LIFE TIME FITNESS INC
Form S-1/A
June 23, 2004

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As filed with the Securities and Exchange Commission on June 22, 2004

Registration No. 333-113764

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 4
to

Form S-1
REGISTRATION STATEMENT

Under The Securities Act of 1933

LIFE TIME FITNESS, Inc.

(Exact name of Registrant as specified in its charter)

Minnesota	**7997**	**41-1689746**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

6442 City West Parkway

Eden Prairie, Minnesota 55344
(952) 947-0000
(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Bahram Akradi

Chairman of the Board of Directors,
President and Chief Executive Officer
LIFE TIME FITNESS, Inc.
6442 City West Parkway
Eden Prairie, Minnesota 55344
(952) 947-0000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Kris Sharpe, Esq. **Faegre & Benson LLP** **2200 Wells Fargo Center** **90 South Seventh Street** **Minneapolis, MN 55402-3901**	**Christopher T. Jensen, Esq.** **Jodi L. Lashin, Esq.** **Morgan, Lewis & Bockius LLP** **101 Park Avenue** **New York, NY 10178-0060**

Approximate date of commencement of proposed sale to public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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SUBJECT TO COMPLETION, DATED JUNE 22, 2004

9,900,000 Shares

Life Time Fitness, Inc.

Common Stock

We are selling 4,383,577 shares of our common stock and the selling shareholders are selling 5,516,423 shares of our common stock. We will not receive any of the proceeds from the shares of our common stock sold by the selling shareholders.

Prior to this firm commitment offering, there has been no public market for our common stock. The initial public offering price of our common stock is expected to be between $17.00 and $19.00 per share. We have applied to list our common stock on the New York Stock Exchange under the symbol LTM.

The underwriters have an option to purchase a maximum of 1,485,000 additional shares to cover over-allotments of shares of our common stock.

Investing in our common stock involves risks. See Risk Factors on page 9.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Life Time Fitness	Proceeds to the Selling Shareholders
Per Share	$	$	$	$
Total	$	$	$	$

Delivery of the shares of our common stock will be made on or about , 2004.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston **Merrill Lynch & Co.**

Banc of America Securities LLC **UBS Investment Bank**

Piper Jaffray **William Blair & Company**

The date of this prospectus is , 2004.

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You should rely only on the information contained in this document. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

Dealer Prospectus Delivery Obligation

Until , 2004, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer s obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

(i)

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PROSPECTUS SUMMARY

The items in the following summary are described in more detail later in this prospectus. This summary provides an overview of selected information and does not contain all the information you should consider. Therefore, you should also read the more detailed information set out in this prospectus, including the financial statements.

We operate distinctive and large sports, athletic, fitness and family recreation centers. As of June 5, 2004, we operated 34 centers primarily in suburban locations across eight states under the LIFE TIME FITNESS® brand. In addition to traditional health club offerings, most of our centers include an expansive selection of premium amenities and services, such as swimming pools, basketball and racquet courts, child care centers and spas, in a resort-like setting. We believe our centers provide a unique experience at a compelling value for our members, resulting in a high number of memberships per center.

Over the past 12 years, as we have opened new centers, we have refined the size and design of our centers. Of our 34 centers, we consider 25 to be of our large format design, and of these 25 centers, we consider 13 to be of our current model design. Although the size and design of our centers may vary, our business strategy and operating processes remain consistent across all of our centers. Each of our current model centers targets 11,500 memberships by offering approximately 105,000 square feet of health, fitness and family recreation programs and services. Most of the centers that we have opened since 2000 conform to our current model center, and each of these centers has delivered growth in membership levels, revenue and profitability across a range of geographic markets.

Throughout our history, we have consistently increased our revenue by opening new centers, increasing the number of memberships per existing center and focusing on the sale of additional products and services in our centers. For each of the fiscal years from 2000 to 2003, we experienced annual revenue growth of 74%, 45%, 43% and 32%, respectively, with revenue of $256.9 million in 2003; annual EBITDA growth of 92%, 54%, 35% and 63%, respectively, with EBITDA of $80.0 million in 2003; and annual net income growth of 55%, 7%, 86% and 178%, respectively, with net income of $20.6 million in 2003.

Our Competitive Strengths

We offer comprehensive and convenient programs and services.

Our large format centers offer sports, athletic, fitness and family recreation programs and services and are conveniently located in high traffic suburban areas. Unlike traditional health clubs, these centers typically offer large indoor and outdoor family recreation pools, climbing walls and basketball and racquet courts, in addition to approximately 400 pieces of cardiovascular and resistance training equipment and an extensive offering of health and fitness classes, as well as child care, spa and dining services. We design and operate our large format centers to accommodate a large and active membership base by providing access to the centers 24 hours a day, seven days a week.

We offer a value proposition that encourages membership loyalty.

The variety of amenities and services we offer exceeds most other health and fitness center alternatives. Our monthly membership dues typically range from $40 to $60 per month for an individual membership and from $80 to $130 per month for a couple or family membership. Our value proposition and customer-focused approach create loyalty among our members, resulting in an attrition rate that was 6.3% better than the industry average in 2001 and 5.7% better than the industry average in 2002.

We have an established and profitable economic model.

Our economic model is based on and depends on attracting a large membership base within the first three years after opening, as well as retaining those members and maintaining tight expense control. We expect the typical membership base at our large format centers to increase from approximately 35% of targeted membership capacity at the end of the first month of operations to over 90% of targeted membership capacity by the end of the third year of operations. Average targeted membership capacity is approximately 10,500 for all of our large format centers and 11,500 for our large format centers that are current model centers. Average revenue at our 15 large format centers that were opened in 2001 or earlier exceeded $10.7 million for the year ended December 31, 2003. At these centers during the same period, EBITDA averaged 40% of revenue, including corporate, general and administrative expense of approximately 9% of revenue, and net income averaged approximately 15% of revenue. Our investment for a large format center has averaged approximately $17.8 million, and for a current model center has averaged approximately $23.5 million.

We believe we have a disciplined and sophisticated site selection and development process.

We believe we have developed a disciplined and sophisticated process to identify specific sites for future centers. This multi-step process is based upon demographic, psychographic and competitive criteria generated from profiles of already successful centers. As a result of our strict adherence to this process, we have never closed a center, and our large format centers produced, on average, EBITDA in excess of 21% of revenue and net income of less than 1% of revenue during their first year of operation.

We have a committed and experienced senior management team.

Our senior management team has extensive and diverse professional experience. This team is led by our Chief Executive Officer and founder, Bahram Akradi, who has worked in the health and fitness industry for over 20 years, our Chief Operating Officer, Michael Gerend, and our Chief Financial Officer, Michael Robinson. The talented senior management team brings experience from both inside and outside the health and fitness industry and has been instrumental in building and growing our company.

Our Growth Strategy

Drive membership growth.

New Centers. We opened four centers in 2003, and we plan to open six large format centers in 2004 in both new and existing markets, five of which will be current model centers and the first of which opened in June. We plan to open six current model centers in 2005 in both new and existing markets. We believe, based upon our data, that there is the potential for adding at least 225 additional current model centers throughout the U.S. in existing as well as new markets.

Existing Centers. Of our 34 centers, the nine that we opened in 2002 and 2003 averaged 65% of targeted membership capacity as of December 31, 2003. We expect the continuing ramp in memberships at these centers to contribute significantly to our growth in 2004 as these centers ramp toward our goal of 90% of targeted membership capacity by the end of their third year of operations. We also plan to continue to drive membership growth at other centers that are not yet at targeted capacity.

Increase revenue per membership.

From 1999 to 2003, we increased revenue per membership from $659 to $1,089. We believe the revenue from sales of our in-center products and services will grow at a faster rate than enrollment fees and membership dues. From 1999 to 2003, revenue from the sale of in-center products and services grew from $10.6 million to $54.2 million. We expect to continue to drive in-center revenue by increasing sales of our current in-center products and services and introducing new products and services, thereby increasing revenue per membership.

Leverage the LIFE TIME FITNESS brand into the broader health and wellness industry.

Our rapidly expanding membership base has allowed us to expand the LIFE TIME FITNESS brand into other wellness-related offerings. We plan to leverage the LIFE TIME FITNESS brand into other businesses in the broader health and wellness industry. We have developed and market a line of nutritional products, we circulate 500,000 copies of each issue of our magazine, *Experience Life,* and we attract an international field of participants to our annual LIFE TIME FITNESS triathlon.

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Risks Affecting Us

Our business is subject to numerous risks as discussed more fully in the section entitled Risk Factors immediately following this Prospectus Summary. In particular, if we are unable to identify and acquire suitable sites for new centers, are unable to attract and retain members or experience delays in opening new centers, we may not be able to achieve our business objectives. If our business continues to grow, the continued growth may place strains on our systems and our management team, which has never had direct responsibility for managing a publicly traded company. In addition, because of the capital-intensive nature of our business, we will need to incur additional indebtedness and, if we are not able to access additional capital, our ability to expand our business may be impaired.

Our principal executive offices are located at 6442 City West Parkway, Eden Prairie, Minnesota 55344, and our telephone number is (952) 947-0000. Our web site is located at www.lifetimefitness.com. The information contained on our web site is not a part of this prospectus.

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The Offering

Common stock offered by us	4,383,577 shares
Common stock offered by the selling shareholders	5,516,423 shares
Total	9,900,000 shares
Common stock to be outstanding after this offering	33,209,142 shares
Use of proceeds	We expect the net proceeds to us from this offering will be approximately $71.9 million, or approximately $78.4 million if the underwriters exercise their over-allotment option in full. We expect to use the net proceeds from this offering: to finance our growth by opening new centers; and for repayments of a portion of our indebtedness. See Use of Proceeds for more information. We will not receive any of the proceeds from the sale of the shares of our common stock by the selling shareholders.
Proceeds to the principal shareholders	$56.3 million
Percentage of common stock owned by the principal shareholders after this offering	55.1%
Proposed New York Stock Exchange symbol	LTM

The number of shares of common stock outstanding after this offering is based on the number of shares outstanding as of May 31, 2004, and excludes:

- 2,966,350 shares of common stock issuable upon exercise of options outstanding under our stock option plans, at a weighted average exercise price of $5.21 per share; and
- 3,500,000 shares of common stock reserved for future issuance under our stock incentive plans, of which options to purchase 1,071,000 shares of common stock are proposed to be issued in connection with this offering at an exercise price per share equal to the price of shares sold in this offering.

Except as otherwise indicated, all information in this prospectus assumes:

- no exercise of the underwriters over-allotment option;
- all outstanding shares of our preferred stock have automatically converted into shares of common stock as a result of this offering; and
- no outstanding options have been exercised since May 31, 2004.

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Summary Consolidated Financial Data

You should read the following summary consolidated financial data in conjunction with our consolidated financial statements and the related notes, our Selected Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

	For the Year Ended December 31,			Pro Forma for the Year Ended December 31,	For the Three Months Ended March 31,		Pro Forma for the Three Months Ended March 31,
	2001	2002	2003	2003(1)	2003	2004	2004(1)
	(In thousands, except per share data)						
Statement of Operations Data:							
Revenue							
Center revenue							
Membership dues	$ 94,652	$ 132,124	$ 171,596		$ 39,919	$ 49,179	
Enrollment fees	13,584	18,564	20,594		4,906	4,846	
In-center revenue(2)	25,191	38,270	54,237		12,931	16,919	
Total center revenue	133,427	188,958	246,427		57,756	70,944	
Other revenue	3,240	6,208	10,515		2,525	3,226	
Total revenue	136,667	195,166	256,942		60,281	74,170	
Operating expenses							
Sports, fitness and family recreation center operations	74,025	102,343	131,825		30,705	39,053	
Advertising and marketing	6,350	11,722	11,045		2,690	3,680	
General and administrative	12,305	14,981	18,554		5,759	5,950	
Other operating	4,458	10,358	16,273		3,603	4,557	
Depreciation and amortization	17,280	20,801	25,264		5,833	6,947	
Impairment charge(3)		6,952					
Total operating expenses	114,418	167,157	202,961		48,590	60,187	
Income from operations	22,249	28,009	53,981		11,691	13,983	
Interest expense, net	(12,035)	(14,950)	(19,132)		(4,563)	(4,612)	
Loss from extinguishment of debt(4)	(2,911)						
Equity in earnings (loss) of affiliate(5)	(301)	333	762		151	253	
Income before income taxes	7,002	13,392	35,611		7,279	9,624	
Provision for income taxes	3,019	5,971	15,006		3,067	3,977	
Net income	3,983	7,421	20,605	$ 20,605	4,212	5,647	$ 5,647
Accretion of redeemable preferred stock	6,447	7,085	6,987		1,723	1,737	
Net income (loss) applicable to common shareholders	$ (2,464)	$ 336	$ 13,618	$ 20,605	$ 2,489	$ 3,910	$ 5,647
Basic earnings (loss) per share	$ (0.20)	$ 0.02	$ 0.85	$ 0.72	$ 0.16	$ 0.24	$ 0.20
Weighted average number of common and common equivalent shares outstanding basic	12,360	15,054	16,072	28,701	15,984	16,156	28,785
Diluted earnings (loss) per share	$ (0.20)	$ 0.02	$ 0.72	$ 0.68	$ 0.15	$ 0.19	$ 0.18
Weighted average number of common and common equivalent	12,360	16,430	28,612	30,224	27,771	29,217	30,829

shares outstanding diluted(6)

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	December 31,			March 31, 2004		
	2001	2002	2003	Actual	Pro Forma(1)	Pro Forma As Adjusted(7)
	(In thousands)					
Balance Sheet Data:						
Cash and cash equivalents	$ 2,208	$ 8,860	$ 18,446	$ 2,307		$ 62,319
Working capital	(30,242)	(29,819)	(15,340)	(44,779)		15,233
Total assets	346,815	419,024	453,346	453,880		513,892
Total debt	176,727	231,320	233,232	219,111		207,242
Total redeemable preferred stock	96,973	99,179	106,165	107,902	$	
Total shareholders equity	13,014	18,547	32,792	36,811	144,713	216,594

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2001	2002	2003	2003	2004
	(In thousands, except center and membership data)				
Cash Flow Data:					
Net cash provided by operating activities	$ 32,609	$ 43,558	$ 52,576	$ 14,831	$ 20,783
Net cash used in investing activities	(63,928)	(31,350)	(24,476)	(3,223)	(19,532)
Net cash provided by (used in) financing activities	28,245	(5,556)	(18,514)	(3,442)	(17,390)
Other Data:					
Comparable center revenue growth(8)	12.4%	22.3%	13.2%	13.1%	12.5%
Average revenue per membership(9)	$ 878	$ 989	$ 1,089	$ 268	$ 287
Average in-center revenue per membership(10)	166	200	240	59	69
EBITDA(11)	36,317	49,143	80,007	17,675	21,183
EBITDA margin(12)	26.6%	25.2%	31.1%	29.3%	28.6%
Capital expenditures(13)	$ 94,923	$ 87,432	$ 81,846	$ 12,740	$ 25,587
Operating Data(14):					
Centers open at end of period	24	29	33	29	33
Number of memberships at end of period	173,875	215,387	249,192	229,851	267,474

(1) The statement of operations data for the year ended December 31, 2003 and the three months ended March 31, 2004 and the balance sheet data as of March 31, 2004 reflect the pro forma effect of the conversion of all the redeemable preferred stock into shares of common stock in connection with this offering.

(2) In-center revenue includes revenue generated at our centers from fees for personal training, group fitness training and other member activities, sales of products offered at our LifeCafe, sales of products and services offered at our LifeSpa and renting space in certain of our centers.

(3) For the year ended December 31, 2002, we recorded an asset impairment charge of $7.0 million related to our only executive facility, which is located in downtown Minneapolis, Minnesota, and a restaurant that we operate in the same building. The center is one of only two of our centers that are located in urban areas. This executive facility and restaurant differ significantly from our standard model and the initial cash flow results have not been as high as projected. Additionally, this facility and restaurant are located in a more costly geographic area of downtown Minneapolis. The charge represents the difference between the fair value of the assets as determined by discounted estimated future cash flows and the carrying amount of the assets.

(4) A loss on the extinguishment of debt of $2.9 million was recorded for the year ended December 31, 2001. The charge consisted of early extinguishment fees and the write-off of loan costs related to the original debt in connection with the refinancing of 10 of our centers.

(5) In 1999, we formed Bloomingdale LIFE TIME Fitness, L.L.C., referred to as Bloomingdale LLC, with two unrelated organizations for the purpose of constructing, owning and operating a sports, fitness and family recreation center in Bloomingdale, Illinois. Each member made an initial capital contribution of $2.0 million and owns a one-third interest in Bloomingdale LLC. The center

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commenced operations in February 2001. The terms of the relationship among the members are governed by an operating agreement. Bloomingdale LLC is accounted for as an investment in an unconsolidated affiliate and is not consolidated in our financial statements.

(6) The diluted weighted average number of common shares outstanding is the weighted average number of common shares plus the weighted average conversion of any dilutive common stock equivalents, such as redeemable preferred stock, and the assumed weighted average exercise of dilutive stock options using the treasury stock method. For the year ended December 31, 2001, there were no dilutive common stock equivalents. For the year ended December 31, 2002, only the shares issuable upon the exercise of stock options were dilutive. For the year ended December 31, 2003 and each of the three month periods ended March 31, 2003 and 2004, the shares issuable upon the exercise of stock options and the conversion of redeemable preferred stock were dilutive. The number of shares excluded from the computation of dilutive earnings per share was 14,247,600, 11,323,000 and 0 for the years ended December 31, 2001, 2002 and 2003, respectively, and 0 for the three months ended March 31, 2003 and 2004.

The following table summarizes the weighted average common shares for basic and diluted earnings per share computations:

	December 31,			March 31,	
	2001	**2002**	**2003**	**2003**	**2004**
			(In thousands)		
Weighted average number of common shares outstanding basic	12,360	15,054	16,072	15,984	16,156
Effect of dilutive stock options		1,376	1,522	1,340	2,043
Effect of dilutive redeemable preferred shares outstanding			11,018	10,447	11,018
Weighted average number of common shares outstanding dilutive	12,360	16,430	28,612	27,771	29,217

(7) Assumes the conversion of all preferred stock into 12,629,233 shares of common stock upon completion of this offering and the sale by us of 4,383,577 shares of common stock at an assumed initial public offering price of $18.00 per share in this offering and the application of the estimated aggregate net proceeds to us of $71.9 million after deducting underwriting discounts and commissions and estimated offering expenses payable by us of $7.0 million. We intend to use up to $15.0 million of the net proceeds to repay amounts outstanding under our revolving credit facility and, for purposes of this table, we have assumed that we will repay $3.0 million under our revolving credit facility, which was the amount that can be repaid as of March 31, 2004. Amounts repaid under our revolving credit facility may, subject to the terms of the facility, be reborrowed by us. We also intend to use approximately $8.9 million to repay a loan under our construction facility. See Use of Proceeds for an explanation of how the amount of indebtedness to be repaid may vary from this table. The as adjusted balance sheet data are presented as if this offering and the application of the net proceeds from this offering occurred on March 31, 2004.

