seeing now is new club openings is any different than what you've seen historically?

Michael Robinson - *Life Time Fitness Inc. - Chief Financial Officer*

Right, right. I want to comment on it a couple of ways and then have Bahram add to it. Typically and in fact we see that with everyone of our large centers, in-center revenue per membership is quite high for the first three to six months as members

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really are out, reaching out trying many of the products and services. Then it comes down over the next six months or so and stabilizes at or above the rates that we talk about for in-center spend.

The second trend that we have is that the newer centers produce on average higher revenue per membership than the older centers. And there are two obvious reasons for that. The first one, the newer centers are designed better and focused better on some of the in-center revenue opportunities we have; cafes, spa, retail lines, space in our personal training those types, anything that we have for fee-based services.

The second reason is a little bit more, not as obvious, but we have been focusing tremendous amounts of effort on the certification of our own employees and a big part of that is actually making these employees aware of the products and the services that we have, and how to communicate, how to connect with our member base. And as you would expect, the training at new centers is very current and so they are getting the advantage of that at the same time. So, higher -- at first comes back down and then stays out and grows as we would expect the trend, and the new centers produce more than the older centers.

Paul Lejuez - *Credit Suisse - Analyst*

Got you, thanks. And Mike, the inventory looks like it almost doubled, what's going on there? What is that?

Michael Robinson - *Life Time Fitness Inc. - Chief Financial Officer*

That inventory line carries -- it's a combination of really a couple of things. As we expand the inventory we have in our spas and cafes, we've expanded some lines in there, expanded the marketplace presentation et cetera. So, we got a little bit more growth of products sitting in the centers themselves as well as in our distribution center, and the same goes for our apparel lines. Again, I want to put that in perspective though. The inventory line is a very small piece of our asset base, less than 1% or so. So, it's not a significant driver of our business.

Paul Lejuez - *Credit Suisse - Analyst*

Yeah that's fine. Thank you and good luck.

Michael Robinson - *Life Time Fitness Inc. - Chief Financial Officer*

Thank you.

Operator

Your next question is from the line of Greg McKinley from Dougherty.

Greg McKinley - *Dougherty - Analyst*

Yeah, thank you. Guys I know in prior quarters you provided some comments around some of the opportunities you see to improve or introduce new in-center programming, I think specifically you highlighted retailing opportunities within the cafe's and just general improvement of cafe operations. Can you give us some commentary on what if any initiatives have started along those lines and any other recent program introductions in the clubs?

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

Yeah, we're -- this is Bahram. We're very heavily involved right now for writing the objectives and the planning of 2008 regarding the different business centers in Life Time. Cafe's and spas are a target, one of my priorities with our COO and John, who drives that business. We look forward for the 2008 results in those. It will take time to plan accordingly, have a vision for what we want Life Spa and Life Cafe to be. We have big goals and big objectives on what can do with those places. As I always mentioned to you guys, it will take time to properly plan and execute these changes. We are very optimistic for the future but it's going to take time to do it right.

And I can't get into the details of what we're going to right now, it's just not necessary, but we should be able to share with your guys visions and plans in the next couple of quarters.

Michael Robinson - Life Time Fitness Inc. - Chief Financial Officer

All of that said, in every one of our business categories we continue to add new product service. I mean examples in the cafe, significant expansion of the shake and the protein shake lines, and we continue to add kids programming in some of the newer centers. You'll see dedicated space for teen, pre-teen areas that allow us to add more programming there. We've introduced earlier this year teen fitness on the personal training aspect, that continues to roll out very very well and there are follow-on programs in areas like that too. So, we're always looking, we're always working on those things and feel very very good about it.

Greg McKinley - Dougherty - Analyst

Great. Could you also talk a little bit, I think you mentioned that you are essentially under contractor for all 10 facilities in '08, as you explore those new markets how are you seeing land acquisition cost or anticipated construction material cost shake out. I know, I think last year was a year where some of those structure materials increased significantly. Can you give us some thoughts along those lines?

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

Good question, this is Bahram again. We are feeling really good about the construction and development. First of all on the growth side, this is not your question. Things have never looked better, we have a great pipeline for delivering to the street what we have promised you guys for the years to come. And so that's going really well. The development unlike the residential problems today, there is no major change in the commercial world. There is plenty of activity in the commercial real estate. We are -- as we have mentioned before last quarter, have seen that the prices of both land

[technical difficulty]

Hello?

Operator

Ladies and gentlemen please standby.

Ladies and gentlemen thank you for standing by. Your conference will resume shortly, again thank you for your patience.

Sir, you may proceed.

