FINAL TRANSCRIPT

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LTM - Q3 2007 Life Time Fitness Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the third quarter 2007 Life Time Fitness earnings conference call. My name is Michelle, and I'll be your coordinator for today. (OPERATOR INSTRUCTIONS) I would now like to turn the presentation over to your host for today's call, Mr. Ken Cooper, Senior Director of Finance. Please proceed, sir.

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

Good morning, and thank you for joining us on today's conference call to discuss the third 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 our business and the third quarter. Following that, Mike Robinson, our CFO, will review the quarter and year to date financial information in greater detail. Once we have completed our prepared remarks, we will take your questions until 11:00 a.m. eastern time. At that point in the call, the operator will provide instructions on how to ask a question.

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Finally, a replay of this teleconference will be available at our website at approximately 1:00 p.m. eastern time today.

Before I turn the call over to Bahram, I'd like to remind everyone that this conference call contains forward-looking statements, and future results could differ materially from the forward-looking statements made. Actual results may be affected by many factors, including the risks and uncertainties identified in this morning's earnings release and in our SEC filings.

Concurrent with the issuance of our third 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 EBIDTA. We've included reconciliations 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 data 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 - Chairman, CEO, President*

Thank you, Ken. I'm pleased to report to you another strong quarter by our company. Our revenue increased over 25%, and our net income increased over 34% during the quarter.

Several underlying trends driving our success remain strong. As a matter of fact, in this constant state of worry about the macroeconomics and the ability of the consumer, we saw our average dues increase and our average in-center revenue per membership tick up to 9% this quarter. That tells me that our members continue to react well to our value proposition.

To ensure this reaction -- to ensure this reaction continues, we focus on efficient operation and our growth strategies, including the opening of new centers, balancing membership brands and price, and generating new in-center business opportunities.

Mike will discuss some of our pricing and in-center results shortly, but I would like to address the new center component with some additional detail. First, we completed a couple of small acquisitions towards the end of the quarter. As was the case in all of our other acquisitions, these were purely opportunistic, and gave us access to attractive real estate in northeast area of Twin Cities and in Highland Park area of Dallas.

As I like to say, these facilities have the bones to deliver the lifetime level of customer experience after we have completed redesign and remodel. Our job now is to implement our best practices and processes, as well as our operating expertise, to make these changes.

This takes time, and includes significant level of remodeling. Until all of our processes and programming are in place, and the remodels are fully completed, you should expect these smaller centers to behave like first-year centers, and not provide meaningful contribution until later next year, or 2009.

I'm also pleased to announce that we have begun construction in eastern -- on our first center in Northeastern United States, which will be in Florham Park, New Jersey. This facility will be our standard two-story core model, and will be 115,000 square feet. We are very excited to get this facility open.

If the weather cooperates, we expect this center to open in the fourth quarter of 2008, and be one of the ten centers we will open next year.

One other metric worth noting was our operating margins were up 160 basis points, driven by leverage in our G&A expenses. And for the first time in several quarters, we saw improvements in our in-center operating margins.

With that, I would like to turn to Mike to talk to you more in depth about our financial performance during the quarter. Mike?

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

Thanks, Bahram. As Bahram indicated, we're doing very well through the three-quarter mark of the year. For the third quarter, total revenue was $169.5 million, up 25.8% from last third quarter. We are up 30.1% year to date, to $484.7 million.

As Bahram mentioned, these metrics and others I will discuss reflect our Wellbridge transaction, which anniversaried in late July.

This strong growth continues to be driven by two main factors, including membership dues growth of 25.9% for the quarter, and 30.1% year to date. Just as important as this growth is the difference between our dues growth and our membership growth. The difference was over 1,000 basis points for the quarter, which is quite remarkable, and the biggest variance we've had since 2003.

The drivers for this include the center classification changes of moving new, individual membership dues from $59 to $79 at five centers that we enacted in June having strong impact in the third quarter.

In-center revenue grew by 30.8% in the quarter, and 34% year to date. This performance continues to be driven by new services, products, and programs in each of our in-center businesses, better participation and use from our new and existing members, and optimizing the business functions for better, more consistent operations.

Let me take a minute to provide some highlights on our other metrics. Memberships at September 30, 2007 totaled 492,410, which is an increase of 15.1% from last Q3. With respect to revenue per membership, we generated a 5.3% increase to $345 in the quarter. And as Bahram mentioned, our in-center revenue per membership increased in the third quarter to $99, or a 9% increase over last third quarter.

On a year to date basis, revenue per membership grew 6% to $1,016, and in-center revenue per membership grew 9% to $294.

We generated a 5.1% increase in same store sales for the quarter. And we were down on a 37 month same store metric 0.3%. We saw some pressure on these metrics from the centers we are managing membership levels down to improve our member experience.

To give you a little bit of additional detail, one center for which we're not managing memberships down is Schaumburg, Illinois, since it is at an appropriate level. Its comp was above our expected range of 2% to 4%.