(8) Membership dues, enrollment fees and in-center revenue for a center are included in comparable center revenue growth beginning on the first day of the thirteenth full calendar month of the center s operation.

(9) Average revenue per membership is total center revenue for the period divided by an average number of memberships for the period, where average number of memberships for the period is derived from dividing the sum of the total memberships outstanding at the end of each month during the period by the total number of months in the period.

(10) Average in-center revenue per membership is total in-center revenue for the period divided by the average number of memberships for the period, where the average number of memberships for the period is derived from dividing the sum of the total memberships outstanding at the end of each month during the period by the total number of months in the period.

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(11) EBITDA consists of net income plus interest expense, net, provision for income taxes and depreciation and amortization. This term, as we define it, may not be comparable to a similarly titled measure used by other companies and is not a measure of performance presented in accordance with GAAP. We use EBITDA as a measure of operating performance. The funds depicted by EBITDA are not necessarily available for discretionary use if they are reserved for particular capital purposes, to maintain compliance with debt covenants, to service debt or to pay taxes. EBITDA should not be considered as a substitute for net income, cash flows provided by operating activities or other income or cash flow data prepared in accordance with GAAP. Additional details related to EBITDA are provided in Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures.

The following table provides a reconciliation of net income, the most directly comparable GAAP measure, to EBITDA:

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2001	2002	2003	2003	2004
			(In thousands)		
Net income	$ 3,983	$ 7,421	$20,605	$ 4,212	$ 5,647
Interest expense, net	12,035	14,950	19,132	4,563	4,612
Provision for income taxes	3,019	5,971	15,006	3,067	3,977
Depreciation and amortization	17,280	20,801	25,264	5,833	6,947
EBITDA	$36,317	$49,143	$80,007	$17,675	$21,183

(12) EBITDA margin is the ratio of EBITDA to total revenue.

(13) Capital expenditures represent investments in our new centers, costs related to updating and maintaining our existing centers and other infrastructure investments. For purposes of deriving capital expenditures from our cash flow statement, capital expenditures include our purchases of property and equipment and property and equipment purchases financed through notes payable and capital lease obligations.

(14) The operating data being presented in these items include the center owned by Bloomingdale LLC. See also footnote 5 for a discussion of Bloomingdale LLC. The data presented elsewhere in this section exclude the center owned by Bloomingdale LLC.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below before participating in this offering. You should also refer to the other information in this prospectus, including our financial statements and the related notes. If any of the following risks actually occurs, our business, financial condition, operating results or cash flows could be materially harmed. As a result, the trading price of our common stock could decline, and you might lose all or part of your investment.

Risks Related to Our Business

If we are unable to identify and acquire suitable sites for new sports, fitness and family recreation centers, our revenue growth rate and profits may be negatively impacted.

To successfully expand our business, we must identify and acquire sites that meet the site selection criteria we have established. In addition to finding sites with the right demographic and other measures we employ in our selection process, we also need to evaluate the penetration of our competitors in the market. We face significant competition from other health and fitness center operators for sites that meet our criteria, and as a result we may lose those sites, our competitors could copy our format or we could be forced to pay significantly higher prices for those sites. If we are unable to identify and acquire sites for new sports, fitness and family recreation centers, our revenue growth rate and profits may be negatively impacted. Additionally, if our analysis of the suitability of a site is incorrect, we may not be able to recover our capital investment in developing and building the new center. For example, in 2002 we recorded an asset impairment charge of $7.0 million related to our executive facility, which is located in downtown Minneapolis, Minnesota, and a restaurant that we operate in the same building.

We may be unable to attract and retain members, which could have a negative effect on our business.

The success of our business depends on our ability to attract and retain members, and we cannot assure you that we will be successful in our marketing efforts or that the membership levels at our centers will not materially decline, especially at those centers that have been in operation for an extended period of time. All of our members can cancel their membership at any time upon one month s notice. In addition, we experience attrition and must continually attract new members in order to maintain our membership levels. There are numerous factors that could lead to a decline in membership levels or that could prevent us from increasing membership at newer centers where membership is generally not yet at a targeted capacity, including market maturity or saturation, a decline in our ability to deliver quality service at a competitive price, direct and indirect competition in the areas where our centers are located, a decline in the public s interest in health and fitness, changes in discretionary spending trends and general economic conditions. In addition, we may decide to close a center and attempt to move members of that center to a different center or we may have to temporarily relocate members if a center is closed for remodeling or due to fire, earthquake or other casualty.

Delays in new sports, fitness and family recreation center openings could materially adversely affect our financial performance.

In order to meet our objectives, it is important that we open new centers on schedule. A significant amount of time and expenditure of capital is required to develop and construct new centers. If we are significantly delayed in opening new centers, our competitors may be able to open new clubs in the same market before we open our centers. This change in the competitive landscape could negatively impact our pre-opening sales of memberships and increase our investment costs. In addition, delays in opening new centers could hurt our ability to meet our growth objectives. Our ability to open new centers on schedule depends on a number of factors, many of which are beyond our control. These factors include:

- obtaining acceptable financing for construction of new sites;
- obtaining entitlements, permits and licenses necessary to complete construction of the new center on schedule;
- recruiting, training and retaining qualified management and other personnel;
- securing access to labor and materials necessary to develop and construct our centers;
- delays due to material shortages, labor issues, weather conditions or other acts of god, discovery of contaminants, accidents, deaths or injunctions; and
- general economic conditions.

Our continued growth could place strains on our management, employees, information systems and internal controls which may adversely impact our business and the value of your investment.

Over the past several years, we have experienced significant growth in our business activities and operations, including an increase in the number of our sports, fitness and family recreation centers. Our past expansion has placed, and any future expansion will place, significant demands on our administrative, operational, financial and other resources. Any failure to manage growth effectively could seriously harm our business. To be successful, we will need to continue to implement management information systems and improve our operating, administrative, financial and accounting systems and controls. We will also need to train new employees and maintain close coordination among our executive, accounting, finance, marketing, sales and operations functions. These processes are time-consuming and expensive, will increase management responsibilities and will divert management attention.

The opening of new centers in existing locations may negatively impact our comparable revenue increases and our overall operating margins.

We currently operate sports, fitness and family recreation centers in eight states. Our plans for 2004 include opening six new centers, four of which are in an existing market. With respect to existing markets, it has been our experience that opening new centers may attract some memberships away from other centers already operated by us in those markets and diminish their revenues. In addition, as a result of new center openings in existing markets, and because older centers will represent an increasing proportion of our center base over time, our comparable center revenue increases may be lower in future periods than in the past.

Another result of opening new centers is that our overall operating margins may be lower than they have been historically. We expect both the addition of pre-opening expenses and the lower revenue volumes characteristic of newly-opened centers to affect our operating margins at these new centers. We also expect certain operating costs, particularly those related to occupancy, to be higher than in the past in some newly-entered geographic regions. As a result of the impact of these rising costs, our total center contribution and operating margins may be lower in future periods than they have been in the past.

Our debt levels may limit our flexibility in obtaining additional financing and in pursuing other business opportunities.

As of March 31, 2004, we had total consolidated indebtedness of $219.1 million, consisting principally of obligations under construction and term notes that are secured by certain of our properties, borrowings under our revolving credit facility that are secured by certain personal property, mortgage notes that are secured by certain of our sports, fitness and family recreation centers and obligations under capital leases.

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Our level of indebtedness could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for capital expenditures, working capital, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;
- we will need a substantial portion of our cash flow to pay the principal of, and interest on, our indebtedness, including indebtedness that we may incur in the future;
- payments on our indebtedness will reduce the funds that would otherwise be available for our operations and future business opportunities;
- a substantial decrease in our cash flows from operations could make it difficult for us to meet our debt service requirements and force us to modify our operations;
- we may be more highly leveraged than our competitors, which may place us at a competitive disadvantage;
- our debt level may make us more vulnerable and less flexible than our competitors to a downturn in our business or the general economy; and
- some of our debt has a variable rate of interest, which increases our vulnerability to interest rate fluctuations.

In addition to the amount of indebtedness outstanding as of March 31, 2004, we have access to an additional $133.1 million under our credit facilities. Following this offering, we will continue to have the ability to incur new debt, subject to limitations under our existing credit facilities and in our debt financing agreements. Furthermore, we have 13 centers financed by Teachers Insurance and Annuity Association of America that are subject to cross-default and cross-collateral provisions, which would allow the lender to foreclose on each of these 13 centers if there is an event of default related to one or more of these centers. If we incur additional debt, the risks associated with our leverage, including our ability to service our debt, could intensify.

Because of the capital-intensive nature of our business, we may have to incur additional indebtedness or issue new equity securities and, if we are not able to access additional capital, our ability to operate or expand our business may be impaired and our operating results could be adversely affected.

Our business requires significant levels of capital to finance the development of additional sites for new sports, fitness and family recreation centers and the construction of our centers. If cash from available sources is insufficient, or if cash is used for unanticipated needs, we may require additional capital sooner than anticipated. In the event that we are required or choose to raise additional funds, we may be unable to do so on favorable terms or at all. Furthermore, the cost of debt financing could significantly increase, making it cost-prohibitive to borrow, which could force us to issue new equity securities. If we issue new equity securities, existing shareholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise funds on acceptable terms, we may not be able to take advantage of future opportunities or respond to competitive pressures. Any inability to raise additional capital when required could have an adverse effect on our business plans and operating results.

The health club industry is highly competitive and our competitors may have greater resources and name recognition than we have.

We compete with other health and fitness centers, physical fitness and recreational facilities established by local non-profit organizations, governments, hospitals, and businesses, amenity and condominium clubs and similar non-profit organizations, local salons, cafes and businesses offering similar ancillary services, and, to a lesser extent, racquet, tennis and other athletic clubs, country clubs, weight reducing salons and the home fitness equipment industry. Competitors, which may have greater resources or greater name recognition than we have, may compete with us to attract members in our markets. Non-profit and government organizations in our markets may be able to obtain land and construct centers at a lower cost than us and may be able to collect membership fees without paying taxes, thereby allowing them to lower their prices. This competition may limit our ability to increase membership fees, retain members, attract new members and retain qualified personnel.

Competitors could copy our business model and erode our market share, brand recognition and profitability.

We employ a business model that could allow competitors to duplicate our successes. We cannot assure you that our competitors will not attempt to copy our business model and that this will not erode our market share and brand recognition and impair our growth rate and profitability. In response to any such competitors, we may be required to decrease our membership fees, which may reduce our operating margins and profitability.

We have significant operations concentrated in certain geographic areas, and any disruption in the operations of our centers in any of these areas could harm our operating results.

We currently operate multiple sports, fitness and family recreation centers in several metropolitan areas, including 14 in the Minneapolis/St. Paul market, seven in the Chicago market and five in the Detroit market, with continued planned expansion in other markets. As a result, any prolonged disruption in the operations of our centers in any of these markets, whether due to technical difficulties, power failures or destruction or damage to the centers as a result of a natural disaster, fire or any other reason, could harm our operating results. In addition, our concentration in these markets increases our exposure to adverse developments related to competition, as well as economic and demographic changes in these areas.

If we cannot retain our key personnel and hire additional highly qualified personnel, we may not be able to successfully manage our operations and pursue our strategic objectives.

We are highly dependent on the services of our senior management team and other key employees at both our corporate headquarters and our centers, and on our ability to recruit, retain and motivate key personnel. Competition for such personnel is intense, and the inability to attract and retain the additional qualified employees required to expand our activities, or the loss of current key employees, could materially and adversely affect us.

If our founder and chief executive officer leaves our company for any reason, it could have a material adverse effect on us.

Our growth and development to date have been largely dependent upon the services of Bahram Akradi, our Chairman of the Board of Directors, President, Chief Executive Officer and founder. If Mr. Akradi ceases to be Chairman of the Board of Directors and Chief Executive Officer for any reason other than due to his death or incapacity or as a result of his removal pursuant to our articles of incorporation or bylaws, we will be in default under the loan documents for our 13 centers financed with Teachers Insurance and Annuity Association of America. As a result, Mr. Akradi may be able to exert disproportionate control over our company because of the significant consequence of his departure. We do not have any employment or non-competition agreement with Mr. Akradi.

We could be subject to claims related to health or safety risks at our sports, fitness and family recreation centers.

Use of our centers poses potential health or safety risks to members or guests through exertion and use of our equipment, swimming pools and other facilities and services. We cannot assure you that claims will not be asserted against us for injury or death suffered by someone using our facilities or services. In addition, the child care services we offer at our centers expose us to claims related to child care. Lastly, because we construct our own centers, we also face liability in connection with the construction of these centers.

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We are subject to extensive government regulation, and changes in these regulations could have a negative effect on our financial condition and results of operations.

Various federal and state laws and regulations govern our operations, including:

- general rules and regulations of the Federal Trade Commission, state and local consumer protection agencies and state statutes that prescribe certain forms and provisions of membership contracts and that govern the advertising, sale and collection of our memberships;
- state and local health regulations;
- federal regulation of health and nutritional products; and
- regulation of rehabilitation service providers.

Any changes in such laws could have a material adverse effect on our financial condition and results of operations.

We have introduced other business initiatives that may not be profitable.

In addition to our sports, fitness and family recreation centers, we have introduced other business initiatives in the areas of nutritional products, media and athletic events in order to capitalize on our brand identity and membership base. We have limited experience with these other initiatives and face significant competition against established companies with more retail experience and greater financial resources than us. We may not be able to compete effectively against these established companies, and these other business initiatives may not be profitable. In addition, we license from a third party the right to use the mark LIFE TIME in connection with our nutritional products, as well as the right to use certain ingredients of such products. These rights may be material to marketing and distributing our nutritional products. If these licenses are terminated for any reason, we may no longer be able to market and distribute nutritional products under the LIFE TIME FITNESS brand.

We could be subject to claims related to our nutritional products.

The nutritional products industry is currently the source of proposed federal laws and regulations, as well as numerous lawsuits. We advertise and offer for sale proprietary nutritional products within our centers, on the Internet and through selected national retail channels. We cannot assure you that there will be no claims against us regarding the ingredients in, manufacture of or results of using our nutritional products. Furthermore, we cannot assure you that any rights we have under indemnification provisions or insurance policies will be sufficient to cover any losses that might result from such claims.

If it becomes necessary to protect or defend our intellectual property rights or if we infringe on the intellectual property rights of others, we may be required to pay royalties or fees or become involved in costly litigation.

We may have disputes with third parties to enforce our intellectual property rights, protect our trademarks, determine the validity and scope of the proprietary rights of others or defend ourselves from claims of infringement, invalidity or unenforceability. Such disputes may require us to engage in litigation. We may incur substantial costs and a diversion of resources as a result of such disputes and litigation, even if we win. In the event that we do not win, we may have to enter into royalty or licensing agreements, we may be prevented from using the marks within certain markets in connection with goods and services that are material to our business or we may be unable to prevent a third party from using our marks. We cannot assure you that we would be able to reach an agreement on reasonable terms, if at all. In particular, although we own an incontestable federal trademark registration for use of the LIFE TIME FITNESS® mark in the field of health and fitness centers, we are aware of entities in certain locations around the country that use LIFE TIME FITNESS or a similar mark in connection with goods and services related to health and fitness. The rights of these entities in such marks may predate our rights.

Accordingly, if we open any sports, fitness and family recreation centers in the areas in which these parties operate, we may be required to pay royalties or may be prevented from using the mark in such areas.

Our business could be affected by acts of war or terrorism.

Current world tensions could escalate, potentially leading to war or acts of terrorism. This could have unpredictable consequences on the world economy and on our business.

Risks Related to this Offering

We will face new challenges and increased costs as a public company.

Our management team has historically operated our business as a privately held company. Our management team has never had direct responsibility for managing a publicly traded company. We will incur increased costs as a result of being a public company, particularly in light of recently enacted and proposed changes in laws and regulations and listing requirements.

We may use the proceeds of this offering in ways with which you may disagree.

Our management will have significant discretion in the use of a substantial portion of the proceeds of this offering. Accordingly, it is possible that our management may allocate the proceeds differently than investors in this offering desire, or that we will fail to maximize our return on these proceeds.

We cannot assure you that a market will develop for our common stock or what the market price of our common stock will be.

The initial public offering price for our common stock will be determined through our negotiations with the underwriters and may not bear any relationship to the market price at which it will trade after this offering. Before this offering, there was no public trading market for our common stock, and we cannot assure you that one will develop or be sustained after this offering. If a market does not develop or is not sustained, it may be difficult for you to sell your shares of common stock at an attractive price or at all. We cannot predict the prices at which our common stock will trade. It is possible that in some future quarter our operating results may be below the expectations of financial market analysts and investors and, as a result of these and other factors, the price of our common stock may fall.

The price of our common stock may be volatile.

The trading price of our common stock following this offering may fluctuate substantially. The price of our common stock after this offering may be higher or lower than the price you pay, depending on many factors, some of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose part or all of your investment in our shares of common stock. Those factors that could cause fluctuations include, but are not limited to, the following:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of health and fitness companies;
- actual or anticipated changes in our earnings or fluctuations in our operating results or in the expectations of financial market analysts;
- investor perceptions of the health and fitness industry, in general, and our company, in particular;
- the operating and stock performance of comparable companies;
- general economic conditions and trends;
- the seasonality of our business;

the opening of new centers;

major catastrophic events;

loss of external funding sources;

sales of large blocks of our stock or sales by insiders; or

departures of key personnel.

If you purchase shares of common stock sold in this offering, you will experience significant and immediate dilution.

If you purchase shares of our common stock in this offering, you will experience significant and immediate dilution because the price that you pay will be substantially greater than the net tangible book value per share of the shares you acquire. This dilution is due in large part to the fact that our earlier investors paid substantially less than the initial public offering price when they purchased their shares. You will experience additional dilution upon the exercise of stock options to purchase common stock.

Our principal shareholders, directors and executive officers may exercise significant control over our company.

Our principal shareholders, directors and executive officers and entities affiliated with them will own approximately 56.9% of the outstanding shares of our common stock after this offering. As a result, these shareholders, if acting together, will be able to influence or control matters requiring approval by our shareholders, including the election of directors and the approval of mergers or other extraordinary transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. The concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our shareholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

Our articles of incorporation, bylaws and Minnesota law may discourage takeovers and business combinations that our shareholders might consider in their best interests.

Anti-takeover provisions of our articles of incorporation, bylaws and Minnesota law could diminish the opportunity for shareholders to participate in acquisition proposals at a price above the then current market price of our common stock. For example, while we have no present plans to issue any preferred stock, our board of directors, without further shareholder approval, may issue shares of undesignated preferred stock and fix the powers, preferences, rights and limitations of such class or series, which could adversely affect the voting power of your shares. In addition, our bylaws provide for an advance notice procedure for nomination of candidates to our board of directors that could have the effect of delaying, deterring or preventing a change in control. Further, as a Minnesota corporation, we are subject to provisions of the Minnesota Business Corporation Act, or MBCA, regarding control share acquisitions and business combinations. We may, in the future, consider adopting additional anti-takeover measures. The authority of our board to issue undesignated preferred stock and the anti-takeover provisions of the MBCA, as well as any future anti-takeover measures adopted by us, may, in certain circumstances, delay, deter or prevent takeover attempts and other changes in control of the company not approved by our board of directors.