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

Okay. So, I have no idea where I got disconnected, but here -- I'll start back with the construction cost. We've seen that on the commercial real estate side land prices and construction prices have stabilized significantly since about a year-and-a-half, two years ago. From '06 to '07 we see about a 3 -- 4% increase in cost instead of, you know, low double-digit numbers per year. And I am talking about the comparable construction and comparable market. So, we feel very good about where things are at, where they are going. Now as we go in different markets and expand into East Coast or West Coast, there will be different pricing in place and we have talked about that. But in relative markets, the construction cost right now is very stable, 3 to 4% increases instead of double-digit -- single double-digit -- low double-digit numbers. Did that answer your question?

Greg McKinley - *Dougherty - Analyst*

Thank you.

Operator

Your next question is from the line of Sharon Zackfia. Please proceed.

Sharon Zackfia - *Analyst*

Hi, I had a couple of questions. And please don't hang up on me. So on your new CapEx guidance, it looks like by the end of the year you'll be brushing up again 60% debt-to-cap and I am just curious how much leverage are you willing to take on?

Michael Robinson - *Life Time Fitness Inc. - Chief Financial Officer*

Well I think that -- we look at this in a couple of ways. The first way we look at is, what's our overall leverage from an EBITDA leverage perspective. And right now, we're right in the three times area which we believe is very conservative. And, as we model out in the future, it holds right in that area. So, to see us, you know, we've a lot often times talked about net-debt-to-total capital, of 55% to 60% we're comfortable with that, we remain comfortable with that.

Sharon Zackfia - *Analyst*

And then a question for Bahram on the WellBridge Club. How are those acting? I mean do they kind of look and feel like first year a Life Time Clubs? I mean how should we expect them to mature, considering most of them are in your core market in Minneapolis. Are they going to mature at the expense of your existing clubs or how should we think about that?

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

That's a good question, Sharon. You know the Minneapolis market obviously is a very very mature market from the standpoint of the clubs in the category of what we have and, you know, what we have to taken on. After we remodel these clubs, the experience in the clubs are going to be significantly better than what we've had. I think we will see increased memberships in the overall portfolio of the twin cities or the relative clubs.

We also should see a better mix of pricing, more reasons for people to upgrade to advantage clubs and/or athletic clubs, advantage memberships and athletic memberships to be able to be use these facilities once they are worthy of being used. Right now all I can say to you is what I said earlier, the only facility that you would walk in and have the total Life Time experience is the first one we finished remodeling makeover in March. The results have been fantastic in that club, both in membership acquisitions, customer satisfaction, the NPS scores and we are not there with the other six. You know, we have two or three

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clubs of the rest of them that are very close in the next few months, two - three months being completed 100%. And once we are completed 100% is when I expect to see the real change in the membership attitude as well as membership financials. You know, the dollars and the average and in-center revenues. So, I say that the bulk of the improvement in the financials are yet to come from where we bought these clubs, not what you have noticed in the last 12 months.

Sharon Zackfia - - Analyst

Okay. And just curious, do you have ballpark figures of what your market shares is like in Minneapolis?

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

The ballpark is we have -- I believe we have about 10% of the Minneapolis/St. Paul population as members of our club, and that's the ballpark. So, don't -- I think it may be half a point up or down from that.

Sharon Zackfia - - Analyst

Okay. Thank you.

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

Pretty impressive. Thank you.

Operator

Your next question is from the line of Hardy Bowen. Please proceed.

Hardy Bowen - - Analyst

Bahram, raising some of these costs to \$79, is your intention to hold the membership at 10,000 to 11,000 or actually reduce the membership then these costs?

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

Good question, Hardy. First of all I want to emphasize this, we've changed these prices to \$79 for all of those clubs. That \$79 is in place for the new members. We haven't gone back. And just for point of clarification, with those 5 clubs we didn't go back and take the dues up on the existing members.

Hardy Bowen - - Analyst

Right.

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

Now, that doesn't mean we won't do that. You know, all it means is that for right now the old members get to enjoy the prices they paid and the new members that are coming at little higher prices and at some point in the future, I mean they get to catch up over a couple, two - three years.

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Now, lets go back to your next question. Some of the clubs that we have gone with this dues change, there may be in the 9,000 to 10,000 memberships as we made the change like Plano and we don't expect those memberships to come down. In fact we intent to maintain the number and/or slightly raise them by the 10,000 memberships or few 100 more or less. But some like the facilities in Burr Ridge in Chicago, the membership is at 12,000 plus and I would like to see that come down with time. It's not going to happen overnight; it's not going to happen in a month or two or five or six. But I expect that hopefully two years from now, we have a much larger percent of the membership paying the \$79 a month and maybe the membership has come down from 12,000 to 11,000 or 10,500.