However, our center in Burridge, Illinois, which had membership levels in excess of 12,000 -- and by the way, annualized revenue of approximately [$17,000] and EBIDTA margins in excess of 45% -- was recently moved to the $79 individual price point. This center had a negative comp, since we are in the process of bringing membership levels down to ensure a better member experience. This is the case with several other centers.

Year to date, we generated growth of 6.3% for same store sales, and 1.2% in the 37 month metric. In the third quarter, we had one current model center and seven Wellbridge centers enter the 13 month comp base. As expected, the Wellbridge centers had limited impact on the comp base due to coming in with a more mature membership base. We had two additions to the 37 month comp base.

Moving to our margin analyses, the company's operating margin increased to 22.2% from 20.6%, as compared to the prior third quarter. Year to date, our operating margin has increased to 20.6% from 19.5%. The main drivers of this margin improvement in the quarter were 70 basis points of G&A leverage, 50 basis points of marketing leverage, and 10 basis point improvement in our center operations.

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The G&A margin improvement was driven in part by economies of scale in the many transaction processing functions of our central administration function and structure.

Our center operating margin was 42.4% for the quarter as compared to 42.3% from the prior quarter. Year to date, our center operating margin is 42% as compared to 43.3% for the same period last year. The year to date margin change is down due to the first two quarters' non-anniversaried results from the Wellbridge transaction.

Continuing down the income statement, income from operations was $37.5 million for the quarter, up 35.1%. For the year, we're up 37.6%.

Interest expense net of interest income increased to $7.1 million from $4.2 million last third quarter, as we continued to grow our new center base and our corresponding average debt balance growth in the first part of the quarter.

For the year, total interest expense was $19 million. I will provide some additional information about our recent capital structure initiatives shortly.

Our tax rate for the quarter was 40.3% as compared to 42.6% last third quarter. In July, I told you to expect our effective tax rate for the third quarter to approximate 42% due to the recent enactment of a new Michigan income tax. While this new Michigan income tax did go into effect, we saw only a minimal impact on the expected one-time repricing increase in state deferred tax liabilities, since very late in the quarter, the Michigan legislature approved a change which limited the repricing effect, which we did not expect in this quarter.

In total, this had approximately a $0.01 impact on third quarter results.

We are -- we now expect to have our total year 2007 tax rate to be slightly above 40%, which is in line with our thoughts at the beginning of the year, with a slight upward adjustment for state tax changes.

Net income for the quarter was $18.4 million, compared to $13.6 million last third quarter, or up 34.5%. Our net income margin for the quarter increased 10.8% from 10.1%. And for the year to date, net income is $49 million, up from [$40], 34.3%. And our net income margin has increased to 10.1% from 9.8%.

Total weighted average diluted common shares totaled 38.3 million shares for the third quarter. We now expect our total weighted average diluted share count for the fourth quarter to increase to 39.5 to 39.7 million, and our total year 2007 share count to be approximately 38.1 to 38.3 million shares, which reflects the stock offering completed in Q3, which I will discuss shortly.

Based on our 2007 third quarter weighted average share count, our diluted EPS for the quarter was $0.48, up from $0.37 in the third quarter last year, or 30.2%. Year to date, our EPS is up 31.3% to $1.30.

Moving to our operating data, the number of open centers at September 30, 2007, was 67, compared to 57 at September 30, 2006. Our current number of open centers is 68, with our South Austin, Texas center opening earlier this month.

Of the 68 centers, 37, or 54%, are current model, and only 53% of all the centers have been open three years or more, which we classify as mature centers.

EBIDTA totaled $52.8 million in Q3, up 32.9% from last third quarter. Year to date, EBIDTA is up 32.6% to $144 million. EBIDTA margin for the quarter was 31.1%, which was 60 basis points better than last year's third quarter. Our EBIDTA margin year to date was 29.7%, which is also up 60 basis points from the same period last year.

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Cash flow from operations totaled $107 million year to date compared to $103 million year to date, 2006. Cash outlays for capital expenditures for the quarter were $110 million, which includes approximately $73 million related to growth or construction of new centers and $37 million related to updating our existing centers, including the Wellbridge centers, our corporate infrastructure, and our third quarter acquisitions.

During the third quarter, our overall debt balances reduced by approximately $40 million to $488 million as of September 30. Our net debt to capital ratio decreased during the third quarter to 46.9%, as compared to 53.9% from the last quarter.

In capital structure news, as I mentioned earlier, we completed an equity offering on August 29th. This was a result of taking advantage of the increased demand for our stock after being placed in the S&P mid-cap 400 index. We received net proceeds of approximately $92 million on the sale of 1.5 million shares, plus the underwriter's 175,000 share over-allotment option. Net proceeds were used to partially pay down our revolver.

In addition, we entered into a floating to fixed rate interest rate swap, effective in early October. Although this had no impact on our total debt outstanding, it did lock in approximately $125 million of our revolver debt at slightly above 6% for three years.

Both of these supplement our main financing strategy, which remains unchanged -- that is to have a capital structure that allows multiple options to support our growth. This includes our strong operating cash flow, our $400 million revolver, and our option to do several forms of additional financing, including mortgages on operating centers.