We do not anticipate paying cash dividends on our shares of common stock in the foreseeable future.

We have never declared or paid any cash dividends on our shares of common stock. We intend to retain any future earnings to fund the operation and expansion of our business and, therefore, we do not anticipate paying cash dividends on our shares of common stock in the foreseeable future. In addition, the terms of our revolving credit facility and certain of our debt financing agreements prohibit us from paying dividends without the consent of the lenders. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

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Common stock available for future sale by our shareholders may adversely affect our stock price.

If our shareholders sell substantial amounts of our common stock in the public market following this offering, the market price of our common stock could fall. These sales could also make it more difficult for us to sell shares of our common stock or equity-related securities in the future.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. The forward-looking statements are contained principally in the sections entitled Prospectus Summary, Risk Factors, Use of Proceeds, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Forward-looking statements include statements about:

- our estimates of future expenses, revenue and profitability;
- trends affecting our financial condition and results of operations;
- our ability to attract and retain members or achieve our targeted membership capacity;
- the availability and terms of debt financing;
- our ability to identify sites and open new centers on schedule;
- new initiatives to enhance our brand in the areas of exercise, nutrition and education;
- industry trends and the competitive environment;
- the impact of losing one or more senior executive or failing to attract additional key personnel; and
- other factors referenced in this prospectus, including those set forth under the caption Risk Factors.

In some cases, you can identify forward-looking statements by terms such as anticipates, believes, could, estimates, expects, intends, plans, potential, predicts, projects, should, will, would, and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events, are based on assumptions and are subject to risks and uncertainties. We discuss many of these risks in this prospectus in greater detail under the heading Risk Factors. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our estimates and assumptions only as of the date of this prospectus. You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

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USE OF PROCEEDS

The net proceeds from the sale of the 4,383,577 shares of our common stock offered by us are estimated to be approximately $71.9 million, after deducting the underwriting discounts and estimated offering expenses and assuming an initial public offering price of $18.00, or approximately $78.4 million if the over-allotment option is exercised by the underwriters in full. We will not receive any of the proceeds from the shares of our common stock sold by the selling shareholders.

A principal purpose of this offering is to establish a public market for our common stock. We expect to use all of the net proceeds of this offering, except as described below, to finance our growth by opening additional sports, fitness and family recreation centers. This includes approximately $20 to $25 million for the purchase of land for centers we plan to open in 2005 and approximately $15 to $20 million for the construction of the center we opened in June 2004 and the five remaining centers to be opened this year. This also includes approximately $10 to $15 million for the purchase of the initial exercise equipment, furniture and fixtures for the center we opened in June 2004 and the five remaining centers to be opened this year. We expect to use a portion of the net proceeds to completely repay amounts outstanding under our revolving credit facility as soon as practicable after receiving the proceeds from this offering, which amount could range from the $3 million that could be repaid as of March 31, 2004 to $15 million. The revolving credit facility bears interest at 4.0% over LIBOR and expires on June 30, 2005. The amounts to be repaid under the revolving credit facility were borrowed within the past year and were used to fund the acquisition of land and construction of centers we plan to open in 2004 and other working capital needs. We also expect to use approximately $9 million of the net proceeds of this offering to repay a loan under the construction facility that we used to finance the development of our center in Plano, Texas. The term loan bears interest at 0.5% over the prime rate and expires on December 10, 2006.

The amounts and timing of our actual use of proceeds will depend upon numerous factors, including our plans for the construction and opening of new centers and our ability to obtain and extend our debt financing on favorable terms. The amounts that we may allocate to the particular uses of the net proceeds of this offering may vary from the above based primarily on amounts outstanding under our revolving credit facility and the distinct timing implications between membership dues generated and when funds are needed. In addition, the amount used for any particular component of constructing and opening a new center may vary depending on increases and decreases in costs of the different components and our ability to negotiate pricing. Although we do not currently have any specific plans for other uses of the proceeds, there are other potential uses of the proceeds, including expediting future land purchases, technological investment in our current in-center and corporate businesses, investment in our current corporate headquarters, acquisitions of free-standing single unit health clubs, acquisitions of other health club companies and initial investments in additional corporate businesses. Our management will have significant flexibility and discretion in applying the net proceeds of this offering. Until we use the proceeds for a particular purpose, we plan to invest the net proceeds of this offering generally in short-term, investment-grade instruments, interest-bearing securities or direct or guaranteed obligations of the United States, but we cannot assure you that these investments will yield a favorable return.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock. We currently intend to retain all future earnings for the operation and expansion of our business and do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future. In addition, the terms of our revolving credit facility and certain of our debt financing agreements prohibit us from paying dividends without the consent of the lenders. The payment of any dividends in the future will be at the discretion of our board of directors and will depend upon our results of operations, earnings, capital requirements, contractual restrictions, outstanding indebtedness and other factors deemed relevant by our board.

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CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2004:

- on an actual basis; and
- on a pro forma as adjusted basis to give effect to (1) the filing of our amended and restated articles of incorporation to provide for authorized capital stock of 50,000,000 shares of common stock and 10,000,000 shares of preferred stock, (2) the sale by us of 4,383,577 shares of common stock at an assumed initial public offering price of $18.00 per share in this offering and the receipt of the estimated $71.9 million in net proceeds from this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us of $7.0 million, and (3) the conversion of all preferred stock upon the completion of this offering.

You should read the information below in conjunction with our consolidated financial statements and the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

	March 31, 2004	
	Actual	Pro Forma As Adjusted
	(In thousands, except share data)	
Cash and cash equivalents	$ 2,307	$ 62,319
Restricted cash(1)	$ 12,459	$ 12,459
Total debt	$219,111	$207,242
Redeemable preferred stock:		
Series B redeemable preferred stock, par value $.02 per share: 1,000,000 shares authorized, 1,000,000 shares issued and outstanding, actual; none authorized or issued and outstanding, as adjusted	27,352	
Series C redeemable preferred stock, par value $.02 per share: 4,500,000 shares authorized, 4,500,000 shares issued and outstanding, actual; none authorized or issued and outstanding, as adjusted	57,030	
Series D redeemable preferred stock, par value $.02 per share: 2,000,000 shares authorized, 1,946,250 shares issued and outstanding, actual; none authorized or issued and outstanding, as adjusted	23,520	
Total redeemable preferred stock(2)	107,902	
Shareholders equity:		
Undesignated preferred stock: 2,500,000 shares authorized, none issued and outstanding, actual; 10,000,000 shares authorized, none issued and outstanding, as adjusted		
Common stock, par value $.02 per share: 50,000,000 shares authorized, 16,156,332 shares issued and outstanding, actual; 50,000,000 shares authorized, 33,169,142 shares issued and outstanding, as adjusted(3)	323	663
Additional paid-in capital	17,823	197,266
Retained earnings	18,665	18,665

Total shareholders equity	36,811	216,594
Total capitalization	$363,824	$423,836

(1) We are required to keep cash on deposit at certain financial institutions in accordance with certain of our credit facilities.

(2) All redeemable preferred stock will convert into an aggregate of 12,629,233 shares of our common stock upon completion of this offering.

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(3) Excludes:

3,018,350 shares of common stock reserved for issuance upon exercise of outstanding stock options under our 1996 Stock Option Plan and our 1998 Stock Option Plan at a weighted average exercise price of $5.17 per share, of which options to purchase 1,485,525 shares were exercisable as of March 31, 2004; and

3,500,000 shares of common stock available for future issuance under our long-term incentive plan, of which options to purchase 1,071,000 shares of common stock are proposed to be issued in connection with this offering at an exercise price per share equal to the price of shares sold in this offering.

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DILUTION

Our pro forma net tangible book value as of March 31, 2004 was approximately $144.7 million, or $5.03 per share of common stock. Pro forma net tangible book value per share is calculated by subtracting our total liabilities from our total tangible assets, which equals total assets less intangible assets, and dividing this amount by the number of shares of common stock outstanding, after giving effect to the conversion of all of our outstanding preferred stock, as of March 31, 2004.

Dilution in pro forma net tangible book value represents the difference between the amount per share paid by purchasers of shares of our common stock in this offering and the pro forma adjusted net tangible book value per share of our common stock after completion of this offering. Assuming the conversion of all preferred stock into common stock upon the completion of this offering, our sale of shares of common stock in this offering at an assumed initial public offering price of $18.00 per share and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book value as of March 31, 2004 would have been approximately $216.6 million, or $6.53 per share. This represents an immediate increase in pro forma net tangible book value of $1.50 per share to our existing shareholders and an immediate dilution in pro forma net tangible book value of $11.47 per share to purchasers of common stock in this offering. The following table illustrates this per share dilution.

Assumed initial public offering price per share		$18.00
Pro forma net tangible book value per share as of March 31, 2004	$5.03	
Increase per share attributable to new investors	1.50	
Pro forma net tangible book value per share after this offering		6.53
Dilution per share to new investors		$11.47

The following table sets forth, as of March 31, 2004 on the pro forma basis described above, the total number of shares of common stock purchased from us, the total consideration paid for these shares and the average price per share paid by our existing shareholders and by purchasers of common stock in this offering, before deducting underwriting discounts and commissions and estimated offering expenses payable by us, at an assumed initial public offering price of $18.00 per share.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing shareholders	28,785,565	86.8%	$100,251,131	56.0%	$ 3.48
New investors	4,383,577	13.2	$ 78,904,386	44.0	$18.00
Total	33,169,142	100%	$179,155,517	100%	

Sales by the selling shareholders in this offering will cause the number of shares held by existing shareholders to be reduced to 23,269,142, or 70.2% of the total number of shares of our common stock outstanding after this offering, and will increase the total number of shares held by new investors to 9,900,000, or 29.8% of the total number of shares of our common stock outstanding after this offering. If the underwriters over-allotment option is exercised in full, the number of shares held by existing shareholders after this offering would be reduced to 22,175,506, or 66.1% of the total number of shares of our common stock outstanding after this offering, and the number of shares held by new investors would increase to 11,385,000, or 33.9% of the total number of shares of our common stock outstanding after this offering.

This table assumes that no options were exercised after March 31, 2004. As of March 31, 2004, there were outstanding options to purchase a total of 3,018,350 shares of common stock at a weighted average exercise price of approximately $5.17 per share. To the extent that these options are exercised, there will be further dilution to new investors.

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SELECTED CONSOLIDATED FINANCIAL DATA

You should read the selected consolidated financial data below in conjunction with our consolidated financial statements and the related notes and with Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. The consolidated statement of operations data for the years ended December 31, 2001, 2002 and 2003 and the consolidated balance sheet data as of December 31, 2002 and 2003 are derived from our audited consolidated financial statements that are included elsewhere in this prospectus. The consolidated statement of operations data for the years ended December 31, 1999 and 2000 and the three months ended March 31, 2003 and 2004 and the balance sheet data as of December 31, 1999, 2000 and 2001 and March 31, 2004 are unaudited, have been derived from our internal records, have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, present fairly our consolidated financial position as of such dates and our consolidated results of operations for such periods. The unaudited interim consolidated financial statements include all adjustments, which include only normal and recurring adjustments, necessary to present fairly the data included therein. Historical results are not necessarily indicative of the results of operations to be expected for future periods, and interim results may not be indicative of results for the remainder of the year. See Note 2 to our consolidated financial statements for a description of the method used to compute basic and diluted net earnings (loss) per share.

	For the Year Ended December 31,					Pro Forma for the Year Ended December 31,	For the Three Months Ended March 31,		Pro Forma for the Three Months Ended March 31,
	1999	2000	2001	2002	2003	2003(1)	2003	2004	2004(1)
	(In thousands)								
Statement of Operations Data:									
Revenue									
Center revenue									
Membership dues	$37,719	$65,601	$ 94,652	$132,124	$171,596		$39,919	$49,179	
Enrollment fees	5,935	9,195	13,584	18,564	20,594		4,906	4,846	
In-center revenue(2)	10,607	18,278	25,191	38,270	54,237		12,931	16,919	
Total center revenue	54,261	93,074	133,427	188,958	246,427		57,756	70,944	
Other revenue		1,403	3,240	6,208	10,515		2,525	3,226	
Total revenue	54,261	94,477	136,667	195,166	256,942		60,281	74,170	
Operating expenses									
Sports, fitness and family recreation center operations	29,961	51,106	74,025	102,343	131,825		30,705	39,053	
Advertising and marketing	5,112	6,136	6,350	11,722	11,045		2,690	3,680	
General and administrative	6,723	9,996	12,305	14,981	18,554		5,759	5,950	
Other operating	167	3,337	4,458	10,358	16,273		3,603	4,557	
Depreciation and amortization	4,983	10,291	17,280	20,801	25,264		5,833	6,947	

Impairment charge(3)				6,952					
Total operating expenses	46,946	80,866	114,418	167,157	202,961		48,590	60,187	
Income from operations	7,315	13,611	22,249	28,009	53,981		11,691	13,983	
Interest expense, net	(3,222)	(7,861)	(12,035)	(14,950)	(19,132)		(4,563)	(4,612)	
Loss from extinguishment of debt(4)			(2,911)						
Equity in earnings (loss) of affiliate(5)		(347)	(301)	333	762		151	253	
Income before income taxes	4,093	5,403	7,002	13,392	35,611		7,279	9,624	
Provision for income taxes	1,694	1,681	3,019	5,971	15,006		3,067	3,977	
Net income	2,399	3,722	3,983	7,421	20,605	$ 20,605	4,212	5,647	$ 5,647
Accretion of redeemable preferred stock	1,971	3,490	6,447	7,085	6,987		1,723	1,737	
Net income (loss) applicable to common shareholders	$ 428	$ 232	$ (2,464)	$ 336	$ 13,618	$ 20,605	$ 2,489	$ 3,910	$ 5,647

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	For the Year Ended December 31,					Pro Forma for the Year Ended December 31,	For the Three Months Ended March 31,		Pro Forma for the Three Months Ended March 31,
	1999	2000	2001	2002	2003	2003(1)	2003	2004	2004(1)
	(In thousands, except per share data)								
Basic earnings (loss) per share	$ 0.04	$ 0.02	$ (0.20)	$ 0.02	$ 0.85	$ 0.72	$ 0.16	$ 0.24	$ 0.20
Weighted average number of common and common equivalent shares outstanding basic	10,531	10,602	12,360	15,054	16,072	28,701	15,984	16,156	28,785
Diluted earnings (loss) per share	$ 0.04	$ 0.02	$ (0.20)	$ 0.02	$ 0.72	$ 0.68	$ 0.15	$ 0.19	$ 0.18
Weighted average number of common and common equivalent shares outstanding diluted(6)	12,077	12,251	12,360	16,430	28,612	30,224	27,771	29,217	30,829

	December 31,					March 31,	Pro Forma March 31,
	1999	2000	2001	2002	2003	2004	2004(1)
	(In thousands)						
Balance Sheet Data (end of period):							
Cash and cash equivalents	$ 842	$ 5,192	$ 2,208	$ 8,860	$ 18,446	$ 2,307	
Working capital	(23,309)	(25,057)	(30,242)	(29,819)	(15,340)	(44,779)	
Total assets	155,744	264,516	346,815	419,024	453,346	453,880	
Total debt	83,364	128,710	176,727	231,320	233,232	219,111	
Total redeemable preferred stock	29,806	75,719	96,973	99,179	106,165	107,902	$
Total shareholders equity	9,749	10,826	13,014	18,547	32,792	36,811	144,713

	For the Year Ended December 31,					For the Three Months Ended March 31,	
	1999	2000	2001	2002	2003	2003	2004
	(In thousands, except center and membership data)						
Cash Flow Data:							
Net cash provided by operating activities	$ 13,733	$ 16,350	$ 32,609	$ 43,558	$ 52,576	$ 14,831	$ 20,783
Net cash used in investing activities	(39,800)	(56,875)	(63,928)	(31,350)	(24,476)	(3,223)	(19,532)
Net cash provided by (used in) financing activities	16,240	44,964	28,245	(5,556)	(18,514)	(3,442)	(17,390)
Other Data:							

Comparable center revenue growth(7)	17.0%	16.1%	12.4%	22.3%	13.2%	13.1%	12.5%
Average revenue per membership(8)	$ 659	$ 794	$ 878	$ 989	$ 1,089	$ 268	$ 287
Average in-center revenue per membership(9)	129	156	166	200	240	59	69
EBITDA(10)	12,298	23,555	36,317	49,143	80,007	17,675	21,183
EBITDA margin(11)	22.7%	24.9%	26.6%	25.2%	31.1%	29.3%	28.6%
Capital expenditures(12)	$ 77,500	$ 105,763	$ 94,923	$ 87,432	$ 81,846	$ 12,740	$ 25,587
Operating Data(13):							
Centers open at end of period	14	18	24	29	33	29	33
Number of memberships at end of period	97,631	133,480	173,875	215,387	249,192	229,851	267,474

(1) The statement of operations data for the year ended December 31, 2003 and the three months ended March 31, 2004 and the balance sheet data as of March 31, 2004 reflect the pro forma effect of the conversion of all the redeemable preferred stock into shares of common stock in connection with this offering.

(2) In-center revenue includes revenue generated at our centers from fees for personal training, group fitness training and other member activities, sales of products offered at our LifeCafe, sales of products and services offered at our LifeSpa and renting space in certain of our centers.

(3) For the year ended December 31, 2002, we recorded an asset impairment charge of $7.0 million related to our only executive facility, which is located in downtown Minneapolis, Minnesota, and a restaurant that we operate in the same building. The center is one of only two of our centers that are located in urban areas. This executive facility and restaurant differ significantly from our standard model and the initial cash flow results have not been as high as projected. Additionally, this facility and restaurant are located in a more costly geographic area of downtown Minneapolis. The charge represents the difference between the fair value of the assets as determined by discounted estimated future cash flows and the carrying amount of the assets.

(4) A loss on the extinguishment of debt of $2.9 million was recorded for the year ended December 31, 2001. The charge consisted of early extinguishment fees and the write-off of loan costs related to the original debt in connection with the refinancing of 10 of our centers.

(5) In 1999, we formed Bloomingdale LIFE TIME Fitness, L.L.C., referred to as Bloomingdale LLC, with two unrelated organizations for the purpose of constructing, owning and operating a sports, fitness and family recreation center in Bloomingdale, Illinois. Each member made an initial capital contribution of $2.0 million and owns a one-third interest in Bloomingdale LLC. The center commenced operations in February 2001. The terms of the relationship among the members are governed by an operating agreement. Bloomingdale LLC is accounted for as an investment in an unconsolidated affiliate and is not consolidated in our financial statements.

(6) The diluted weighted average number of common shares outstanding is the weighted average number of common shares plus the weighted average conversion of any dilutive common stock equivalents, such as redeemable preferred stock, and the assumed weighted average exercise of dilutive stock options using the treasury stock method. For the year ended December 31, 2001, there were no dilutive common stock equivalents. For the year ended December 31, 2002, only the shares issuable upon the exercise of stock options were dilutive. For the year ended December 31, 2003 and each of the three month periods ended March 31, 2003 and 2004, the shares issuable upon the exercise of stock options and the conversion of redeemable preferred stock were dilutive. The number of shares excluded from the computation of dilutive earnings per share was 14,247,600, 11,323,000 and 0 for the years ended December 31, 2001, 2002 and 2003, respectively, and 0 for the three months ended March 31, 2003 and 2004.