But, I am very comfortable with these clubs operating at 10,000, 10,500 memberships, you know, and I don't like it when there are 12,000 and I've told you guys that before.

Hardy Bowen -- Analyst

Right, absolutely. And I guess in some markets we've opened up at \$49 a month and then after a period of time maybe 9 months or something we've raised them to \$59, is that \$49 pricing is some thing you would plan to continue or as time goes by, do think more or like we'll just open them at \$59 and that will be it?

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

That's another great question. You know, we are going to keep it available so that we have the option to open clubs at \$49 if we feel that that's the strategy to start. But, you know, when I went to our Cincinnati facility for the grand opening, just a gorgeous facility, beautiful and we were selling mix of \$49 and \$59. You know, I came back and told our COO that as soon as they are able and they haven't made any advertising commitment to raise the price to only \$59. The clubs are truly way too nice to be sold at \$49 a month.

Hardy Bowen -- Analyst

I agree.

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

And so, what we expect to do -- but I'm not going to commit you and put ourselves in a box that we wouldn't do \$49, but you are going to see more clubs priced at \$59 price point than \$49.

Hardy Bowen -- Analyst

Okay. And your thoughts on the Houston unit versus the Galleria, would you think pricing that at \$79 and then maybe raising it to \$99 later on, are there any thoughts on that?

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

No, that club is going to coming in at \$119.

Hardy Bowen -- Analyst

I see. Okay

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

At an initial price point as in athletic club. So the point of clarification is close to Galleria but it's not in Galleria.

Hardy Bowen - *Analyst*

Yeah, I know it's west.

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

However, I can tell you guys we are very, very comfortable with that product and the price point. I am very excited, very confident those boxes are going to do just as fine as the rest of them.

Hardy Bowen - *Analyst*

And I guess in the New York City area the unit that we were thinking of has been held by environmental concerns. I think bats or something. But, what's happening with other units and what is your thought on the suburban prototype for these New York City markets?

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

We have a number of clubs now that they are approved and they are scheduled to construction start the [Florum] part facility you are mentioning. We now have the necessary approval to start construction and that construction is scheduled to start around October. We feel very confident that that date is real.

Hardy Bowen - *Analyst*

Okay.

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

We have the plans done, we have the certification of the plans. We are in the permit point and the bats hopefully are done with their business, with their mating business by that time and we can get started.

Hardy Bowen - *Analyst*

Alright. I want to offer my congratulations on getting the first unit around New York City.

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

That's right and we're excited.

Hardy Bowen - *Analyst*

Okay. Thanks.

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

Thanks.

Operator

Your next question is from the line of Scott Mushkin from Banc of America Securities.

Carolyn - *Banc of America Securities - Analyst*

Hi, guys this is actually Carolyn calling in for Scott. You mentioned earlier, you know, some of the fears around housing and the economic slowdown and that you hadn't seen a lot of those pressures and maybe some people are expecting. As a caveat, would you mind kind of going into what you're seeing out of the Detroit market which might be one of the more difficult markets that you're in economically and what's worked, any lesson that you've learned from that that you are applying throughout the rest of the store base?

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

You know, Detroit market has been a great market for us for this very reason to have the proof of the [pudding] in my opinion. We've been in that market now for about 7 years, I think we had the construction start in '99 -- '98

Michael Robinson - *Life Time Fitness Inc. - Chief Financial Officer*

Yep it's '99

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

And so, the market has been extremely stable. Our memberships are great, the clubs are -- all clubs are full, members are happy. We have had --- we have not seen pressures. This is again back to what Mike Robinson said to you guys earlier. The membership that we attract isn't easily affected by the consumer changes, that's not our market. That is not the customer base that we are after. And what I mentioned is that the, you know, the housing problems aren't really reflecting in the commercial real estate as well and again on that when I talk to other major construction companies, leaders, and development companies, I hear the same thing from them. We are not seeing all of this fear that we are sensing in Wall Street regarding housing effecting everything else.

Michael Robinson - *Life Time Fitness Inc. - Chief Financial Officer*

Another way to look at it is that we started with two facilities in 1999 - 2000 timeframe, we continue to invest. We now have six facilities in Detroit and performance is excellent.

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

Okay, we got to move quickly. I think we have six more questions or four more questions in six minutes. Fire away folks. Hello?

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Operator

Your next question is from the line of Vivian Ma from CIBC World Markets.

Vivian Ma - *CIBC World Markets - Analyst*

Hey good morning. I have a couple of questions. First of all, I want to tag on to this other interesting question regarding the different price points in your centers. For the \$49.99 membership price point, do you think you need those customers because your club need a certain base to cover the operating cost or maybe you know, and then further what percentage of your operating profit at the center level comes from the slowest tier?