As of September 30th, we have $133 million available on our revolver. As of today, we have 21 current model centers with an asset value in excess of $400 million, with no mortgage financing against them.

Now let me discuss our updated guidance for 2007. From a development perspective, we will open ten centers in 2007, of which eight are already open. We plan for the last two centers to open in November and December.

For 2008, we currently have all ten centers under contract, including seven land parcels that we have purchased and three properties we expect to finalize to purchase or lease in the near future. This includes our first New Jersey site, which Bahram mentioned earlier.

Our revenue guidance is increased to 27% to 28% growth, which points to approximately $652 million to $657 million, up from our previous guidance of 26% to 28% growth, or $645 million to $655 million. This reflects a small amount of planned revenue from the two small acquisitions in the third quarter.

We expect net income growth of 31% to 33%, which equates to approximately $66.5 million to $67.5 million, up from 29% to 31% growth, or $65.2 million to $66.2 million.

This results in diluted EPS guidance of 28% to 30% growth, which equates to approximately $1.76 to $1.78 per share, up from 27% to 29% growth, or $1.74 to $1.76 per share.

Our CapEx guidance is increased to $380 million to $400 million, mainly to reflect the acquisitions we made in the third quarter.

Our 2007 new center construction costs have remained stable, with a 3% to 4% increase over last year.

Insignificant remodel spend to be done on the newly acquired centers would not take place until 2008 or 2009.

As we -- as has been our policy since we went public, we will provide full visibility to our 2008 expectation in conjunction with our fourth quarter and full year results conference call in the second half of February.

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That concludes our prepared remarks regarding the third quarter 2007 financial results. We are pleased to take your questions now.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) And our first question comes from the line of Paul Lejuez of Credit Suisse. Please proceed.

Paul LeJuez - *Credit Suisse - Analyst*

Hi, guys. Paul LeJuez.

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

Good morning, Paul.

Paul LeJuez - *Credit Suisse - Analyst*

Hi. Now that you've anniversaried the Wellbridge acquisition, you said that it really didn't have much of an impact to comps. Did it have any impact on any of the other operating metrics, like in-center revenues per membership? What was the impact of the expense rate? Anything that you can share in terms of any other impact, aside from comp?

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

Paul, this is Bahram. The only area that I think it's significant is the total membership growth. This was because they -- they really do not react in terms of the customer satisfaction, membership ramp, anything like that. They've been very, very stable, and have had no growth on memberships until we absolutely complete the entire remodel.

Now I want to mention clearly that of all the clubs we have done in this acquisition, the only one that completion of the remodel was complete and we saw significant membership ramp, and that was in first quarter, was the club we acquired early of Wellbridge, separate from the rest of the transactions, in Maple Grove.

The other facilities, we have three of the facilities that will complete 100% remodel, Boca, one large facility in Minneapolis, Flagship, and Oakdale. We finish those three -- just literally in the next 30 days, they all will be 100% complete.

And as we are getting really close to this completion, it's just now when we see the customer satisfaction go way up and the membership ramps starting to increase significantly. So I expect a membership increase on those clubs next -- starting now and the next 12 months, whereas we've had no increase on membership on those specific clubs for the last year.

Paul LeJuez - *Credit Suisse - Analyst*

What sort of an increase do you expect? Can you share that?

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

It won't be -- it won't be like barn burning, but there will be significant, like Boca, where my expectation of that club should be north of 3,000 membership, 3,500 membership is where I'd like it to be, when we're complete with the membership ramp. And when we bought it, it was around 2,000, and still about 2,000. And it will not move until the completion of the -- 100% completion of the remodel.

Now we're almost 95%, 98% as of the last week or two. And that's exactly when we've seen -- we're seeing now where we're going to end up this month, as an example, with a net membership of maybe about 50 units or something.

So that's when you see the ramps take place. Same thing with Flagship, which is a large facility in Twin Cities, (inaudible) that one had been staying complete flat over the length of time we had had it, until the remodel on that will be on in the middle of November. And we expect to see much increased membership, net memberships each month, relative to what the membership goals are.

Paul LeJuez - *Credit Suisse - Analyst*

Is that because you kick up marketing a little bit once the remodel is complete?

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

No, not really. It's because the clubs, when we buy them, and I emphasize this, we buy these when we feel like they have the right bones to convert them to a Life Time experience. But they don't necessarily have that experience when you go in. They have dysfunctional systems, processes, membership, everything.

And when you completely get them remodeled with our design and with our touch, with our flow, and then we check our system and staff and department heads, and they're fully trained for the new systems, put them in, change the energy of the club, that's when we see the membership saying, oh, wow, we get it now. And start -- talk to their friends, neighbors. And that's when we start seeing the uptick.

We will start marketing them as well, where in a lot of cases, in these facilities, we've done virtually no marketing, because it's worthless to try to advertise for something that doesn't look good when the customers come in.

Paul LeJuez - *Credit Suisse - Analyst*

Right. And just one more. Mike, you mentioned an improvement in in-center margins. Just wondering what drove that. Was there a mix shift in there, or are you talking margins improved on like services?