The following table summarizes the weighted average common shares for basic and diluted earnings per share computations:

	December 31,			Three Months Ended March 31,	
	2001	**2002**	**2003**	**2003**	**2004**
			(In thousands)		
Weighted average number of common shares outstanding basic	12,360	15,054	16,072	15,984	16,156
Effect of dilutive stock options		1,376	1,522	1,340	2,043
Effect of dilutive redeemable preferred shares outstanding			11,018	10,447	11,018
Weighted average number of common shares outstanding dilutive	12,360	16,430	28,612	27,771	29,217

(7) Membership dues, enrollment fees and in-center revenue for a center are included in comparable center revenue growth beginning on the first day of the thirteenth full calendar month of the center s operation.

(8) Average revenue per membership is total center revenue for the period divided by an average number of memberships for the period, where average number of memberships for the period is derived from dividing the sum of the total memberships outstanding at the end of each month during the period by the total number of months in the period.

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(9) Average in-center revenue per membership is total in-center revenue for the period divided by the average number of memberships for the period, where the average number of memberships for the period is derived from dividing the sum of the total memberships outstanding at the end of each month during the period by the total number of months in the period.

(10) EBITDA consists of net income plus interest expense, net, provision for income taxes and depreciation and amortization. This term, as we define it, may not be comparable to a similarly titled measure used by other companies and is not a measure of performance presented in accordance with GAAP. We use EBITDA as a measure of operating performance. EBITDA should not be considered as a substitute for net income, cash flows provided by operating activities or other income or cash flow data prepared in accordance with GAAP. The funds depicted by EBITDA are not necessarily available for discretionary use if they are reserved for particular capital purposes, to maintain debt covenants, to service debt or to pay taxes. Additional details related to EBITDA are provided in Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures.

The following table provides a reconciliation of net income, the most directly comparable GAAP measure, to EBITDA:

	For the Year Ended December 31,					For the Three Months Ended March 31,	
	1999	2000	2001	2002	2003	2003	2004
				(In thousands)			
Net income	$ 2,399	$ 3,722	$ 3,983	$ 7,421	$20,605	$ 4,212	$ 5,647
Interest expense, net	3,222	7,861	12,035	14,950	19,132	4,563	4,612
Provision for income taxes	1,694	1,681	3,019	5,971	15,006	3,067	3,977
Depreciation and amortization	4,983	10,291	17,280	20,801	25,264	5,833	6,947
EBITDA	$12,298	$23,555	$36,317	$49,143	$80,007	$17,675	$21,183

(11) EBITDA margin is the ratio of EBITDA to total revenue.

(12) Capital expenditures represent investments in our new centers, costs related to updating and maintaining our existing centers and other infrastructure investments. For purposes of deriving capital expenditures from our cash flows statement, capital expenditures include our purchases of property and equipment and property and equipment purchases financed through notes payable and capital lease obligations.

(13) The operating data being presented in these items include the center owned by Bloomingdale LLC. See also footnote 5 for a discussion of Bloomingdale LLC. The data presented elsewhere in this section exclude the center owned by Bloomingdale LLC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our historical results of operations and our liquidity and capital resources should be read in conjunction with the consolidated financial statements and related notes that appear elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed in Risk Factors beginning on page 9 of this prospectus.

Overview

We operate sports, fitness and family recreation centers. As of June 5, 2004, we operated 34 centers primarily in suburban locations across eight states under the LIFE TIME FITNESS brand. We commenced operations in 1992 by opening centers in the Minneapolis and St. Paul, Minnesota area. During this period of initial growth, we refined the format and model of our center while building our membership base, infrastructure and management team. As a result, several of the centers that opened during our early years have designs that differ from our current model center.

Of our 34 centers, 25 are of our large format design. These 25 centers are distinguished by their size, which averages 95,000 square feet, their location in suburban areas, their complete offering of services and amenities and their similar look and feel. In 2000, we standardized the size, design and layout of our centers to be approximately 105,000 square feet, which we refer to as our current model centers. Of our 25 large format centers, 13 are current model centers. We opened six centers in 2001, five centers in 2002 and four centers in 2003. We plan to open six large format centers in 2004, five of which will be current model centers and the first of which opened in June. We plan to open six current model centers in 2005. By analyzing the number of our existing centers relative to the population of their respective major metropolitan markets, each of which has met our predetermined physical, demographic, psychographic and competitive criteria, we believe that there is a potential for adding at least 225 more of our current model centers throughout the U.S. in existing as well as new markets. Our nine other centers that do not meet the criteria of our large format centers were opened early in our history or in areas where we identified an opportunity to fill-in existing markets or compete in smaller metropolitan areas.

We compare the results of our centers based on how long the centers have been open at the most recent measurement period. We include a center for comparable center revenue purposes beginning on the first day of the thirteenth full calendar month of the center s operation, prior to which time we refer to the center as a new center. As we grow our presence in existing markets by opening new centers, we expect to attract some memberships away from other centers already in those markets, reducing their revenue and initially lowering their profitability. In addition, as a result of new center openings in existing markets, and because older centers will represent an increasing proportion of our center base over time, our comparable center revenue increases may be lower in future periods than in the past. Of the six new centers we plan to open in each of 2004 and 2005, we expect that four in each year will be in existing markets. We do not expect that operating costs of our planned new centers will be higher than centers opened in the past, and we also do not expect that the planned increase in the number of centers will have a material adverse effect on the overall financial condition or results of operations of existing centers. However, as a result of the simultaneous pre-marketing advertising campaigns for five of the centers opening in 2004 and the costs related to those campaigns, we expect that operating margins may be negatively impacted in the second quarter of 2004. Our categories of new centers and comparable centers do not include the center owned by Bloomingdale LLC because it is accounted for as an investment in an unconsolidated affiliate and is not consolidated in our financial statements.

We measure performance using such key operating statistics as comparable center revenue growth, average revenue per membership, including dues and enrollment fees, average in-center revenue per membership and center operating expenses, with an emphasis on payroll and occupancy costs, as a

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percentage of sales. We use center EBITDA margins to evaluate overall performance on an individual center basis. In addition, we focus on several membership statistics on a center-level and system-wide basis. These metrics include growth in center membership levels and growth in system-wide memberships, percentage center membership to target capacity, center membership usage, center membership mix among individual, couple and family memberships and center attrition rates.

We have three primary sources of revenue. First, our largest source of revenue is membership dues and enrollment fees paid by our members. We recognize revenue from monthly membership dues in the month to which they pertain. We recognize revenue from enrollment fees over the expected average life of the membership, which is 36 months. Second, we generate revenue, which we refer to as in-center revenue, at our centers from fees for personal training, group fitness training and other member activities, sales of products at our LifeCafe, sales of products and services offered at our LifeSpa and renting space in certain of our centers. And third, we have expanded the LIFE TIME FITNESS brand into other wellness-related offerings that generate revenue, which we refer to as other revenue, including our media, nutritional product and athletic event businesses. Our primary media offering is our magazine, *Experience Life*. Other revenue also includes our restaurant located in the building where we operate a center designed as an urban executive facility in downtown Minneapolis, Minnesota.

Sports, fitness and family recreation center operations expenses consist primarily of salary, commissions, payroll taxes, benefits, real estate taxes and other occupancy costs, utilities, repairs and maintenance, supplies, administrative support and communications to operate our centers. Advertising and marketing expenses consist of our marketing department costs and media and advertising costs to support center membership growth and our media, nutritional product and athletic event businesses. General and administrative expenses include costs relating to our centralized support functions, such as accounting, information systems, procurement and member relations, as well as our real estate and development team and other members of senior management. Our other operating expenses include the costs associated with our media, nutritional product and athletic event businesses, our restaurant and other corporate expenses, as well as gains or losses on our dispositions of assets. Our total operating expenses may vary from period to period depending on the number of new centers opened during that period.

Our primary capital expenditures relate to the construction of new centers and updating and maintaining our existing centers. The land acquisition, construction and equipment costs for a current model center aggregate, on average, approximately $23.5 million, which could vary considerably based on variability in land cost and the cost of construction labor, as well as whether or not a tennis area is included. We perform maintenance and make improvements on our centers and equipment every year. We conduct a more thorough remodeling project at each center approximately every five years.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S., or GAAP, requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In recording transactions and balances resulting from business operations, we use estimates based on the best information available. We use estimates for such items as depreciable lives, volatility factors in determining fair value of option grants, tax provisions and provisions for uncollectible receivables. We also use estimates for calculating the amortization period for deferred enrollment fee revenue and associated direct costs, which are based on the weighted average expected life of center memberships. We revise the recorded estimates when better information is available, facts change or we can determine actual amounts. These revisions can affect operating results. We have identified below the following accounting policies that we consider to be critical.

Revenue recognition. We receive a one-time enrollment fee at the time a member joins and monthly membership dues for usage from our members. The enrollment fees are non-refundable after 30 days. Enrollment fees and related direct expenses, primarily commissions, are deferred and recognized on a straight-line basis over an estimated membership period of 36 months, which is based on historical membership experience. In addition, monthly membership dues paid in advance of a sports, fitness and family recreation center opening are deferred until the center opens. We only offer members month-to-month memberships and recognize as revenue the monthly membership dues in the month to which they pertain.

We provide services at each of our sports, fitness and family recreation centers, including personal training, LifeSpa, LifeCafe and other member services. The revenue associated with these services is recognized at the time the service is performed. Personal training revenue received in advance of training sessions and the related direct expenses, primarily commissions, are deferred and recognized when services are performed. Other revenue, which includes revenue generated from our nutritional products, media, athletic events and restaurant, is recognized when realized and earned. For nutritional products, revenue is recognized, net of sales returns and allowances, at the time the risk of loss passes to the customer. Media advertising revenue is recognized over the duration of the advertising placement. For athletic events, revenue is generated primarily through sponsorship sales and registration fees. Athletic event revenue is recognized upon the completion of the event. Restaurant revenue is recognized at the point of sale to the customer.

Pre-opening operations. We generally operate a preview center up to nine months prior to the planned opening of a sports, fitness and family recreation center during which time memberships are sold as construction of the center is being completed. The revenue and direct membership acquisition costs incurred during the period prior to a center opening are deferred and amortization begins when the center opens; however, the related advertising, office and rent expenses incurred during this period are expensed as incurred.

Impairment of long-lived assets. The carrying value of our long-lived assets is reviewed annually and whenever events or changes in circumstances indicate that such carrying values may not be recoverable. We consider a history of consistent and significant operating losses to be our primary indicator of potential impairment. Assets are grouped and evaluated for impairment at the lowest level for which there are identifiable cash flows, which is generally at an individual center level or the separate restaurant. The determination of whether an impairment has occurred is based on an estimate of undiscounted future cash flows directly related to that center or the restaurant, compared to the carrying value of the assets. If an impairment has occurred, the amount of impairment recognized is determined by estimating the fair value of the assets and recording a loss if the carrying value is greater than the fair value. For the year ended December 31, 2002, we recorded an asset impairment charge of $7.0 million related to our only executive facility, which is located in downtown Minneapolis, Minnesota, and a restaurant that we operate in the same building. The center is one of only two of our centers that are located in urban areas and the initial cash flow results have not been as high as projected. This executive facility and restaurant differ significantly from our standard model. Additionally, this facility and restaurant are located in a more costly geographic area of downtown Minneapolis. The charge represents the difference between the fair value of the assets as determined by discounted estimated future cash flows and the carrying amount of the assets.

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Results of Operations

The following table sets forth our statement of operations data as a percentage of total revenues for the periods indicated:

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2001	2002	2003	2003	2004
Revenue					
Center revenue					
Membership dues	69.3%	67.7%	66.8%	66.2%	66.3%
Enrollment fees	9.9	9.5	8.0	8.1	6.5
In-center revenue	18.4	19.6	21.1	21.5	22.8
Total center revenue	97.6	96.8	95.9	95.8	95.6
Other revenue	2.4	3.2	4.1	4.2	4.4
Total revenue	100.0	100.0	100.0	100.0	100.0
Operating expenses					
Sports, fitness and family recreation center operations	54.2	52.4	51.3	50.9	52.7
Advertising and marketing	4.6	6.0	4.3	4.5	5.0
General and administrative	9.0	7.7	7.2	9.6	8.0
Other operating	3.3	5.2	6.4	6.0	6.1
Depreciation and amortization	12.6	10.7	9.8	9.6	9.3
Impairment charge		3.6			
Total operating expenses	83.7	85.6	79.0	80.6	81.1
Income from operations	16.3	14.4	21.0	19.4	18.9
Interest expense, net	8.8	7.7	7.4	7.6	6.2
Loss from extinguishment of debt	2.1				
Equity in earnings (loss) of affiliate	(0.2)	0.2	0.3	0.3	0.3
Total other income (expense)	11.1	7.5	7.1	7.3	5.9
Income before income taxes	5.2	6.9	13.9	12.1	13.0
Provision for income taxes	2.3	3.1	5.9	5.1	5.4
Net income	2.9%	3.8%	8.0%	7.0%	7.6%

Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003

Total Revenue. Total revenue increased $13.9 million, or 23.0%, to $74.2 million for the three months ended March 31, 2004 from $60.3 million for the three months ended March 31, 2003.

Total center revenue grew $13.1 million, or 22.8%, to $70.9 million for the three months ended March 31, 2004 from $57.8 million for the three months ended March 31, 2003. Of the $13.2 million increase in total center revenue,

70.0% was from membership dues, which increased $9.3 million.

30.0% was from in-center revenue, which increased $4.0 million primarily as a result of our members increased use of personal training services and our LifeCafes and LifeSpas. As a result of this in-center revenue growth and our focus on broadening our offerings to our members, average in-center revenue per membership increased to $69 for the three months ended March 31, 2004 from $59 for the three months ended March 31, 2003.

Enrollment fees were essentially flat for the three months ended March 31, 2004 compared to March 31, 2003 primarily because no new centers were opened during either period, and the average enrollment fee of new memberships in existing centers decreased approximately 16% from the three months ended March 31, 2003 to the three months ended March 31, 2004. The decrease in average enrollment fees was a result of entering into a program with a health maintenance organization (HMO) provider under which we offer reduced enrollment fees to HMO members to drive membership growth in our Minnesota centers and the implementation of a new marketing program in our Arizona market also designed to drive membership growth.

Other revenue grew $0.7 million, or 27.8%, to $3.2 million from $2.5 million, which was primarily due to increased sales of our nutritional products and increased revenue generated from advertising sales in our media division.

Sports, fitness and family recreation center operations expenses. Sports, fitness and family recreation center operations expenses were $39.1 million, or 55.0% of total center revenue (or 52.7% of total revenue), for the three months ended March 31, 2004 compared to $30.7 million, or 53.2% of total center revenue (or 50.9% of total revenue), for the three months ended March 31, 2003. This $8.4 million increase primarily consisted of an increase of $5.2 million in payroll-related costs and an increase of $2.7 million in utilities and occupancy costs, both to support increased memberships at new and existing centers and increased expenses to support in-center products and services. The increase in occupancy costs also included $1.2 million in expenses related to a sale-leaseback transaction with respect to two of our current model centers that was entered into late in the third quarter of 2003.

Advertising and marketing expenses. Advertising and marketing expenses were $3.7 million, or 5.0% of total revenue, for the three months ended March 31, 2004 compared to $2.7 million, or 4.5% of total revenue, for the three months ended March 31, 2003. As a percentage of total revenue and in aggregate dollars, these expenses increased primarily due to a national advertising campaign for our nutritional products, including a major U.S. magazine advertising placement.

General and administrative expenses. General and administrative expenses were $6.0 million, or 8.0% of total revenue, for the three months ended March 31, 2004 compared to $5.8 million, or 9.6% of total revenue, for the three months ended March 31, 2003. This $0.2 million increase was primarily due to increased costs to support the growth in membership and the center base in 2004. As a percentage of total revenue, general and administrative expenses decreased primarily due to economies of scale achieved in shared service functions, including member relations, accounting and procurement, as our membership and center base expanded.

Other operating expenses. Other operating expenses were $4.6 million for the three months ended March 31, 2004 compared to $3.6 million for the three months ended March 31, 2003. This $1.0 million increase was primarily due to branding initiatives related to our media, nutritional product and athletic event businesses.

Depreciation and amortization. Depreciation and amortization was $6.9 million for the three months ended March 31, 2004 compared to $5.8 million for the three months ended March 31, 2003. This $1.1 million increase was due primarily to depreciation on our new centers opened in the summer and fall of 2003.

Interest expense, net. Interest expense, net of interest income, was $4.6 million for the three months ended March 31, 2004 compared to $4.6 million for the three months ended March 31, 2003.

Provision for income taxes. The provision for income taxes was $4.0 million for the three months ended March 31, 2004 compared to $3.1 million for the three months ended March 31, 2003. This $0.9 million increase was due to an increase in income before income taxes of $2.3 million.

Net income. As a result of the factors described above, net income was $5.7 million, or 7.6% of total revenue, for the three months ended March 31, 2004 compared to $4.2 million, or 7.0% of total revenue, for the three months ended March 31, 2003.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Total revenue. Total revenue increased $61.8 million, or 31.7%, to $256.9 million for the year ended December 31, 2003 from $195.2 million for the year ended December 31, 2002.

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Total center revenue grew $57.5 million, or 30.4%, to $246.4 million from $189.0 million, driven by a 13.2% increase in comparable center revenue and the opening of four new centers in 2003 and the full-year contribution of centers opened in 2002. Of the $57.5 million increase in total center revenue,

- 68.7% was from membership dues, which increased $39.5 million.
- 3.5% was from enrollment fees, which increased $2.0 million as a result of membership growth in existing centers and the opening of the four new centers. Total net memberships grew by approximately 33,800 during the year.
- 27.8% was from in-center revenue, which increased $16.0 million primarily as a result of our members increased use of personal training services and our LifeCafes and LifeSpas. As a result of this in-center revenue growth and our focus on broadening our offerings to our members, average in-center revenue per membership increased from $200 to $240 for the year ended December 31, 2003.

Other revenue grew $4.3 million, or 69.4%, to $10.5 million from $6.2 million, which was primarily due to the increased sales of our nutritional products.

Sports, fitness and family recreation center operations expenses. Sports, fitness and family recreation center operations expenses were $131.8 million, or 53.5% of total center revenue (or 51.3% of total revenue), for the year ended December 31, 2003 compared to $102.3 million, or 54.2% of total center revenue (or 52.4% of total revenue), for the year ended December 31, 2002. This $29.5 million increase primarily consisted of an increase of $15.8 million in payroll-related costs and an increase of $6.0 million in utilities and occupancy costs, both to support increased memberships at new and existing centers and increased sales of in-center products and services. As a percentage of total revenue, these expenses decreased primarily due to the leveraging of payroll, utilities and occupancy costs over a growing membership base and an expanded number of centers.