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

It's a good question. It's not -- you know, when we started the club we really like to -- we don't want to have too many members and we don't want to have too few of members, because then many of the programs, if I teach a spinning class, I don't want to have 10 people in my class, I want to have 40 people. And the customer experience is better if the class is fuller. So, the balance in the flow of membership and just how all the things will work is important. So, as a company we don't want to give our leash to you guys and getting ourselves in a pigeon hole of 'this is our price.'

What we like to do is we like to have the range that we have created so we can manage our membership and manage the experience. So, sometimes we might want to have that \$49 available for competitive reason or managing experience to get the customer base in, to have enough bodies in the club to make things work right. And then when we feel like we have accomplished that, the membership is ramping too fast or we want to get a different blend of customers, we adjust it. So, what I will tell you guys again, the trend that you guys should see is lesser of the \$49 and more of the \$59, \$79 and \$119, however, we will leave that door open to use it when we need to.

Michael Robinson - *Life Time Fitness Inc. - Chief Financial Officer*

Vivian as you can imagine, on average if you got a demographic that can afford \$59 or \$79 you are generally going to see higher in-center revenues than the \$49. So, ultimately the waiting and the advantage, as we move up and can attract higher demographic there is a benefit to us.

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

So that is the direction we're heading.

Vivian Ma - *CIBC World Markets - Analyst*

Okay. Great, I am going to save my second question for later and let some one else go. Thanks very much.

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

Thank you.

Operator

Your next question is from the line of Kathryn Thompson from Avondale Partners. Please proceed.

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Kathryn Thompson - Avondale Partners - Analyst

To followup on your G&A comments earlier in the call, you did note that we do have easier comps year-over-year because stock compensation, is the entirety of the decrease due to that factor?

Michael Robinson - Life Time Fitness Inc. - Chief Financial Officer

No, no. We actually saw improvement in G&A comps even if you exclude that, which by the way we expect and should see as we continue to drive leverage in the business.

Vivian Ma - CIBC World Markets - Analyst

How much of that? I mean would you say, you know, 30%, 40%, 50% of that?

Michael Robinson - Life Time Fitness Inc. - Chief Financial Officer

Yeah. It's in that area. I mean that's how we -- you know, I think first quarter was in the 40, 50 basis point and second quarter been right in that same area.

Vivian Ma - CIBC World Markets - Analyst

Okay. For that stock compensation just to clarify?

Michael Robinson - Life Time Fitness Inc. - Chief Financial Officer

The non-adjusted growth or if you take stock compensation out, you would continue to see 30, 40, 50 basis points of G&A leverage improvement.

Vivian Ma - CIBC World Markets - Analyst

Okay. Also for your -- I know that you mentioned early about 40 to 50 - 45 million for new headquarters but also updates of your WellBridge, breaking out how much of that 40 to 45 is of your new headquarters?

Michael Robinson - Life Time Fitness Inc. - Chief Financial Officer

It's about \$15 million this year.

Vivian Ma - CIBC World Markets - Analyst

That will all be recognized this year?

Michael Robinson - Life Time Fitness Inc. - Chief Financial Officer

Yeah, it was a little bit last year and it will be rest of it this year.

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Vivian Ma - CIBC World Markets - Analyst

Okay. And as far as tightening on a little bit and this is just a broader question you can answer. I know, there is with the New Jersey utility that there has been some delays in opening that, and there is just kind of the inevitable that happening when you get to more popular markets on the East and West Coast, what strategies are you doing to combat those delays or manage around those delays, versus I mean relatively easier markets, you know, Texas and Minnesota being good attendance?

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

That's a great question. We expect delays. We expect slower processes but therefore we have -- from many, couple -- two to three years ago we have ramped our activities so, we have more deals that they are in the pipeline. You will see more deals coming out of the pipeline from here going forward. I am not going to kind of reflect on it right now, but things are looking very good.

Vivian Ma - CIBC World Markets - Analyst

Okay. What's the overall and I'm going to imagine that just from these delays there are some added costs, for instance for this New Jersey facility. Can you quantify what those would be or others, with those delays are other added costs included in your ROIC calculation?

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

It's all included.

Michael Robinson - Life Time Fitness Inc. - Chief Financial Officer

They're always included.

Vivian Ma - CIBC World Markets - Analyst

Okay. All right, thank you very much.

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

You are welcome. Any more questions?

Operator

I would now like to turn the call back over to management for closing remarks.

Michael Robinson - Life Time Fitness Inc. - Chief Financial Officer

With that, I would like to thank you for participating. We look forward to reporting our third quarter '07 results which tentatively have been scheduled for Thursday, October 25th at 10 a.m. Eastern. Thank you and have a great rest of the day.

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Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a wonderful day.

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