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

Okay. I think Bahram said in-center -- actually, it's overall center margins actually improved for the first time in six or seven quarters, up about 10 basis points. That said, in-center margins actually continued to improve also, and that is driven by mix and it's driven by efficiency, as these -- as these -- as you all know, in-center margins are lower than our normal center margins, and that's okay for us, because it -- the incremental revenue and the incremental profit really help drive our returns.

But we are focused on improving those margins, and that -- and that's really coming from efficiencies and mix. For instance, as you grow your personal training group classes, that comes at a better margin than one on one does, just one example of that.

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Paul LeJuez - *Credit Suisse - Analyst*

Got you. Thanks and good luck.

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

Thank you.

Operator

And our next question comes from the line of Tony Gikas of Piper Jaffray. Please proceed.

Tony Gikas - *Piper Jaffray - Analyst*

Thank you. Good morning, guys. A couple of questions. In terms of center acquisitions, how should we look at these going forward and plan for these? Two a year, four a year? Maybe you could just give us a quick comment on what the valuations look like on these types of transactions. And then Mike, a housekeeping question. Were you going to help us out with interest expense for next year? And then I have a follow-up.

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

Yes. This is Bahram. I'll answer you as to acquisitions. Don't plan anything. We don't -- as we've said before, we do not have any plan that would say we're going to do X number of acquisitions a year. It's purely -- I wanted to have a facility in Highland Park area of Dallas, and our option was to find a new space to lease and build a facility, because it's not the appropriate market to do a prototype, where you can't just find the type of land to do that. Or this was an alternative to doing a greenfield expansion of a smaller facility in that market.

Same thing in White Bear area of Twin Cities. So the -- they are not necessarily a targeted acquisition where we want to do X number of clubs in acquisitions this year. Purely it has to fit our growth strategy and a place that we would want to be anyway. And this would replace doing a real greenfield expansion.

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

Tony, your question on interest expense, 2008, we'll -- I'll give more detailed guidance on 2008 in February. For the time being, I guess what I would suggest is as you look at your model, interest expense has grown this year, as our -- overall, our average debt balance has grown.

What I would suggest is that you go into the model -- when we did our equity transaction in August, that $90 million or so reduced net balances. So just take that down. But obviously, as we continue to grow this business and finance the construction to (inaudible) growth, average debt levels will continue to increase.

So that's about all I can do -- tell you right now on that.

Tony Gikas - *Piper Jaffray - Analyst*

Okay. Just a couple of quick follow-ups, then. How do you manage members down? Are you taking pricing up, or -- and how many centers do you have this issue? And then how should we look at pricing for the next year? Should we planning a 2% average increase, or maybe you could help us there?

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

I will answer the first part of your question. This is Bahram. The -- I have clearly focused the company on the customer experience. As I have mentioned to you guys, we go to our facilities. We check the experience of the customer repeatedly, with executive audits. And there -- at certain level of membership, when these clubs get above 11,000 memberships, they are uncomfortable to our experience ourselves, that the customers, it doesn't matter how hard we try, we can't deliver the type of experience we want the customer to have.

So we basically have made numerous mentions in regards to this. We stop the marketing in these clubs. We increase the initiation fee in these clubs. We can take the dues up to a higher level, from $59 to $79.

So we dramatically choke the new membership sales in those clubs and let the attrition take its own course, so that the membership counts come closer to where we want them to be. And then, when that's done, at some point -- the reality is, in that club, as an example, that Mike mentioned, we have over 10,000 or 11,000 memberships today, and they have a base membership price of $59. And the club is now designated as a $79 price point.

When we start doing the catch-up in that club, you will see that the same store comps actually go up, the mature stores. We haven't done that yet, and we don't need to do that. We do it as we need to do to make sure the right experience and the right customer relationship will take place.

Focus is on that, and I think it's going to continue to give us great results. Now I want to turn it over to Mike for the second part of your question.

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

Okay. We had -- we've done specific pricing action that Bahram mentioned on seven clubs over the last probably nine months or so, eight or nine months, most of which we just did in the June timeframe. In addition to that, we also -- we continue to look at other pricing actions, like family and couple mix that we've done on clubs also, which expands beyond those seven clubs that I just talked about.

Tony Gikas - *Piper Jaffray - Analyst*

Okay. Great job. Thanks.

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

Thank you.

Operator

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

Scott Mushkin - *Bank of America Securities - Analyst*

Hey, guys.

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

Hi, Scott.

Scott Mushkin - *Bank of America Securities - Analyst*

That was pretty funny, actually. We can all laugh. That's not the first time that's ever happened.

So with the stock up quite a bit, and we've obviously been big believers in what you guys are doing, but I'm going to try to poke at some of the (inaudible) here in some of my questions. First, looking at -- the consumer's obviously been -- anything related to the consumers, the stock has come down. A lot of companies -- Coach was the latest one to show some pretty negative -- or indicate trends were somewhat negative.

What leaves you guys convinced that you are not going to see any significant pullback, or maybe haven't yet?