Advertising and marketing expenses. Advertising and marketing expenses were $11.0 million, or 4.3% of total revenue, for the year ended December 31, 2003 compared to $11.7 million, or 6.0% of total revenue, for the year ended December 31, 2002. As a percentage of total revenue and in aggregate dollars, these expenses decreased primarily due to lower advertising expenditures at existing centers and the opening of fewer centers during 2003.

General and administrative expenses. General and administrative expenses were $18.6 million, or 7.2% of total revenue, for the year ended December 31, 2003 compared to $15.0 million, or 7.7% of total revenue, for the year ended December 31, 2002. This $3.6 million increase was primarily due to increased payroll expenses to support the growth in membership and the center base during 2003. As a percentage of total revenue, general and administrative expenses decreased primarily due to economies of scale achieved in shared service functions, including member relations, accounting and procurement, as our membership and center base expanded.

Other operating expenses. Other operating expenses were $16.3 million for the year ended December 31, 2003 compared to $10.4 million for the year ended December 31, 2002. This $5.9 million increase was primarily due to branding initiatives related to our media, nutritional product and athletic event businesses, as well as a $0.5 million increase in losses recognized on the disposal of assets from updating and refurbishing certain centers.

Depreciation and amortization. Depreciation and amortization was $25.3 million for the year ended December 31, 2003 compared to $20.8 million for the year ended December 31, 2002. This $4.5 million increase was due to the opening of four centers during the year, as well as the full-year effect of depreciation for those centers opened in 2002.

Interest expense, net. Interest expense, net of interest income, was $19.1 million for the year ended December 31, 2003 compared to $15.0 million for the year ended December 31, 2002. This $4.2 million increase was primarily due to the increase in outstanding debt related to the five centers that opened during 2002 and the opening of four additional centers in 2003.

Provision for income taxes. The provision for income taxes was $15.0 million for the year ended December 31, 2003 compared to $6.0 million for the year ended December 31, 2002. This $9.0 million increase was due to an increase in income before income taxes of $22.2 million, partially offset by a decrease in the effective tax rate to 42.1% for the year ended December 31, 2003 compared to 44.6% for the year ended December 31, 2002.

Net income. As a result of the factors described above, net income was $20.6 million, or 8.0% of total revenue, for the year ended December 31, 2003 compared to $7.4 million, or 3.8% of total revenue, for the year ended December 31, 2002.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Total revenue. Total revenue increased $58.5 million, or 42.8%, to $195.2 million for the year ended December 31, 2002 from $136.7 million for the year ended December 31, 2001.

Total center revenue grew $55.5 million, or 41.6%, to $189.0 million from $133.4 million, driven by a 22.3% increase in comparable center revenue and the opening of five new centers in 2002 and the full-year contribution of centers opened in 2001. Of the $55.5 million increase in total center revenue,

67.5% was from membership dues, which increased $37.5 million.

9.0% was from enrollment fees, which increased $5.0 million as a result of membership growth in existing centers and the opening of the five new centers. Total net memberships grew by approximately 41,500 during the year.

23.5% was from in-center revenue, which increased $13.1 million primarily as a result of our members increased use of personal training services and our LifeCafes and LifeSpas. As a result of this in-center growth and our focus on broadening our offerings to our members, average in-center revenue per membership increased from $166 to $200 for the year ended December 31, 2002.

Other revenue grew $3.0 million, or 91.6%, to $6.2 million from $3.2 million, which was primarily due to the increased sales of our nutritional products.

Sports, fitness and family recreation center operations expenses. Sports, fitness and family recreation center operations expenses were $102.3 million, or 54.2% of total center revenue (or 52.4% of total revenue), for the year ended December 31, 2002 compared to $74.0 million, or 55.5% of total center revenue (or 54.2% of total revenue), for the year ended December 31, 2001. This $28.3 million increase primarily consisted of an increase of $14.1 million in payroll-related costs and an increase of $5.7 million in utilities and occupancy costs, both to support increased memberships at new and existing centers and increased sales of in-center products and services. As a percentage of total revenue, these expenses decreased primarily due to the leveraging of payroll and utilities costs over a growing membership base and an expanded number of centers.

Advertising and marketing expenses. Advertising and marketing expenses were $11.7 million, or 6.0% of total revenue, for the year ended December 31, 2002 compared to $6.4 million, or 4.6% of total revenue, for the year ended December 31, 2001. This $5.3 million increase was primarily due to increased marketing efforts at existing centers and advertising related to five new center openings. As a percentage of total revenue, these expenses increased primarily due to broader marketing campaigns at existing and new centers.

General and administrative expenses. General and administrative expenses were $15.0 million, or 7.7% of total revenue, for the year ended December 31, 2002 compared to $12.3 million, or 9.0% of total revenue, for the year ended December 31, 2001. This $2.7 million increase was primarily due to increased payroll expenses to support the 23.9% increase in net memberships and the opening of five new centers during the period. As a percentage of total revenue, general and administrative expenses decreased primarily due to economies of scale achieved in the information systems, accounting, real estate and development and procurement functions as our membership and center base expanded.

Other operating expenses. Other operating expenses were $10.4 million for the year ended December 31, 2002 compared to $4.5 million for the year ended December 31, 2001. This $5.9 million increase was primarily due to the increased emphasis on our media and athletic event businesses, as well as growth in our nutritional product business.

Depreciation and amortization. Depreciation and amortization was $20.8 million for the year ended December 31, 2002 compared to $17.3 million for the year ended December 31, 2001. This $3.5 million increase was primarily due to the opening of five new centers during the year as well as the full-year effect of depreciation for those centers opened in 2001.

Asset Impairment. In 2002, we recorded an asset impairment charge of $7.0 million related to our only executive facility, which is located in downtown Minneapolis, Minnesota, and a restaurant that we operate in the same building. The center is one of only two of our centers that are located in urban areas. This executive facility and restaurant differ significantly from our standard model and the initial cash flow results have not been as high as projected. Additionally, this facility and restaurant are located in a more costly geographic area of downtown Minneapolis. The charge represents the difference between the fair value of the assets as determined by discounted estimated future cash flows and the carrying amount of the assets.

Interest expense, net. Interest expense, net of interest income, was $15.0 million for the year ended December 31, 2002 compared to $12.0 million for the year ended December 31, 2001. This $3.0 million increase was primarily due to the increase in outstanding debt related to additional centers that opened during 2001 and the five new centers opened during 2002.

Provision for income taxes. The provision for income taxes was $6.0 million for the year ended December 31, 2002 compared to $3.0 million for the year ended December 31, 2001. This $3.0 million increase was due to an increase in income before income taxes of $6.4 million and an increase in the effective tax rate to 44.6% for the year ended December 31, 2002 compared to 43.1% for the year ended December 31, 2001.

Net income. As a result of the factors described above, net income was $7.4 million, or 3.8% of total revenue, for the year ended December 31, 2002 compared to $4.0 million, or 2.9% of total revenue, for the year ended December 31, 2001.

Interest in an Unconsolidated Affiliated Entity

In 1999, we formed Bloomingdale LIFE TIME Fitness, L.L.C., referred to as Bloomingdale LLC, with two unrelated organizations for the purpose of constructing, owning and operating a sports, fitness and family recreation center in Bloomingdale, Illinois. Each member made an initial capital contribution of $2.0 million and owns a one-third interest in Bloomingdale LLC. The center commenced operations in February 2001. The terms of the relationship among the members are governed by an operating agreement, referred to as the Operating Agreement, which expires on the earlier of December 1, 2039 or the liquidation of Bloomingdale LLC. We have no unilateral control of the center, as all decisions essential to the accomplishments of the purpose of the joint venture require the approval of a majority of the members. Bloomingdale LLC is accounted for as an investment in an unconsolidated affiliate and is not consolidated in our financial statements. Pursuant to the terms of a management agreement, we manage the center owned by Bloomingdale LLC.

On December 1, 1999, Bloomingdale LLC entered into a management agreement with us, pursuant to which we agreed to manage the day-to-day operations of the center, subject to the overall supervision by the Management Committee of Bloomingdale LLC, which is comprised of six members, two from each of the three members of the joint venture. The management agreement expires on December 31, 2039 unless it terminates earlier pursuant to the management agreement. We do not receive a management fee in connection with our duties under the management agreement, but we do receive an overhead cost recovery charge equal to the lesser of the lowest rate charged to any of our other centers or 9.0% of the net revenue of the Bloomingdale LLC center, provided, however, that in no event would Bloomingdale LLC be charged overhead cost recovery at a rate in excess of the ratio of our total overhead expense to our total net center revenue.

Bloomingdale LLC issued indebtedness in June 2000 through a taxable bond financing that is secured by a letter of credit in an amount not to exceed $14.7 million. All of the members separately guaranteed one-third of these obligations to the bank for the letter of credit and pledged their membership interest to the bank as security for the guarantee.

Pursuant to the terms of the Operating Agreement, beginning in March 2002 and continuing throughout the term of such agreement, the members are entitled to receive monthly cash distributions from Bloomingdale LLC. The amount of this monthly distribution is, and will continue to be throughout the term of the agreement, $55,784 per member. In the event that Bloomingdale LLC does not generate sufficient cash flow through its own operations to make the required monthly distributions, we are obligated to make such payments to each of the other two members. To date, Bloomingdale LLC has generated cash flows sufficient to make all such payments. Additional details related to our interest in Bloomingdale LLC are provided in Note 3 to our consolidated financial statements.

Non-GAAP Financial Measures

We use the term EBITDA and EBITDA margin throughout this prospectus. EBITDA consists of net income plus interest expense, net, provision for income taxes and depreciation and amortization. This term, as we define it, may not be comparable to a similarly titled measure used by other companies and is not a measure of performance presented in accordance with GAAP.

We use EBITDA and EBITDA margin as measures of operating performance. EBITDA should not be considered as a substitute for net income, cash flows provided by operating activities, or other income or cash flow data prepared in accordance with GAAP. The funds depicted by EBITDA are not necessarily available for discretionary use if they are reserved for particular capital purposes, to maintain compliance with debt covenants, to service debt or to pay taxes.

We believe EBITDA is useful to an investor in evaluating our operating performance and liquidity because:

- it is a widely accepted financial indicator of a company s ability to service its debt and we are required to comply with certain covenants and borrowing limitations that are based on variations of EBITDA in certain of our financing documents;
- it is widely used to measure a company s operating performance without regard to items such as depreciation and amortization, which can vary depending upon accounting methods and the book value of assets, and to present a meaningful measure of corporate performance exclusive of our capital structure and the method by which assets were acquired; and
- it helps investors to more meaningfully evaluate and compare the results of our operations from period to period by removing from our operating results the impact of our capital structure, primarily interest expense from our outstanding debt, and asset base, primarily depreciation and amortization of our properties.

Our management uses EBITDA:

- as a measurement of operating performance because it assists us in comparing our performance on a consistent basis, as it removes from our operating results the impact of our capital structure, which includes interest expense from our outstanding debt, and our asset base, which includes depreciation and amortization of our properties;
- in presentations to the members of our board of directors to enable our board to have the same consistent measurement basis of operating performance used by management; and
- as the basis for incentive bonuses paid to selected members of senior and center-level management.

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We have provided reconciliations of EBITDA to net income in footnote 11 under Summary Consolidated Financial Data, footnote 11 under Selected Consolidated Financial Data and under Management s Discussion and Analysis of Financial Condition and Results of Operations Quarterly Results.

Quarterly Results

Our quarterly operating results may fluctuate significantly because of several factors, including the timing of new sports, fitness and family recreation center openings and related expenses, timing of price increases for enrollment fees and membership dues and general economic conditions.

In the past, our pre-opening costs, which primarily consist of compensation and related expenses, as well as marketing, have varied significantly from quarter to quarter, primarily due to the timing of center openings. In addition, our compensation and related expenses as well as our operating costs in the beginning of a center s operations are greater than what can be expected in the future, both in aggregate dollars and as a percentage of membership revenue. Accordingly, the volume and timing of new center openings in any quarter have had, and are expected to continue to have, an impact on quarterly pre-opening costs, compensation and related expenses and occupancy and real estate costs. Due to these factors, results for a quarter may not indicate results to be expected for any other quarter or for a full fiscal year.

	Fiscal 2002				Fiscal 2003				Fiscal 2004
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter(1)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter
	(In thousands, except for number of centers and per share data)								
Total revenues	$44,043	$ 47,426	$ 50,076	$53,621	$60,281	$ 63,574	$66,027	$ 67,060	$ 74,170
Income from operations	6,998	8,910	8,207	3,894	11,691	14,172	14,417	13,701	13,983
Net income (loss)	2,006	2,976	2,493	(54)	4,212	5,453	5,654	5,286	5,647
Net income (loss) applicable to common shareholders	213	1,206	733	(1,816)	2,489	3,712	3,894	3,523	3,910
Earnings (loss) per share									
Basic	$ 0.02	$ 0.08	$ 0.05	$ (0.11)	$ 0.16	$ 0.23	$ 0.24	$ 0.22	$ 0.24
Diluted	0.01	0.07	0.04	(0.11)	0.15	0.19	0.20	0.18	0.19
Cash Flow Data:									
Net cash provided by (used in):									
Operating activities	$14,233	$ 9,205	$ 9,770	$10,350	$14,831	$ 14,274	$ 9,421	$ 14,066	$ 20,783
Investing activities	(8,313)	(12,006)	(12,421)	1,390	(3,223)	(11,792)	7,709	(17,186)	(19,532)
Financing activities	(1,315)	(2,481)	4,308	(6,068)	(3,442)	(4,368)	(4,705)	(5,999)	(17,390)
EBITDA(2)	$11,957	$ 14,036	$ 13,468	$ 9,682	$17,675	$ 20,570	$20,922	$ 20,841	$ 21,183
Centers open at end of quarter(3)	25	26	28	29	29	30	30	33	33

(1) In the fourth quarter of 2002, we recorded an asset impairment charge of $7.0 million related to our only executive facility, which is located in downtown Minneapolis, Minnesota, and a restaurant that we operate in the same building. The center is one of only two of our centers that are located in urban areas. This executive facility and restaurant differ significantly from our standard model and the initial cash flow results have not been as high as projected. Additionally, this facility and restaurant are located in a more costly geographic area of downtown Minneapolis. The charge represents the difference between the fair value of the assets as determined by discounted estimated future cash flows and the carrying amount of the assets.

(2) EBITDA consists of net income plus interest expense, net, provision for income taxes and depreciation and amortization. This term, as we define it, may not be comparable to a similarly titled measure used by other companies and is not a measure of performance presented in accordance with GAAP. We use EBITDA as a measure of operating performance. EBITDA should not be considered as a substitute for net income, cash flows provided by operating activities, or other income or cash

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flow data prepared in accordance with GAAP. The funds depicted by EBITDA are not necessarily available for discretionary use if they are reserved for particular capital purposes, to maintain debt covenants, to service debt or to pay taxes. Additional details related to EBITDA are provided in Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures.

The following table provides a reconciliation of net income to EBITDA:

	Fiscal 2002				Fiscal 2003				Fiscal 2004
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter(a)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	1st Quarter
					(In thousands)				
Net income	$ 2,006	$ 2,976	$ 2,493	$ (54)	$ 4,212	$ 5,454	$ 5,654	$ 5,286	$ 5,647
Interest expense, net	3,446	3,649	3,773	4,082	4,563	4,904	4,850	4,815	4,612
Provision for income taxes	1,614	2,395	2,006	(44)	3,067	3,972	4,118	3,849	3,977
Depreciation and amortization	4,891	5,016	5,196	5,698	5,833	6,240	6,300	6,891	6,947
EBITDA	$11,957	$14,036	$13,468	$9,682	$17,675	$20,570	$20,922	$20,841	$21,183

(a) See footnote 1 above.

(3) The data being presented include the center owned by Bloomingdale LLC.

Seasonality of Business

Seasonal trends have a limited effect on our overall business. Generally, we have experienced greater membership growth at the beginning of the year and we have not experienced an increased rate of membership attrition during any particular season of the year. During the summer months, we have experienced a slight increase in operating expenses due to our outdoor aquatics operations.

Liquidity and Capital Resources

Liquidity

Historically, we have satisfied our liquidity needs through various debt arrangements, sales of equity to private investors and cash from operations. Principal liquidity needs have included the development of new sports, fitness and family recreation centers, debt service requirements and expenditures necessary to maintain and update our existing centers and their related fitness equipment. We believe that we will be able to satisfy our debt service obligations and capital expenditure requirements through 2005 with available cash balances, including the net proceeds from this offering, cash flow from operations, our committed debt facilities and by the extension of certain of our debt facilities. We believe that we can satisfy our longer-term debt service obligations and capital expenditure requirements with cash flow from operations, by the extension of the terms of or refinancing our existing debt facilities, through sale-leaseback transactions and by continuing to raise long-term debt, although there can be no assurance that such actions can be completed. Our business model operates with negative working capital because we carry minimal accounts receivable due to our ability to have monthly membership dues paid by electronic draft and because we fund the construction of our new centers under standard arrangements with our vendors that are paid with proceeds from long-term debt.

Operating Activities

As of March 31, 2004, we had total cash and cash equivalents of $2.3 million and $12.5 million of restricted cash that serves as collateral for certain of our debt arrangements. As described below, in January 2004, we repaid all of the debt, totaling $18.0 million, related to two of our centers. We also had $32.0 million available under the terms of our revolving credit facility as of March 31, 2004.

Net cash provided by operating activities was $20.8 million for the three months ended March 31, 2004 compared to $14.8 million for the three months ended March 31, 2003. The increase of $6.0 million was primarily due to increases in cash provided by net operating assets and liabilities. Cash provided by net operating assets and liabilities included a reduction of income tax receivable of $2.5 million and increases in accrued expenses and deferred revenue due to membership growth.

Net cash provided by operating activities was $52.6 million for 2003 compared to $43.6 million for 2002. The increase of $9.0 million was primarily due to a $20.9 million increase in net income adjusted for non-cash charges, which was offset by an increase in cash used for net operating assets and liabilities in 2003 compared to 2002. The cash used for net operating assets and liabilities was primarily due to increases in prepaid insurance expenses, lease deposits and income taxes receivable.

Net cash provided by operating activities was $43.6 million for 2002 compared to $32.6 million for 2001. The increase of $11.0 million was primarily due to a $6.9 million increase in net income adjusted for non-cash charges and in cash provided by net operating assets and liabilities in 2002 compared to 2001. The cash provided by net operating assets and liabilities was a result of an increased number of centers and memberships and included increases in deferred revenues, accrued expenses and accounts payable.

Investing Activities

Investing activities consist primarily of purchasing real property, constructing new sports, fitness and family recreation centers and purchasing new fitness equipment. In addition, we make capital expenditures to maintain and update our existing centers. We finance the purchase of our property and equipment by cash payments or by financing through notes payable or capital lease obligations. For current model centers, our investment has averaged approximately $23.5 million, which includes the land, the building and approximately $2.5 million of exercise equipment, furniture and fixtures.