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

Okay. I will respond to that, Scott. As I've always said before, I think there is a lot of embedded opportunities within every company to do things better. We don't believe we have achieved all the opportunities that are within Life Time Fitness's capability to run a better customer experience, a better price positioning. All those things we have talked about repeatedly over the last quarters. We are fully engaged and committed to improve the customer experience so it's consistent all the time, the type of experience we want to create, the type of brand we want to deliver.

We also work on delivery of our services at a more efficient way. So in my opinion, many times there are macroeconomics that probably are a little stronger or a little weaker, but within capabilities of a company to do those things that they can do better, they are probably able to mitigate it.

Now if some companies, maybe Coach is one of them, that they were doing everything right and they had no room to improve their business model, or their experience or their brand, maybe they're tapped out from what they can do internally, and then the macroeconomic could affect them. But we still have lots of opportunities to do things better at lifetime.

Scott Mushkin - *Bank of America Securities - Analyst*

And Bahram, how do you deal with -- you guys obviously have this tremendous amount of exposure to Minneapolis. But the economy I think still remains relatively good up there. How do you guys think about that, as you look forward into '08? Clearly, as you gain market share and market, there must be more cyclicality to that business. Or am I thinking about that wrong?

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

Well, I think in Minneapolis/St. Paul, we are focused on our market share, the kind of customer we're interested in, which is pretty much everything from the very top to the middle. We're not interested in -- the customer base that is going from that level down hasn't been our strategy.

There is only so many of those customers in Twin Cities. And so what we need to do is make sure that the quality of the product and our services is satisfying all those people, and give them every reason to be a part of our group, and don't give them any reason to drop out.

Minneapolis/St. Paul obviously will be a very stable proposition. You wouldn't expect a lot of ups or down from that. In other markets where we are newer, and there is a lot more opportunity to build more additional clubs and fill up clubs that we have

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just opened the last year or two, well, then, we are just doing what the normal course of practice is for us, is to deliver the best product we can, do the marketing, and ramp up.

But I don't see anything significant to be different in next year than it was in last year.

Scott Mushkin - *Bank of America Securities - Analyst*

Okay. And maybe just one more, and I'll leave the floor here. I know [LA] Fitness is pushing into Minneapolis, but they're also doing a lot of work in Dallas and Houston. Maybe you could tell us a little bit about your experience.

Do you think customers would actually trade down to an LA Fitness as they enter a market? It's a decent offering. I know you guys have talked about it's certainly not what you guys do. But how do you handicap the ability to avoid that trade down for customers, if they want to continue to use a facility, but just pay a little less?

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

That's a great question. I actually answer you this way. My focus personally and as I'm driving the strategy of the company is to focus on exactly the type of customer I would like to acquire. So my focus is four years from now, five years from now, ten years from now, 1 million memberships, 2 million memberships, but I want the profile of that membership to be much closer to exactly what type of customers we want.

LA Fitness, 24 Hour Fitness. Gold's, (inaudible), all those types of facilities offer a basic fitness center experience, like a Hampton Inn does as a hotel -- as a motel. So the customer who wants to go there and forfeit receiving ample number of fresh, fluffy towels, and better customer service, and food, and spa, to save $15 a month or $20 a month, frankly, we don't really focus on that customer at Life Time.

So depending on the market, if the market is hugely blue collar, lower demographic, it's probably a better market for an LA Fitness type of box. If the market is more affluent, it's probably a better market for our type of product.

So we're not worried about them. In fact, I think LA Fitness will completely recapture the market share from [Bali's] and small fitness centers in the market. We absolutely welcome their entrance into the Twin Cities market. They have been no impact. They are literally within a half a mile of our location in Tempe Arizona. Less than half a mile to the north, and two miles to the south, and four miles to the west, and five miles to the east, with large facilities. Very large facilities. We're at 10,000 memberships or more.

So I just don't -- I don't think it's the same product. I think it's a good product for what they offer. I just don't think it's the same product.

Scott Mushkin - *Bank of America Securities - Analyst*

Great. Thanks very much for answering my questions.

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

You're welcome.

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Operator

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

Ed Aaron - *RBC Capital Markets - Analyst*

Great. Thanks. Nice quarter, guys.

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

Thank you, Ed.

Ed Aaron - *RBC Capital Markets - Analyst*

A couple of questions. First, I was hoping you could talk a little bit more about the northeast club that you're -- that you now have in development. I think there's been some concern in the investment community about your ability to achieve a good return on your invested capital in that club. Obviously, you believe you can, which is why you're doing it. But do you expect -- could you maybe give us a sense of how much you're spending on that club?

And then also, is the timeframe for getting the payback that you want, is it the same as what you expect in other markets?

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

Yes. This is Bahram. I don't think we have disclosed to you guys individually club by club what we exactly spend on every club, and I don't believe we're ever going to go ahead and do that. That's our nitty-gritty of the business, and we need to keep that for our intelligence, competitive intelligence. We don't want to disclose that.

But we are feeling extremely bullish about that facility. I believe we have the ability to have a very, very large number of members, at $120, $130 a month price point, or 11,000 plus memberships, if we want to, at the $79 price point. I don't think that will be a factor. We believe the dynamics of the market, the quality of our product, allows us to skin the cat virtually any which way we want.

So we're not worried about the returns. We obviously would not enter markets and go ahead and do facilities where we don't think we're going to get our rate or returns or ROICs that we're interested in. And we can't wait until that club is open. It will tell all stories.

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

Ed, at the end of the day, that club will be more expensive. But the cost of living in that area certainly is commensurate with, and for the membership base and other memberships of other facilities. So we feel very comfortable that we will achieve or exceed the return thresholds that we normally focus on.

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

And to add to this to you guys, at this point, I have a number of additional deals in the New York, New Jersey, Maryland, Virginia -- we have a number of additional deals in the pipeline. And sooner or later, they will become public news. We cannot wait to have a bigger presence in that area.

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Ed Aaron - *RBC Capital Markets - Analyst*

Great. Good to hear. And then also, Bahram, you had talked a little bit on the previous question about your -- the way you profile the types of customers that you're going after. And you may not agree with this characterization, but I've always kind of thought of you guys as like the country club for the everyman, so to speak.

In the context of that, I was -- I wanted you to maybe talk a little bit about the athletic signature program that you're working on, and the extent to which maybe you're going after more and more of a higher end customer over time. Do you ever see a scenario in which your concept is to be closer to the Four Seasons than something that's more middle of the road?

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

No. I think we will have both our -- Life Time Athletic clearly is the Four Seasons signature in kind of a comparison. And I would say our Life Time Fitness box is more of a Marriott. The difference in the two being not really the ambience of what we offer, because they're very nice either way. It's more about the number of memberships. So one is a high quality, high volume, and one is a high quality, lower volume relative to our Life Time Fitness.

And obviously, if the customer is paying north of $100 or $150 or $180 a month, they just need to have more elbow room. And the experience can never be less than their expectations. So it's a much higher delivery and much more tight in that.

The number of locations, in my opinion, that allow for the -- that market is not nearly as high as the number of locations where we can do the Life Time Fitness brand. But they're significant. We may have at some point in the future 250, 300 Life Time Fitnesses, and 50 or 60 Life Time Athletics. And so that's just a different market segment. That customer doesn't feel as comfortable in a Life Time Fitness, because they just want more of the elbow room.

But again, we pick and choose based on the exact demographic and (inaudible) of an area, should we drop a Life Time Athletic or Life Time Fitness.

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

Just to put it in some perspective, the number of athletic clubs is -- of our total portfolio today is less than 10% of all of our clubs. And the number of athletic memberships is less than 5% of our total. So it will probably increase, but it isn't going to dramatically drive the portfolio mix differently.

Ed Aaron - *RBC Capital Markets - Analyst*

Thanks. One more question.

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

Did that answer your question?

Ed Aaron - *RBC Capital Markets - Analyst*

It does. One more quick one for you, Mike, if I could. Just trying to reconcile the modest acceleration in your total revenue from membership growth versus your comment about [just did] pricing growth in the quarter, as well as the in-center revenue for membership that didn't change at all.

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

Sure. I'll just go through that. Revenue -- total revenue per membership was up 5.3%. That's ahead of any of the threshold marks that we go -- it's down slightly from first and second quarter, mostly because, if you think back to it, we started a lot of these pricing actions, especially with the inclusion of the Wellbridge clubs and things like that, in the third quarter last year. So a little bit tougher comparison on that, although clearly well within and in fact above the thresholds that we ultimately look for.

In-center revenue for membership actually ticked up slightly. It went from 8.9% last quarter to 9.0 % this quarter, and 9.0% on a year to date basis. Very stable, and right at the levels that we want and expect.

Ed Aaron - *RBC Capital Markets - Analyst*

Thank you.

Operator

And our next question comes from the line of Greg McKinley of Dougherty. Please proceed.

Greg McKinley - *Dougherty & Company - Analyst*

Yes. Thank you. Guys, I'm wondering if you could talk a little bit more about total membership growth. Bahram, I know you've already addressed maybe the refits of the Wellbridge transactions resulting in basically no membership growth at those facilities until those are done, as well as maybe some planned attrition with raising pricing tiers at certain facilities.

Outside of those factors, the 15.1% year over year membership growth, it's maybe a little bit less than I was looking for in the quarter. Can you give us some color for how the rest of your center base is maturing on plan, as well as maybe how pre-sales at some of these centers to open in the near term are looking for you?

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

Yes. I think, just big picture, I think there are three things there, and you mentioned two of the three. That the Wellbridge centers don't have -- don't have really any membership upticks yet, the fact that we are very, very, very focused on bringing the membership base down in several of these over-capacity centers.

And thirdly, even though we brought a couple of acquisitions on board in the quarter, we don't count those memberships until we've actually transitioned those into the Life Time Fitness system. So there's minimal impact on that, very, very minimal impact on that in the quarter.