Our total capital expenditures were as follows:

	For the Year Ended December 31,			For the Three Months Ended March 31,	
	2001	**2002**	**2003**	**2003**	**2004**
			(In thousands)		
Cash purchases of property and equipment	$54,276	$27,508	$41,315	$ 2,003	$22,488
Non-cash property and equipment purchases financed through notes payable	25,051	47,224	28,668	8,911	2,954
Non-cash property and equipment purchases financed through capital lease obligations	15,596	12,700	11,863	1,826	145
Total capital expenditures	$94,923	$87,432	$81,846	$12,740	$25,587

Capital expenditures related to new centers were $86.2 million in 2001, $81.3 million in 2002 and $69.1 million in 2003. Of the $81.3 million spent in 2002, $7.9 million was for land for centers which opened in 2003, $47.5 million was for construction of the five centers which opened in 2002, $14.5 million was for the construction of three of the four centers which opened in 2003 and $11.4 million was for the initial equipment for the five centers opened in 2002. As a percentage of total building construction costs, 59.8% and 29.2% of construction costs were completed in 2002 for the centers which opened in 2003 and 2004, respectively. Of the $69.1 million spent in 2003, $14.0 million was for land for centers to open in 2004, $32.9 million was for construction of the four centers which opened in 2003, $13.3 million was for the construction of five of the six centers we plan to open in 2004 and $8.9 million was for the initial equipment for the four centers opened in 2003. As a percentage of total building construction costs, 69.5% and 15.4% of construction costs were completed in 2003 for the centers that opened in 2003 and we plan to open in 2004, respectively.

At March 31, 2004, we had purchased the real property for the five new current model centers that we plan to open in 2004 and we had entered into agreements to purchase real property for the development of three of the new centers that we plan to open in 2005.

Capital expenditures to maintain and update our existing centers were $8.7 million in 2001, $6.1 million in 2002 and $12.7 million in 2003.

We expect our capital expenditures to be approximately $155.0 million in 2004. Of the $155.0 million expected to be spent in 2004, approximately $25 million is for the purchase of land for centers we plan to open in 2005, approximately $60 million is for construction of the six centers we plan to open in 2004, approximately $40 million is for the construction of the six centers that we plan to open in 2005 and approximately $15 million is for the initial equipment for the six centers we plan to open in 2004. As a percentage of total building construction costs, approximately 75% and 30% of construction costs are expected to be completed in 2004 for the centers that we plan to open in 2004 and 2005, respectively. In addition to the new center expansion, we expect to spend approximately $15 million for the maintenance of existing centers and corporate infrastructure.

In May 2001, we entered into a sale-leaseback transaction with respect to one of our large format centers. Pursuant to the terms of this transaction, we sold the center for $7.2 million and simultaneously entered into a capital lease of the center for a period of 20 years.

In September 2003, we entered into a sale-leaseback transaction with respect to two of our current model centers. Pursuant to the terms of this transaction, we sold the centers for $42.9 million and simultaneously entered into an operating lease of the centers for a period of 20 years.

Financing Activities

We have several secured credit facilities. We have a $55.0 million revolving credit facility led by Antares Capital Corporation that expires on June 30, 2005. Availability under this facility is determined based upon a multiple of a variation of EBITDA as defined in the credit agreement. Additionally, we are restricted in our borrowings and in general under the revolving credit facility by certain financial covenants, including capital expenditure levels and maintaining leverage ratios, fixed charge and interest coverage ratios and a loan to value ratio. As of March 31, 2004, our capital expenditures are limited to 2.10 times the usable square footage of all open centers we own plus financed capital expenditures. As of March 31, 2004, we are required to maintain a senior leverage ratio not in excess of 2.75 to 1.00, a total leverage ratio not in excess of 4.5 to 1.0, a fixed charge coverage ratio not in excess of 1.15 to 1.00, an interest coverage ratio not in excess of 3.0 to 1.0, an adjusted total leverage ratio not in excess of 4.0 to 1.0 and a loan to value ratio not in excess of 0.5 to 1.0. The revolving credit facility also contains covenants that, among other things, restrict our ability to incur certain additional debt, pay dividends, create certain liens and engage in certain transactions. We are in compliance in all material respects with our covenants and we do not expect the limits on our borrowing ability to prevent us from obtaining the funds we need under the revolving credit facility. As security for our obligations under the revolving credit facility, we have granted a security interest in all of our personal property. Interest accrues at the rate of either the prime rate plus 2.5% or LIBOR plus 4.0%, as we elect from time to time. As of March 31, 2004, we had $18.0 million outstanding, $5.0 million in committed letters of credit and $32.0 million available for additional borrowings under this facility.

We also have a $75.0 million construction credit facility led by U.S. Bank, National Association. Pursuant to the terms of the construction credit facility, the lending group has committed to make up to seven individual loans, the purpose of which is to fund the construction costs related to completing the construction of certain centers. The current commitment to lend expires on January 1, 2006. Borrowings under this facility are limited to the lesser of 55.0% of the total land and construction cost, or 75.0% of the appraised value, of the specific centers currently under construction and are due and payable no later than three years from the closing date of each individual loan. As security for the obligations owing under the construction credit facility, we have granted mortgages on each of the specific centers that are financed by means of the construction credit facility. Funds are available only after we have first contributed our portion, which is approximately 45.0%, of the total project cost to the construction of the specific project and then only for reimbursement of project construction costs actually incurred. Interest accrues at a rate of prime plus 0.5%. At March 31, 2004, we had $8.9 million outstanding related to one specific center and $66.1 million available for additional borrowings under this facility.

We have financed 13 of our centers with Teachers Insurance and Annuity Association of America pursuant to the terms of individual notes. The obligations under these notes are due in full in June 2011, and are secured by mortgages on each of the centers specifically financed, and we maintain a letter of credit in the amount of $5.0 million in favor of the lender. The obligations related to 10 of the notes are being amortized over a 20-year period, while the obligations related to the other three notes are being amortized over a 15-year period. The interest rate payable under these notes has been fixed at 8.25%. The loan documents provide that we will be in default if Mr. Akradi ceases to be Chairman of the Board of Directors and Chief Executive Officer for any reason other than due to his death or incapacity or as a result of his removal pursuant to our articles of incorporation or bylaws. As of March 31, 2004, $135.2 million remained outstanding on the notes.

We have financed our centers in Champlin and Savage, Minnesota separately. These obligations bear interest at a fixed rate of 6.0% and are being amortized over a 15-year period. The obligation related to our Champlin center is due in full in January 2007 and the obligation for our Savage center is due in full in August 2007. As security for the obligations, we have granted mortgages on these two centers. At March 31, 2004, $5.5 million was outstanding with respect to these obligations.

We have financed our center in Plymouth, Minnesota. This obligation bears interest at a variable rate of 0.5% plus the prime rate and is being amortized over a 15-year period. We are restricted under this obligation by a requirement that we maintain a total leverage ratio not in excess of 4.5 to 1.0 and a fixed charge coverage ratio not in excess of 1.15 to 1.0. The loan documents also contain covenants that, among other things, restrict our ability to pay dividends and engage in certain transactions. We are in compliance with our covenants in all material respects. As security for the obligation, we have granted a mortgage on this center. The obligation for our Plymouth center is due in full in February 2007. As of March 31, 2004, a total of $3.5 million was outstanding with respect to this obligation.

In May 2001, we financed one of our Minnesota centers pursuant to the terms of a sale-leaseback transaction that qualified as a capital lease. Pursuant to the terms of the lease, we agreed to lease the center for a period of 20 years. At March 31, 2004, the present value of the future minimum lease payments due under the lease amounted to $7.0 million.

We have financed our purchase of most of our equipment through capital lease agreements with an agent and lender, on behalf of itself and other lenders. The terms of such leases are typically 60 months and our interest rates range from 7.1% to 12.8%. As security for the obligations owing under the capital lease agreements, we have granted a security interest in the leased equipment to the lender or its assigns. At March 31, 2004, $35.3 million was outstanding under these leases.

In December 2003, we entered into a $35.0 million mortgage facility led by General Electric Capital Corporation. The purpose of this credit facility is to refinance outstanding obligations under the construction credit facility; however, this facility could also be used to finance the construction of new centers. Borrowings under this facility are limited to 65.0% of the total land and construction cost of certain centers. Funds are available for advance within 12 months of the closing date of the credit facility and bear interest at a per annum rate equal to 4.5% plus the most current rate quoted by the Federal Reserve as the 5-year rate for U.S. Government Treasury Securities. Advances made under this credit facility will be amortized over a 15-year period and will be due in full on December 31, 2011. We are restricted by a financial covenant that requires that each center financed under this facility maintain a fixed charge ratio of not less than 1.0 to 1.0 during the first 18 months of the advancement of borrowings for such center and a fixed charge ratio of not less than 1.2 to 1.0 thereafter. No amounts are outstanding under this facility.

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Contractual Obligations

The following is a summary of our contractual obligations as of December 31, 2003:

	Payments due by period				
	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
Long-term debt obligations	$187,791	$ 5,552	$51,029	$18,875	$112,335
Operating lease obligations	135,355	7,347	14,681	13,718	99,609
Capital lease obligations	45,441	12,726	19,982	6,291	6,442
Purchase obligations(1)	43,739	42,266	1,435	38	
Total contractual obligations	$412,326	$67,891	$87,127	$38,922	$218,386

(1) Purchase obligations consist primarily of our contracts with construction subcontractors for the completion of five of our centers in 2004 and contracts for the purchase of land.

Recent Accounting Pronouncements

In May 2003, the Financial Accounting Standards Board, or the FASB, issued Statement of Financial Accounting Standard, or SFAS, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity,* or SFAS No. 150. This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments of both liabilities and equity. SFAS No. 150 requires issuers to classify as liabilities (or assets in some circumstances) three classes of freestanding financial instruments that embody obligations for the issuer. For public entities, SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and at the beginning of the first interim period beginning after June 15, 2003 for all existing financial instruments. As of March 31, 2004, we did not have financial instruments within the scope of SFAS No. 150.

In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities,* or FIN 46. FIN 46 clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements,* to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated support from other parties. FIN 46 requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. In December 2003, the FASB revised FIN 46 to exclude from its scope certain entities which meet the definition of a business under Emerging Issues Task Force No. 98-3, *Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business.* FIN 46, as revised, shall be applied no later than the first reporting period ending after March 15, 2004. The adoption of FIN 46, as revised, will not have a material impact on our financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.* FASB No. 4 required all gains or losses from extinguishment of debt to be classified as extraordinary items net of income taxes. SFAS No. 145 requires that gains and losses from extinguishment of debt be evaluated under the provisions of APB Opinion No. 30, and be classified as ordinary items unless they are unusual or infrequent or meet the specific criteria for treatment as an extraordinary item. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. As a result of SFAS No. 145, we reclassified the loss from early extinguishment of debt of $2.9 million from an extraordinary item to a component of continuing operations in our 2001 statement of operations.

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for any of the years in the three-year period ended December 31, 2003 or the three months ended March 31, 2004. We

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cannot assure you that future inflation will not have an adverse impact on our operating results and financial condition.

Quantitative and Qualitative Disclosures About Market Risk

We do not believe that we have any significant risk related to interest rate fluctuations since we have primarily fixed-rate debt. We invest our excess cash in highly liquid short-term investments. These investments are not held for trading or other speculative purposes. Changes in interest rates affect the investment income we earn on our cash and cash equivalents and, therefore, impact our cash flows and results of operations. As of December 31, 2003 and March 31, 2004, our floating rate indebtedness was approximately $44.4 million and $34.3 million, respectively. If long-term floating interest rates were to have increased by 100 basis points during 2003, our interest costs would have increased by approximately $0.4 million. If short-term interest rates were to have increased by 100 basis points during 2003, our interest income from cash equivalents would have increased by approximately $0.2 million. These amounts are determined by considering the impact of the hypothetical interest rates on our floating rate indebtedness and cash equivalents balances at December 31, 2003.

Change in Independent Auditors

During 2002, we replaced Arthur Andersen LLP as our independent auditors and, upon authorization by our board of directors, engaged Deloitte & Touche LLP as our independent registered public accounting firm. Arthur Andersen did not have any disagreement with us on any matter of accounting principles or practices, financial statement disclosure of auditing scope or procedures, which disagreement, if not resolved to the satisfaction of Arthur Andersen, would have caused it to make reference to the subject matter of the disagreement in connection with its report on our financial statements. We did not consult with Deloitte & Touche on any financial or accounting matters in the period before its appointment.

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BUSINESS

Company Overview

We operate distinctive and large sports, athletic, fitness and family recreation centers under the LIFE TIME FITNESS® brand. We design and develop our own centers, and we focus on providing our members and customers with products and services at a compelling value in the areas of exercise, education and nutrition.

As of June 5, 2004, we operated 34 centers primarily in suburban locations across eight states. In addition to traditional health club offerings, most of our centers include an expansive selection of premium amenities and services, such as indoor swimming pools with water slides, basketball and racquet courts, interactive and entertaining child centers, full-service spas and dining services and, in many cases, climbing walls and outdoor swimming pools. We believe our centers provide a unique experience for our members, resulting in a high number of memberships per center and attrition rates that were 6.3% better than the industry average in 2001 and 5.7% better than the industry average in 2002.

Over the past 12 years, as we have opened new centers, we have refined the size and design of our centers. Of our 34 centers, we consider 25 to be of our large format design, and of these 25 centers, we consider 13 to be of our current model design. Although the size and design of our centers may vary, our business strategy and operating processes remain consistent across all of our centers. Each of our current model centers targets 11,500 memberships by offering approximately 105,000 square feet of health, fitness and family recreation programs and services. Most of the centers that we have opened since 2000 conform to our current model center, and each of these centers has delivered growth in membership levels, revenue and profitability across a range of geographic markets.

As a result of the growth of our business and our brand recognition, we are expanding the LIFE TIME FITNESS brand into complementary wellness-related businesses. For example, we utilize our award winning magazine, *Experience Life*, to educate our members and subscribers and to continually drive the educational attributes of our brand. We further grow the LIFE TIME FITNESS brand by offering a line of nutritional products and by organizing athletic events.

Throughout our history, we have consistently increased our revenue by opening new sports, fitness and family recreation centers, increasing the number of memberships per existing center and focusing on the sale of additional programs and services in our centers. For each of the fiscal years from 2000 to 2003, we experienced annual revenue growth of 74%, 45%, 43% and 32%, respectively, with revenue of $256.9 million in 2003; annual EBITDA growth of 92%, 54%, 35% and 63%, respectively, with EBITDA of $80.0 million in 2003; and annual net income growth of 55%, 7%, 86% and 178%, respectively, with net income of $20.6 million in 2003.

We were incorporated on October 15, 1990 as a Minnesota corporation under the name FCA, Ltd. and we began doing business under the name LIFE TIME FITNESS in July 1992. We changed our name to Life Time Fitness, Inc. on December 8, 1998 to correspond with our brand name.

Our Competitive Strengths

We offer comprehensive and convenient programs and services.

Our large format centers offer high quality sports, athletic, fitness and family recreation programs and services in a resort-like setting and are generally situated on a parcel of land of at least 10 acres. Unlike traditional health clubs, these centers typically offer large indoor and outdoor family recreation pools, climbing walls and basketball and racquet courts, in addition to approximately 400 pieces of cardiovascular and resistance training equipment and an extensive offering of health and fitness classes. Our staff of customer-focused employees, each trained through our specifically designed program of classes, is committed to providing an environment that is comfortable, friendly, inviting and clean. Our large format centers include luxurious reception areas and locker rooms, child care facilities with spacious play areas and computers, spas offering massage and beauty services and cafes with healthy product offerings throughout the day.

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We offer a value proposition that encourages membership loyalty.

The amenities and services we offer exceed most other health and fitness center alternatives available to our members. We offer different types of membership plans for individuals, couples and families. Our monthly membership dues typically range from $40 to $60 per month for an individual membership and from $80 to $130 per month for a couple or family membership. Each of our memberships includes all of the primary member s children under the age of 12 at no additional cost. We provide our members with a variety of complimentary services, including child care, lockers, towels, group fitness classes and our magazine, *Experience Life*. Our membership plans are month-to-month, cancelable at any time on one month s notice and include initial 30-day money back guarantees. Our value proposition and customer-focused approach create loyalty among our members that reduces our attrition rate.

We offer a product that is convenient for our members.

Our centers are generally situated in high-traffic suburban areas and are easily accessible and centrally located among the residential, business and shopping districts of the surrounding community. We design and operate our centers to accommodate a large and active membership base by providing access to the centers 24 hours a day, seven days a week. In addition, we provide sufficient lockers and equipment to allow our members to exercise with little or no waiting time, even at peak hours and when center membership levels are at targeted capacity. Our child care services are available for up to two hours per day at no additional cost and most of our centers offer the convenience of spa and dining services under the same roof. Membership generally affords our members the right to utilize any of our centers.

We have an established and profitable economic model.

Our economic model is based on and depends on attracting a large membership base within the first three years after a new center is opened, as well as retaining those members and maintaining tight expense control. For each of the fiscal years from 2000 to 2003, this economic model has resulted in annual revenue growth of 74%, 45%, 43% and 32%, respectively, with revenue of $256.9 million in 2003; annual EBITDA growth of 92%, 54%, 35% and 63%, respectively, with EBITDA of $80.0 million in 2003; and annual net income growth of 55%, 7%, 86% and 178%, respectively, with net income of $20.6 million in 2003. We expect the typical membership base at our large format centers to grow from approximately 35% of targeted membership capacity at the end of the first month of operations to over 90% of our targeted membership capacity by the end of the third year of operations, which is consistent with our historical performance. Average targeted membership capacity is approximately 10,500 for all of our large format centers and 11,500 for our large format centers that are current model centers. Average revenue at our 15 large format centers that we opened in 2001 or earlier exceeded $10.7 million for the year ended December 31, 2003. At these centers during the same period, EBITDA averaged 40.0% of revenue, and net income averaged approximately 15% of revenue. Our investment for a large format center has averaged approximately $17.8 million, which includes the land, the building and approximately $2.5 million of exercise equipment, furniture and fixtures, and our typical investment for a current model center has averaged approximately $23.5 million.

We believe we have a disciplined and sophisticated site selection and development process.

We believe we have developed a disciplined and sophisticated process to evaluate metropolitan markets in which to build new centers, as well as specific sites for future centers within those markets. This multi-step process is based upon demographic, psychographic and competitive criteria generated from profiles of already successful centers. We continue to modify these criteria based upon the performance of our centers. A formal business plan is developed for each proposed new center and the plan must pass multiple stages of management approval. By utilizing a wholly owned construction subsidiary, FCA Construction Holdings, LLC, that is dedicated solely to building our centers, we maintain maximum flexibility over the design process of our centers and control over the cost and timing of the construction process. As a result of our strict adherence to this disciplined process, we have never closed a center, and our large format centers produced, on average, EBITDA in excess of 21% of revenue and net income of less than 1% of revenue during their first year of operation.

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We have a committed and experienced senior management team.