So absent all of that, we look at that, and in aggregate, the revenue or the membership growth is where we expect it to be and think it should be.

Pre-sales, in general, again, there, they're on track. Again, in aggregate, on track for where they should be.

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Greg McKinley - *Dougherty & Company - Analyst*

Okay. Can you talk a little bit about your new multi-tier center plans, I think for those maybe a little bit more densely populated suburban markets? When -- can you refresh our memory when we should expect some of those facilities to be opening up, and where those are located?

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

In the third quarter, fourth quarter of '08, we'll have two of those facilities opening, one in Houston, and one in Chicago area. And there are more of those in the pipeline. And I just want to focus you guys one more time. In many of the markets we're going to, that it's not possible for us to buy 12 acres, they're still suburban. The one in Chicago is very much suburban. The one in Houston is kind of -- it's not in Houston. It's not downtown. It's an area that is a (inaudible) suburb that has been developed 50 years ago.

As we go into the markets where land is more scarce, this gives us the ability to do the same things we've done before, just do it on five or six acres of land. It opens up significantly more opportunities. We are working on more and more of those types of locations right now, as we work in markets like California or Northeast, etcetera.

So I just want to make sure that there isn't lots of emphasis put in as a variance of model or business type. It's just a way for us to fit our box into the areas where you can't buy 12 acres of land.

Greg McKinley - *Dougherty & Company - Analyst*

And are you -- do you think of those new markets -- will you as a result be trying for maybe a tighter radius to your club? Or will those serve the same general market size that your current prototype does?

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

I think when we look at the Life Time Fitness model, and just some of this is just pure statistical information. We look at geo-coding of our memberships, and some is just totally anecdotal. We just opened a club in South Boston a couple of weeks go, and talked to a member who for one half year, he has been driving literally 30 minutes to go to our North Boston location and come back to his house until this club opened up.

The more impressive and the more -- the more wow factor the facility has, it draws people from further distances. So when we go to a market, depending on how much better our facilities are, and the breadth of the offering, and the quality of the service, the customer may drive by two or three other what would be like a Hampton Inn type facility to come to us.

So that all depends on the market and how far they have to go to be able to get the type of quality and service we offer in our facilities. Generally, we look at the market, only the 12-minute drive time. That is the way we do our (inaudible). Twelve minutes drive time for the customer. That is the kind of demographic we look at to make sure we can draw all the memberships we need out of the 12 minutes.

Now when we do the geo-coding of our membership, we find sometimes as much as 20%, 25% of members are coming from outside of that 12 minutes. We're not going to count on it, but it's been there as long as we've been building the clubs. Does that answer your question?

Greg McKinley - *Dougherty & Company - Analyst*

Yes. Yes. Thank you.

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

You're welcome.

Operator

And our next question comes from the line of Gary Lenhoff of Ironworks Capital. Please proceed.

Gary Lenhoff - *Ironworks Capital - Analyst*

Thank you. Mike, one question. Your G&A declined sequentially by about $1 million from Q2. Is there anything special going on there? Or is that just --

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

No. That's -- I think if you actually went back and you tracked how the G&A flows year to year like that, you would see sequential declines in the second half of the year. It's basically how we set and -- some of our special projects and things like that, and the timing of that. Nothing beyond that.

Gary Lenhoff - *Ironworks Capital - Analyst*

Okay. And then if I could just come back to the new membership question, can you maybe give us a sense how many members, new adds there were in the quarter, that were attributable to the acquired clubs and the one new addition?

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

It is very little. Again, I don't -- we don't disclose specific enter information on things like that, but it is practically nil.

Gary Lenhoff - *Ironworks Capital - Analyst*

Okay. Looking at it a different way, maybe, you added -- it looks like you added about 2,900 new members net sequentially from Q2. Would the efforts to bring down your membership levels in those certain centers, would that have resulted in negative new adds had you not made the acquisitions, or -- I'm trying to get a handle on what --

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

Absolutely not.

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

The acquisitions have not been counted in the numbers, because those members, we don't count them, as Mike mentioned before, until we put them on our membership system. And we did this transaction in September, or on the last day of September, so they're not really counted.

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Gary Lenhoff - *Ironworks Capital - Analyst*

So none of those are in the 492,000 at the end?

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

Exactly.

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

Exactly. And if there are, very few. Maybe a few hundred or something. But as far as the -- as far as the other portion, the Wellbridge clubs virtually have no gain. So all the gain is in the legacy club. So the net gain of the membership is all in the legacy facilities.

Gary Lenhoff - *Ironworks Capital - Analyst*

Okay. So the way to look at this is you added about 2,900 new members in something like 50 clubs or thereabout, and that's after having reduced membership levels in --

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

In some of those.

Gary Lenhoff - *Ironworks Capital - Analyst*

-- a handful.

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

Yes.

Gary Lenhoff - *Ironworks Capital - Analyst*

Okay. Great. Thanks very much.

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

You're welcome.

Operator

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

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

Hey, Sharon.

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Tania Bykkonen - *William Blair & Company - Analyst*

This is actually Tania calling in for Sharon.

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

Okay.