Our senior management team has extensive and diverse management experience. This team is led by our Chief Executive Officer and founder, Bahram Akradi. Mr. Akradi has worked in the health and fitness industry for over 20 years, has held various leadership positions at other health club organizations and is a founder of the health and fitness Industry Leadership Council. Steve Rowland, President of our company s wholly owned construction subsidiary, has been with our company for five years and has over 20 years of experience in the construction industry. Mark Zaebst, Senior Vice President of Real Estate and Development, has over 20 years of experience in the health and fitness industry and over eight years of experience in commercial real estate development. Eric Buss, Senior Vice President of Corporate Development, General Counsel and Secretary, has been with our company for over four years. Key additions to our senior management team from outside the health and fitness industry since 2002 include Michael Gerend, Executive Vice President and Chief Operating Officer, and Michael Robinson, Executive Vice President and Chief Financial Officer. Messrs. Gerend and Robinson have extensive operations and financial management experience, respectively, and further strengthen our talented and experienced senior management team that has been instrumental in growing and building our company. Despite the experience described above, our senior management team has never had direct responsibility for managing a publicly traded company.

Our Growth Strategy

Drive membership growth.

New Centers. Since the beginning of 1999, we have expanded our base of centers from nine to 34. We opened four centers in 2003, and we plan to open six large format centers in 2004, five of which will be current model centers, and six current model centers in 2005. The new centers we plan to open will be built in both new and existing markets. We have already opened one center in 2004 and we have commenced construction of the remaining five centers to be opened this year. We have selected the markets and identified potential sites for the centers we plan to open in 2005. We believe that, based upon our data, there is the potential for adding at least 225 additional current model centers throughout the U.S. in existing as well as new markets. We have built a corporate infrastructure that we believe will support our growth for the next several years.

Existing Centers. Of our 34 centers, the nine that opened in 2002 and 2003 averaged 65% of targeted membership capacity as of December 31, 2003. We expect the continuing ramp in memberships at these centers to contribute significantly to our growth in 2004 as these centers move toward our goal of 90% of targeted membership capacity by the end of their third year of operations. We also plan to continue to drive membership growth at centers that are not yet at targeted capacity. In order to achieve this goal, we employ marketing programs to effectively communicate our value proposition to prospective members and we are implementing a customer relationship management system that will allow us to better manage and increase prospective member conversion.

Increase revenue per membership.

From 1999 to 2003, we increased revenue per membership from $659 to $1,089 primarily due to a shift toward more couple and family memberships and increased sales of in-center products and services. We believe the revenue from sales of our in-center products and services will grow at a faster rate than enrollment fees and membership dues. Our centers offer a variety of these in-center products and services, including private and group sessions with highly skilled and professional personal trainers, relaxing LifeSpa salon and spa services, engaging member activities programs and a nutritional LifeCafe restaurant. These high quality and convenient in-center products and services produce incremental revenue and profit. From 1999 to 2003, revenue from the sale of in-center products and services grew from $10.6 million to $54.2 million. We expect to continue to drive in-center revenue by increasing sales of our current in-center products and services and introducing new products and services to our members by expanding our marketing efforts and deploying our customer relationship member management system to better gauge the interests and needs of our members.

Leverage the LIFE TIME FITNESS brand into the broader health and wellness industry.

We plan to leverage the LIFE TIME FITNESS brand that we have established through our sports, fitness and family recreation centers into other businesses in the broader health and wellness industry. We have developed and market a line of nutritional products that we distribute in our centers, on our web site and through selected national retail chains. Our award-winning magazine, *Experience Life*, is distributed to each of our members and is also available for purchase by subscription or at selected major bookstores nationwide. *Experience Life* has a current circulation of approximately 500,000 copies and is expected to be published 10 times in 2004. The annual LIFE TIME FITNESS Triathlon, a nationally televised and award winning event, attracts an international field of professional and amateur participants to a uniquely-designed race for the sport s largest cash purse.

Our Industry

We participate in the large and growing U.S. health and wellness industry, which we define to include health and fitness centers, fitness equipment, athletics, physical therapy, wellness education, nutritional products, athletic apparel, spa services and other wellness-related activities. According to IHRSA, the estimated market size of the U.S. health club industry, which is a relatively small part of the health and wellness industry, was approximately $14.1 billion in revenues with approximately 23,500 clubs and 39.4 million memberships at the end of 2003. According to IHRSA, the percentage of the total U.S. population with health club memberships increased from 7.4%, or 20.7 million memberships, in 1990 to 13.5%, or 33.8 million memberships, in 2001. IHRSA also reports that total U.S. health club memberships increased from 24.1 million memberships in 1995 to 39.4 million memberships in 2003, resulting in a compound annual growth rate of 6.3%. Over this same period, total U.S. health club industry revenues increased from $7.8 billion to $14.1 billion. We believe such growth is a result of the following trends in the health club industry:

Changing demographics in the U.S. According to IHRSA, there are now 75 million Baby Boomers between the ages of 40 and 58. IHRSA reported that, between the years of 1997 and 2001, the percentage of health club memberships rose 19% overall, or 5.5 million memberships, with the percentage rising 59%, or 4.2 million memberships, for persons age 45 and older. According to IHRSA, members of the age group 45 years and older represented 24.7% of health club memberships in 1997 and grew to 33.1% of memberships in 2001, which is among the fastest growth rate of all groups. We expect this trend to continue as the large number of Baby Boomers continue to age and enter the 45 and older age group. The interest shown in the benefits of fitness by these demographics has fueled the health club industry s growth during the past decade and represents a strong growth opportunity for the health club industry in the future.

Increased awareness of health benefits of being physically fit. There has been a significant increase in the awareness of the health benefits of being physically fit and of the risks of sedentary behavior. At the end of 2000, 65% of Americans over the age of 19 were considered overweight and 31% were considered obese according to the Centers for Disease Control and Prevention. Moreover, between 1980 and 2000, the percentage of overweight children between the ages of six and 11 more than doubled from 7% in 1980 to 15% in 2000 and the percentage of overweight adolescents between the ages of 12 and 19 tripled from 5% in 1980 to 15% in 2000, according to the Centers for Disease Control and Prevention. In both 1996 and 2001, the U.S. Surgeon General s office released reports which documented this rise of obesity in the U.S. and urged people to become more active. Such statistics have increased the awareness of benefits from exercise, and have also encouraged more frequent participation in physical activities. A study done for IHRSA by American Sports Data, Inc. in July 2003 reported that nearly nine out of 10 Americans believe that when it comes to weight management, regular exercise is essential.

Rising healthcare costs. To combat increasing healthcare costs, health maintenance organizations, preferred provider organizations and corporations are exploring ways to decrease their healthcare-related expenses. Empirical research cited by the Wellness Councils of America and IHRSA indicates that fitness programs can reduce a company s overall healthcare costs and lead to lower employee turnover, reduced absenteeism and improved productivity. As a result, many organizations have implemented programs which promote health and wellness, including subsidizing health club memberships for their employees or insureds.

Use of health and fitness clubs as gathering places and for family entertainment. We believe that people are seeking reasonably-priced entertainment and social opportunities that can also positively impact their health and wellness. Members can engage in a variety of interactive programs, while also relieving stress and improving their fitness level. Participating in activities at a local health and fitness club gives members a chance to socialize and connect with others in their community.

Our Philosophy Developing a Healthy Way of Life Company

We strive to offer our members a healthy way of life in the areas of exercise, nutrition and education by providing high quality products and services both in and outside of our centers. We promote continuous education as an easy and inspiring part of every member s experience by offering free seminars on health, nutrition, stress reduction, time management and life extension to educate members on the benefits of a regular fitness program and a well-rounded lifestyle. Moreover, our sports, fitness and family recreation centers offer interactive learning opportunities, such as personal training, group fitness sessions and member activities classes and programs. We believe that by helping our members experience the rewards of developing their bodies and challenging and investing in themselves, they will associate our company with healthy living.

Our Sports, Fitness and Family Recreation Centers

Size and Location

Our sports, fitness and family recreation centers have evolved over the past several years. Out of our 34 centers, 25 are of our large format design and 13 of these 25 centers conform to our current model center. Our current model center is approximately 105,000 square feet and serves as an all-in-one sports and athletic club, family recreation center, professional fitness facility, spa and cafe. Our distinctive format is designed to provide an efficient and inviting use of space that accommodates our targeted capacity of 11,500 memberships and provides a premium assortment of amenities and services. Our 12 centers that have the large format design, but do not conform to our current model center, average approximately 85,000 square feet and have an average targeted capacity of 9,500 memberships. Generally, targeted capacity for a center is 1,100 memberships for every 10,000 square feet at a center. This targeted capacity is designed to maximize the customer experience based upon our historical understanding of membership usage.

Our centers are centrally located in areas that offer convenient access from the residential, business and shopping districts of the surrounding community, and also provide free and ample parking. We plan to open six large format centers in 2004, five of which will be current model centers and the first of which opened in June. We plan to open six current model centers in 2005.

Center Environment

Our sports, fitness and family recreation centers combine modern architecture and décor with state-of-the-art amenities to create an innovative and functional health and recreation destination for the entire family. All of our current model centers and most of our large format centers are scalable, freestanding buildings designed with open architecture and naturally illuminated atriums that create a spacious, inviting atmosphere. From the limestone floors, natural wood lockers and granite countertops to safe and bright child centers, each room is carefully designed to create an appealing and luxurious environment that attracts and retains members and encourages them to visit the center. Moreover, we have specific staff members who are responsible for maintaining the cleanliness and neatness of the locker room areas, which contain approximately 800 lockers, throughout the day and particularly during the center s peak usage periods. We continually update and refurbish our centers to maintain a high quality fitness experience. Our commitment to quality and detail provides a similar look and feel at each of our large format centers.

Equipment and Programs

The table below displays the wide assortment of amenities and services typically found at our centers:

Large Format Centers, including Current Model Centers

Facilities	Amenities and Services	Activities and Events
Basketball/Volleyball Courts	24-Hour Availability	Adventure Travel
Cardiovascular Training	Free 360 Fitness Assessment	Aquatics
Child Centers	Free Child Care	Athletic Leagues
Free Weights	Free Educational Seminars	Birthday Parties
Group Fitness Studios	Free Subscription to *Experience Life*	Eastern/Martial Arts
Lap Pool	Free Towel Service	Kid s Club
Racquetball/ Squash Courts	Free Use of Lockers	Pilates
Resistance Training	LifeCafe	Running Club
Rock Climbing Cavern	LifeSpa Salon	Scuba Lessons
Saunas	Massage Therapy	Spinning
Two-story Waterslides	Nutritional Products	Sports-specific Training Camps
Whirlpools	Personal Training	Summer Camps
Zero-depth Entry Swimming Pools	Pool-side Bistro	Swimming Lessons
		Yoga

Other Centers

Facilities	Amenities and Services	Activities and Events
Cardiovascular Training	Free 360 Fitness Assessment	Adventure Travel
Child Centers	Free Child Care	Pilates
Free Weights	Free Educational Seminars	Running Club
Group Fitness Studios	Free Subscription to *Experience Life*	Spinning
Lap Pool	Free Towel Service	Yoga
Resistance Training	Free Use of Lockers	
Saunas	Massage Therapy	
	Nutritional Products	
	Personal Training	

Fitness Equipment and Facilities. To help a member lose weight, train for athletic events or develop and maintain a healthy way of living, our centers have up to 400 pieces of cardiovascular, free weight and resistance training equipment. At each of our centers, exercise equipment is arranged in spacious workout areas to allow for easy movement from machine to machine, thus providing a convenient and efficient workout. Equipment in these areas is arranged in long parallel rows that are clearly labeled by body part, allowing members to easily customize their exercise programs and reduce downtime during their workouts. Due to the large amount of equipment in each center, members rarely have to wait to use a machine. We have in-house technicians that service and maintain our equipment, which generally enables us to repair or replace any piece of equipment within 24 hours. In addition, we have a comprehensive system of large-screen televisions in the fitness area, and members can tune their personal headsets to a radio frequency to hear the audio for each television program.

Our current model centers have full-sized indoor and outdoor recreation pools with zero depth entrances and water slides, lap pools, saunas, steam baths and whirlpools. These centers also have two regulation-size basketball courts that can be used for various sports activities, as well as other dedicated facilities for group fitness, rock climbing, racquetball and squash. In addition, three of our current model centers have tennis courts.

Personalized Services. We offer professional personal training programs that involve regular one-on-one sessions designed to help members achieve their personal fitness goals. Our personal trainers are required to be certified by the American Council on Exercise, one of two accredited certifying organizations in the fitness industry. On average, we employ over 25 personal trainers at a current model center. Our personal trainers also provide the education and nutritional information essential for a safe and effective exercise plan. In addition to one-on-one sessions, we offer other personalized small group activities. Many of our members realize the value of working with the same person over a long period of time to achieve their personal fitness goals and develop a strong relationship with their trainers.

Fitness Programs and Classes. Our centers offer fitness programs, including group fitness classes and health and wellness training seminars on subjects ranging from stress management to personal nutrition. Each current model center has two group fitness studios and makes use of the indoor and outdoor pool areas for classes. On average, we offer over 90 group fitness classes per week at each current model center, including spinning, pilates, step workout, circuit training and yoga classes. The volume and variety of activities at each center allow each member of the family to enjoy the center, whether participating in personalized activities or with other family members in group activities.

Other Center Services. Our large format centers feature a LifeCafe, which offers fresh and healthy sandwiches, snacks and shakes to our members. Our LifeCafe offers members the choice of dining indoors, ordering their meals and snacks to go or, in each of our current model centers and certain of our other large format centers, dining outdoors at the poolside bistro. Our LifeCafes also carry our own line of nutritional products.

Our current model centers and almost all of our other large format centers also feature a LifeSpa, which is a full-service spa and salon located inside the centers. Our LifeSpas offer hair, body, skin care and massage therapy services, customized to each person s individual needs. The LifeSpas are located in separate, self-contained areas that provide a relaxing environment.

Almost all of our centers offer free on-site child care services for children ages three months to 11 years for up to two hours while members are using our centers. The children s area includes games, educational toys, computers, maze structures and junior basketball courts. We hire experienced personnel that are dedicated to working in the child care centers to ensure that children have an enjoyable and safe experience.

All of our large format centers offer a variety of programs for children, including swimming lessons, activity programs, karate classes, sports programs and craft programs, all of which are open to both members and non-members. We also offer several children s camps during the summers and holidays. For adults, we offer various sports leagues and karate classes.

Membership

Our month-to-month membership plans include 24-hour access, free child care, free locker and towel service, a full range of educational programs and other premium amenities. Moreover, we offer an initial 30-day money back guarantee on upfront membership enrollment fees and the first month s membership dues, which is a longer period than required by state law and longer than offered by most other health clubs. We believe our customer service, broad appeal to multiple family members and attractive value proposition reduce our attrition rate. We continually monitor member satisfaction through roundtable forums that enable us to collect feedback from our members and modify our offerings in response to the feedback.

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As part of our value proposition, each new member is entitled to receive a free 360 Fitness Assessment, which consists of fitness testing, exercise history, percent body fat measurement and goal setting. Fitness clinics on different types of workouts and other courses in nutrition and stress management are also offered free of charge. New members are encouraged to take advantage of free equipment orientations and a free introductory consultation with a personal trainer.

We have a flexible membership structure, which includes different types of membership plans, the most common of which are the Fitness and Sports plans. Our Fitness membership plan is our standard plan and offers a member access to the majority of our centers. Our Sports membership plan offers a member access to all but one of our centers, while also offering discounts on our other center services and third-party facilities, such as participating golf courses, ski resorts and tennis clubs throughout the nation. In addition, the Sports membership plan entitles a member to free use of the center s racquetball and squash courts and climbing walls, as well as a free running club membership and discounts on certain personal training programs. We also offer an Athletic membership option at our executive center located in downtown Minneapolis, which is not accessible to our other members. The Athletic membership plan offers all of the benefits of our Fitness and Sports memberships, access to all of our centers and additional executive benefits. In certain clubs we also offer an Express membership plan, which involves a lower membership fee but restricts access to one center.

We have always offered a convenient month-to-month membership, with no long-term contracts, a low, one-time enrollment fee and an initial 30-day money back guarantee. Depending upon the market area and the membership plan, new members typically pay a one-time enrollment fee of $125 to $300 for individual members, plus $50 to $100 for each additional family member over the age of 12. Members typically pay monthly membership dues ranging from $40 to $60 for individuals and $80 to $130 for couples or families. Monthly membership dues for Express memberships are at the lower end of our price ranges and monthly membership dues for Athletic memberships are at the higher end. Our memberships include all of the primary member s children under the age of 12 at no additional cost. As a result, our current model centers that have a targeted 11,500 membership capacity average approximately 2.4 people per membership.

Usage

Our sports, fitness and family recreation centers are generally open 24 hours a day, seven days a week and our current model centers average over 68,000 visits per month. We typically experience the highest level of member activity at a center during the 5:00 a.m. to 10:00 a.m. and 4:00 p.m. to 8:00 p.m. time periods on weekdays and during the 8:00 a.m. to 5:00 p.m. time period on weekends. Our centers are staffed accordingly to provide each member with a positive experience during peak and non-peak hours.

New Center Site Selection and Construction

Site Selection. Our management devotes significant time and resources to analyzing each prospective site on the basis of predetermined physical, demographic, psychographic and competitive criteria in order to achieve maximum return on our investment. Our ideal site for a current model center is a tract of land with at least 10 acres and a relatively flat topography affording good access and proper zoning. We target market areas that have at least 150,000 people within a five-mile radius that meet certain demographic criteria regarding income, education, age and household size. We focus mainly on markets that will allow us to operate multiple centers that create certain efficiencies in marketing and branding activities; however, we select each site based on whether that site can support an individual center on a stand-alone basis.

After we identify a potential site, we develop a business plan for the center on the site that requires approvals from all areas of operations and the finance committee of our board of directors. We believe that our structured process provides discipline and reduces the likelihood that we would develop a site that the market cannot support. As a result of our strict adherence to this disciplined process, we have never closed a center, and our large format centers produced, on average, EBITDA in excess of 21% of revenue and net income of less than 1% of revenue during their first year of operation. We did, however, recognize an asset impairment charge in 2002 related to our only executive facility, which is located in downtown

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Minneapolis, Minnesota, and a restaurant that we operate in the same building. The center is one of only two centers that are located in urban areas and it differs significantly from our standard model.

Construction. We have an experienced in-house construction team that is solely dedicated to overseeing the construction of each center through opening. Our architects have developed a set of design and construction plans and specifications that can be easily adapted to each new site to build our current model centers. They also assist in obtaining bids and permits in connection with constructing each new center. We have dedicated internal personnel who work on expediting the permit process and scheduling the project. Our contract administrators obtain referrals for local subcontractors and monitor project costs, and they also coordinate compliance with safety requirements and prepare site documentation. Our project management group oversees the construction of each new center and works with our architects to review bids and monitor quality. Our construction procurement group bids each component of our projects to ensure cost-effective pricing and, by using the same materials at each center to maintain a consistent look and feel, we are generally able to purchase materials in sufficient quantities to receive favorable pricing. Our construction team also has a dedicated safety consultant and controller. Each center has an on-site construction manager responsible for coordinating the entire project. By utilizing our own dedicated design and construction group, we are able to maximize our flexibility in the design process and retain control over the cost and timing of the construction process.