Tania Bykkonen - *William Blair & Company - Analyst*

Just a quick question. On the operating margin expansion this year, you had a lot of it. Looking forward, what do you ultimately believe operating margin can reach, and then what would be a more typical rate of expansion that you would target on an annual basis?

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

The big picture, we have not given an ultimate goal on operating profit margin, other than to say that with the initiatives that we have, etcetera, we continue to see operating margin expansion for the foreseeable future, driven by G&A leverage. Ultimately, we expect the rest of the components generally to level out. They may bounce around quarter to quarter.

And I think clearly 160 basis points expansion year over year over year is not sustainable. I would be close -- somewhere in the mid-single digit, or in the mid 1% or less -- less than 1%.

Tania Bykkonen - *William Blair & Company - Analyst*

Okay. Thank you.

Operator

And our next question comes from the line of Michael Keara of Merrill Lynch. Please proceed.

Michael Keara - *Merrill Lynch - Analyst*

Good morning, guys. Can you hear me?

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

Yes. Yes.

Michael Keara - *Merrill Lynch - Analyst*

Not to beat a dead horse, but on this membership, [the 15.1%], basically I guess I'd just like to know if you hadn't raised the prices in some of those centers, would that -- I'm just sort of doing rough calculations. It looks like it would have been somewhere around a little over 16%. Or is -- you don't want to quantify that, and just directionally, it should have been --

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

Directionally, you're right.

Michael Keara - *Merrill Lynch - Analyst*

Okay. So around 16%. So it's -- okay. That's what I think people were just really trying to get at.

And one final question on the operating margins that you just talked about. A lot of it's going to come from G&A. But as I look out into sort of a little bit further out in the out years, it looks like (inaudible) there's obviously a lower margin business. That mix will sort of change for the better. And also I think you're going to be increasing pricing. I know you just did it this time around. So are those the two drivers of the margin expansion outside of G&A that we should look at?

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

Outside of G&A, you've got both upward and downward pressure on center operating margins, depending on the rate of the growth of the in-center business. So as it continues to grow faster, in general, that will have a downward pressure on center operating margins. However, most margins should be improving. So that will counter that a little bit.

And then -- you're absolutely right. As some price flows through, you should see a little bit -- you potentially could see some drive there also.

Michael Keara - *Merrill Lynch - Analyst*

Okay. Thanks a lot, guys.

Operator

And our next question comes from the line of Hardy Bowen of Arnhold & Bleichroder. Please proceed.

Hardy Bowen - *Arnhold & Bleichroder - Analyst*

Bahram --

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

Hardy, how are you?

Hardy Bowen - *Arnhold & Bleichroder - Analyst*

Okay. It's -- as you've raised some of the clubs from $59 to $79, what are your -- what are your thoughts on this, and for how you should be pricing new clubs in particular? Are there more that you would plan to raise to $79? Do you think that's a price point to use more often? And I guess Scottsdale, when you first put it at $79, it seemed like a very high number, and now it almost seems like a low number to me, when I visit Scottsdale.

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

Yes. That club is probably -- should have been even lower -- should have been higher than that. We -- you're asking the right question, Hardy. We -- I am talking to our pricing committee, basically operated under our COO, Mike Gerend, about ramping the prices more rapidly. We're changing more of the clubs that maybe have started selling the $49, the old fitness pricing, to just jump up to $59 immediately after the grand opening, and/or move the clubs from $59 to $79.

We are doing more of those now than we have in the past. Now I want to mention something to you guys so you have the right expectation. As we do these, you can't have your cake and eat it too. We're not expecting to sell that many memberships that we were selling at $59 at $79, the same numbers, and just get $79 for them. We are trading fewer memberships for the higher dues, but ultimately resulting in better revenues, slightly better revenues in the facility, and better customer experience.

So things are going exactly as we think they should be going. We're not seeing any surprises. We're not seeing anything different than what our expectations are, as we raise prices. The embedded opportunity is that where we have clubs where we have just slowed down the new memberships sales because the club was too overcrowded to -- from $59 to $79, but we literally have tens of thousands of memberships that are at $59 that should get caught up to $79.

We are not going to do that over one shot. I'm not going to take somebody's price from $59 to $79 in one year or one letter. But over the two or three years, we will get those members caught up to the $79 memberships. And there is lots of opportunities for our average dues to increase based on those.

Hardy Bowen - *Arnhold & Bleichroder - Analyst*

Okay. Sounds good.

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

Thank you so much, Hardy.

Hardy Bowen - *Arnhold & Bleichroder - Analyst*

Yes.

Operator

Ladies and gentlemen, this does conclude the question and answer portion of today's conference call. I would like to turn the presentation back over to Mr. Ken Cooper for any closing remarks.

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

With that, I'd like to thank you for participating. We look forward to reporting to you our fourth quarter and year end 2007 results, which tentatively is already scheduled for Friday, February 22nd, 2008, at 10:00 a.m. eastern. Thank you.

Operator

Ladies and gentlemen, thank you for participation in today's conference call. This does conclude your presentation.

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