Marketing and Sales

Overview of Marketing. Our centralized marketing department is responsible for generating membership leads for our sales force, supporting our corporate business and promoting our brand. Our marketing department consists of six fully integrated divisions, which are advertising, creative, entertainment, marketing research, public relations and web site. By centralizing our marketing effort, we bring our marketing experience and strategy to each new market we enter in a coordinated manner. We also market to corporations and, in some situations, we offer discounted enrollment fees for persons associated with these corporations.

Overview of Sales. We have a trained, commissioned sales staff in each center that is responsible for converting the leads generated by our centralized marketing department into new memberships. During the pre-opening and grand opening phases described below, we have up to 12 sales representatives on staff at a center. As the center matures, we reduce the number of sales representatives on staff to between six and eight professionals. Our sales staff also uses our customer relationship management system to introduce and sell additional products to members and manage existing member relationships.

Pre-Opening Phase. Our pre-opening marketing program is one of the reasons why our large format centers have attracted sufficient membership to generate, on average, EBITDA in excess of 21% of revenue and net income of less than 1% of revenue during their first year of operation. We generally begin selling memberships up to nine months prior to a center s scheduled opening. New members are attracted during this period primarily through targeted direct mail, print advertising, corporate sales and referral promotions. To further attract new members during this period, we offer discounted enrollment fees and distribute free copies of our *Experience Life* magazine to households in the immediate vicinity of the new center. Membership enrollment activity is tracked to gauge the effectiveness of each marketing medium, which can be adjusted as necessary throughout the pre-opening process.

Grand Opening Phase. We deploy a marketing program during the first month of a center s operation that builds on our pre-opening efforts. The reach and frequency of the advertising campaign culminate when all households within a five-mile radius receive Opening Soon and Now Open poster mailings. Simultaneously, prospective members receive special invitations to grand opening activities and educational seminars designed to assist them in their orientation to the center. Our corporate clients receive special enrollment opportunities, as well as invitations to open house activities.

Membership Growth Phase. After the grand opening phase, marketing activities and costs decrease significantly as drive-by visibility and word-of-mouth marketing become more important. The goal of each center is to achieve consistent membership growth until targeted capacity is reached. Once the center has

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reached its targeted capacity, marketing efforts are directed at keeping membership levels stable and at selling other in-center services to existing members. Marketing plans for each center are formulated on an annual basis and reviewed monthly by marketing and center-level sales personnel. At monthly intervals, a comprehensive situation analysis is performed to ensure sales and retention objectives are meeting the goals of the center s business plan.

Leveraging the LIFE TIME FITNESS Brand Outside our Centers

We are building a national brand by delivering products and services in the areas of exercise, education and nutrition at an attractive price. We are further strengthening the LIFE TIME FITNESS brand by growing our *Experience Life* magazine, our line of nutritional products and our internationally-recognized and award winning triathlon.

Education. We work to educate people by offering educational information and tips on our web site, www.lifetimefitness.com, and by distributing *Experience Life* to each of our members. Our web site offers various educational features, including healthy cooking recipes, health news and exercise tips. The web site also has interactive functions that allow a user to ask exercise or fitness questions and create an ongoing personalized nutrition program that meets the user s weight-loss and nutrition objectives.

Our Experience Life magazine includes an average of 96 full-color pages of health tips and insights, articles featuring quality-of-life topics and advertisements and has a current circulation of approximately 500,000 copies to all of our members, non-member subscribers, households in new market areas and selected major bookstores nationwide. *Experience Life* averages 36 pages of advertising per issue and is expected to be published 10 times in 2004. The Minnesota Magazine Publishing Association named *Experience Life* a 2002 Gold medal winner for Design Excellence.

Nutritional Products. We offer a line of nutritional products, including multi-vitamins, energy bars, powder drink mixes, ready-to-drink beverages and supplements. Our products use high quality ingredients and are available in our LifeCafes, through our web site and through selected retail channels. Our current nutritional product line focuses on four areas, which are daily health, weight management, energy and athletic performance. Our weight management products, which have never included ephedra, work safely and effectively to manage weight. Our formulations are created and tested by a team of external physicians and experts and each formulation undergoes extensive testing. We use experienced and professional third-parties to manufacture our nutritional products and commission independent testing to ensure that the product labels accurately list the ingredients delivered in the products.

Athletic Events. Our annual LIFE TIME FITNESS Triathlon attracted participants from 39 states and 14 countries in 2003, as well as national sponsors. The LIFE TIME FITNESS Triathlon offers an invitation-only professional division that allows male and female professionals to compete directly against each other for the sport s largest purse. In addition to significant selected local media coverage, the LIFE TIME FITNESS Triathlon was broadcast nationally by NBC in 2003 and will be broadcast by NBC again in 2004. *Competitor Magazine* honored the 2003 LIFE TIME FITNESS Triathlon as its 2003 Event of the Year. In addition to the Triathlon, we organize several shorter run/walks during the year, such as the 5K Reindeer Run in most of the cities where we have centers and the Torchlight Run in Minneapolis, Minnesota.

Our Employees

Most of our current model centers are staffed with over 250 full-time and part-time employees, of which approximately 15 are in management positions, all of whom are trained to provide members with a positive experience. Our personal trainers, massage therapists, physical therapists and cosmetologists are required to maintain a professional license or one of their industry s top certifications, as the case may be. Each center typically has a general manager, an operations manager and a sales manager to ensure a well-managed center and a motivated work force.

All center employees are required to participate in a training program that is specifically designed to promote a friendly, personable environment at each center and a consistent standard of performance across all of our centers. Employees also receive ongoing mentoring, and continuing education is required before they are permitted to advance to other positions within our company.

As of May 31, 2004, we had approximately 7,700 employees, including approximately 4,600 part-time employees. We are not a party to a collective bargaining agreement with any of our employees. Although we experience turnover of non-management personnel, historically we have not experienced difficulty in obtaining adequate replacement personnel. In general, we believe relations with our employees are good.

Information Systems

In addition to our standard operating and administrative systems, we utilize an integrated and flexible member management system to manage the flow of member information within each of our centers and between centers and our corporate office. We have designed and developed the system to allow us to collect information in a secure and easy-to-use environment. Our system enables us to, among other things, enroll new members with a paperless membership agreement, acquire and print digital pictures of members and capture and maintain specific member information, including frequency of use. The system allows us to streamline the collection of membership dues electronically, thereby offering additional convenience for our members while at the same time reducing our corporate overhead and accounts receivable exposure. We are in the process of deploying a customer relationship management system to enhance our sales and marketing campaigns and provide management oversight regarding daily sales and marketing activities.

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Properties

Our corporate headquarters, located in Eden Prairie, Minnesota, is an approximately 49,000 square-foot facility that is currently under lease until October 2007.

As of June 5, 2004, we operated 34 centers, of which we leased 12 sites, were parties to long-term ground leases for four sites and owned 18 sites. We opened one current model center in June 2004 and expect to open five more large format centers in the Dallas and Houston, Texas markets in 2004, four of which will generally conform to our current model center. We have already commenced construction of the five additional centers that we plan to open in 2004, four of which are owned and one of which is leased. Excluding renewal options, the terms of leased centers, including ground leases, expire at various dates from 2005 through 2041. The majority of our leases have renewal options and a few give us the right to purchase the property. The table below contains information about our current sports, fitness and family recreation center locations:

Location	Owned/Leased	Center Format	Square Feet(1)	Date Opened
Brooklyn Park, MN	Leased	Other	26,982	July 1992
Eagan, MN	Owned	Large	64,415	September 1994
Woodbury, MN(2)	Leased	Large	73,050	September 1995
Roseville, MN	Leased	Other	14,000	September 1995
Highland Park, MN	Leased	Other	25,827	November 1995
Coon Rapids, MN(3)	Leased	Other	90,262	May 1996
Bloomington, MN	Owned	Other	47,307	November 1996
Plymouth, MN	Leased (Ground)	Large	109,558	June 1997
St. Paul, MN	Leased	Other	85,630	December 1997
Troy, MI	Owned	Large	93,579	January 1999
Apple Valley, MN	Leased	Other	10,375	June 1999
Columbus, OH	Leased (Ground)	Large	98,047	July 1999
Indianapolis, IN	Owned	Large	90,956	August 1999
Novi, MI	Owned	Large	90,956	October 1999
Centreville, VA	Owned	Large	90,956	January 2000
Shelby Township, MI	Owned	Large	101,680	March 2000
Minneapolis, MN (center and restaurant)	Leased	Other	72,547	July 2000
Schaumburg, IL	Owned	Large/Current	108,890	October 2000
Warrenville, IL	Owned	Large/Current	114,993	January 2001
Bloomingdale, IL(4)	Owned	Large/Current	108,890	February 2001
Algonquin, IL	Owned	Large/Current	108,890	April 2001
Orland Park, IL	Owned	Large/Current	108,890	August 2001
Fairfax City, VA	Leased	Large	67,467	October 2001
Champlin, MN	Leased (Ground)	Large	61,948	October 2001
Burr Ridge, IL	Owned	Large/Current	105,562	February 2002
Savage, MN	Leased (Ground)	Large	80,853	June 2002
Old Orchard (Skokie), IL	Owned	Large/Current	108,890	August 2002
Canton Township, MI(2)	Leased	Large/Current	105,010	September 2002
Rochester Hills, MI(2)	Leased	Large/Current	108,890	November 2002
Tempe, AZ	Owned	Large/Current	108,890	April 2003
Gilbert, AZ	Owned	Large/Current	108,890	October 2003
New Hope, MN	Leased	Other	44,156	October 2003
Plano, TX	Owned	Large/Current	108,890	November 2003
Willowbrook, TX	Owned	Large/Current	108,890	June 2004

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(1) In a few of our centers, we sublease space to third parties who operate our LifeCafe or climbing wall or to hospitals that use the space to provide physical therapy. The square footage figures include those subleased areas. The square footage figures exclude areas used for tennis courts and outdoor swimming pools. These figures are approximations.

(2) We are the sole lessee of the center pursuant to the terms of a sale-leaseback transaction.

(3) The square footage figure excludes approximately 24,000 square feet that we sublease to third parties.

(4) This is a joint venture project in which we have a one-third interest.

Competition

There are a number of health club industry participants that compete directly and indirectly with us that may have significantly greater financial resources, higher revenues and greater economies of scale. However, due to the innovative nature of our complete product and service offering, we believe that there are no competitors in this industry offering the same experience and services we offer at a comparable value. We consider the following groups to be the primary competitors in the health and fitness industry:

- health club operators, including Bally Total Fitness Holding Corporation, 24 Hour Fitness Worldwide, Inc., Town Sports International, Inc., The WellBridge Company doing business under various names such as Northwest Athletic Club, LA Fitness and The Sports Club Company, Inc.;
- the YMCA and similar non-profit organizations;
- physical fitness and recreational facilities established by local governments, hospitals and businesses;
- local salons, cafes and businesses offering similar ancillary services;
- amenity and condominium clubs;
- racquet, tennis and other athletic clubs;
- country clubs;
- weight reducing salons; and
- the home-use fitness equipment industry.

Competition in the health club industry varies from market to market and is based on several factors, including the breadth of product and service offerings, the level of enrollment fees and membership dues, the flexibility of membership options and the overall quality of the offering. We believe that our comprehensive product offering and focus on customer service provide us with a distinct competitive advantage.

Our nutrition and education products and services compete against large, established companies and organizations that have more experience selling retail products. We may not be able to compete effectively against these established companies.

Government Regulation

All areas of our operations and business practices are subject to regulation at federal, state and local levels. The general rules and regulations of the Federal Trade Commission and other consumer protection agencies apply to our advertising, sales and other trade practices, including, but not limited to, our line of nutritional products.

State statutes and regulations affecting the health club industry have been enacted or proposed that prescribe certain forms for, and regulate the terms and provisions of, membership contracts, including:

giving the member the right under various state cooling-off statutes to cancel, in most cases, within three to ten days after signing, his or her membership and receive a refund of any enrollment fee paid;

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requiring an escrow for funds received from pre-opening sales or the posting of a bond or proof of financial responsibility; and

establishing maximum prices and terms for membership contracts and limitations on the financing term of contracts.

As we pursue new business initiatives by selling nutritional products, dietary supplements and sports drinks, we may become further subject to the extensive federal and state regulations governing the manufacture and sale of supplement and food products in the U.S. The U.S. Food and Drug Administration and the Federal Trade Commission are increasingly scrutinizing claims made for supplement and food products, especially claims relating to weight loss. We work with the manufacturers of our food and supplement products to ensure that appropriate regulatory notices have been provided, where necessary, and that product labeling conforms to regulatory requirements. The failure of these manufacturers to comply with applicable regulations, or negligence or other misconduct on their part, could have a material adverse effect on our financial condition or results of operations. We require our manufacturing partners to warrant to us that the products are safe and effective. In most cases, the manufacturer agrees to indemnify us for losses we suffer arising from claims related to the product and in many cases we are named as an additional insured on the manufacturer s insurance policy. In addition, we carry our own products liability insurance coverage.

All laws, rules and regulations are subject to varying interpretations by a large number of state and federal enforcement agencies and the courts. We maintain internal review procedures in order to comply with these requirements and believe our activities are in substantial compliance with all applicable statutes, rules and decisions.

Trademarks and Trade Names

We own several trademarks and service marks registered with the U.S. Patent and Trademark Office, referred to as the USPTO, including LIFE TIME FITNESS®, EXPERIENCE LIFE® and LEANSOURCE®. We have also registered our logo, our design depicting six circles of fitness activities and our LIFE TIME FITNESS Triathlon logo. We have several applications pending with the USPTO for trademark registrations. We also registered or have applications pending in certain foreign countries for the LIFE TIME FITNESS mark. In addition to our trademarks, we filed a patent application for one of our nutritional products.

We believe our trademarks and trade names have become important components in our marketing and branding strategies. We believe that we have all licenses necessary to conduct our business. In particular, we license the mark LIFE TIME in connection with our nutritional products so that we can market and distribute them under the LIFE TIME FITNESS brand.

Legal Proceedings

Although we may be subject to litigation from time to time in the ordinary course of our business, we are not party to any pending legal proceedings that we believe will have a material adverse impact on our business.

MANAGEMENT

The following table sets forth the name, age and positions of each of our directors and executive officers as of May 31, 2004:

Name	Age	Position
Bahram Akradi	43	Chairman of the Board of Directors, President and Chief Executive Officer
Michael J. Gerend	39	Executive Vice President and Chief Operating Officer
Michael R. Robinson	45	Executive Vice President and Chief Financial Officer
Stephen F. Rowland, Jr.	44	President, FCA Construction Holdings, LLC
Mark L. Zaebst	45	Senior Vice President of Real Estate and Development
Eric J. Buss	37	Senior Vice President of Corporate Development, General Counsel and Secretary
Timothy C. DeVries	47	Director
W. John Driscoll	75	Director
Guy C. Jackson	62	Director
David A. Landau	38	Director
Stephen R. Sefton	48	Director

Bahram Akradi founded our company in 1992 and has been a director and President since our inception. Mr. Akradi was elected Chief Executive Officer and Chairman of the Board of Directors in May 1996. Mr. Akradi has over 20 years of experience in the field of sports, health and fitness programs. From 1984 to 1989, he led U.S. Swim & Fitness Corporation as its co-founder and Executive Vice President. Mr. Akradi was a founder of the health and fitness Industry Leadership Council.

Michael J. Gerend was elected Executive Vice President and Chief Operating Officer upon joining our company in March 2003. Prior to joining our company, Mr. Gerend was President and Chief Executive Officer of Grand Holdings, Inc., doing business as Champion Air, the largest dedicated provider of charter airlift in the airline industry, from July 1998 to January 2003. Mr. Gerend also held senior management positions at Northwest Airlines, Inc. from April 1991 to December 1997.

Michael R. Robinson was elected Executive Vice President and Chief Financial Officer upon joining our company in March 2002. Prior to joining our company, Mr. Robinson was most recently Executive Vice President and Chief Financial Officer of Next Generation Network, Inc., a digital video advertising company, from April 2000 to March 2002. Prior to April 2000, Mr. Robinson spent approximately 17 years with Honeywell International, Inc., a diversified technology and manufacturing company, where he held senior management positions from 1994 to March 2000. From 1995 to 1997, Mr. Robinson held the position of Vice President of Investor Relations and he was responsible for financial communications with investors and other third parties. From 1997 to 2000, he was the Vice President of Finance, Logistics and Supply for Europe, the Middle East and Africa where he managed accounting, finance, tax and treasury functions.

Stephen F. Rowland, Jr. was elected President of our company s wholly owned construction subsidiary, FCA Construction Holdings, LLC, upon joining our company in April 1998. Prior to joining our company, Mr. Rowland served 17 years as President and CEO of Diversified Construction of Minneapolis, Inc., a commercial and residential construction company, where he acted as an independent general contractor for both the U.S. Swim & Fitness Corporation and our company.

Mark L. Zaebst joined our company in January 1996 as Director, Real Estate, and was named Senior Vice President of Real Estate and Development, in December 2001. Mr. Zaebst has over 20 years of experience in the health and fitness industry. Mr. Zaebst was instrumental in assisting Mr. Akradi in the creation, expansion and day-to-day operations of U.S. Swim & Fitness Corporation until 1991, at which time he started a career in real estate.

Eric J. Buss joined our company in September 1999 as Vice President of Finance and General Counsel. Mr. Buss was elected Secretary in September 2001 and was named Senior Vice President of Corporate Development, in December 2001. Prior to joining our company, Mr. Buss was an associate with the law firm of Faegre & Benson LLP from 1996 to August 1999. Prior to beginning his legal career, Mr. Buss was employed by Arthur Andersen LLP.

Timothy C. DeVries was elected a director of our company in February 2002. Mr. DeVries is a managing general partner with the investment firm of Norwest Equity Partners, a firm he joined in 1998. From 1982 to 1992, Mr. DeVries was Managing Director and a member of the board of directors at Churchill Companies, a diversified industrial and financial company. Mr. DeVries is also a member of the board of directors of Attachment Technologies, Inc., Aurafin, LLC, Gaymar Industries, Inc., Highland Manufacturing, LLC, Longwood Industries, Inc. and Michaels of Oregon Co.

W. John Driscoll was elected a director of our company in May 1994. Mr. Driscoll is the retired Chairman and Chief Executive Officer of Rock Island Company, a private investment firm. Mr. Driscoll served as Chairman and Chief Executive Officer of Rock Island Company from 1973 to 1994. Mr. Driscoll is also a member of the board of directors of Nuveen Investments, Inc.

Guy C. Jackson was elected a director of our company in March 2004. In June 2003, Mr. Jackson retired from the accounting firm of Ernst & Young LLP after 35 years with the firm and with one of its predecessors, Arthur Young & Company. During his career, Mr. Jackson served as the audit partner for numerous public companies in Ernst & Young s New York and Minneapolis offices. He also serves as a director, and the chair of the audit committee, of Cyberonics, Inc., Digi International Inc. and Urologix, Inc.

David A. Landau was elected a director of our company in August 2000. Mr. Landau is a managing director of Apax Partners, Inc., an international private equity investment advisory firm affiliated with Apax Managers, Inc. Mr. Landau joined Apax Partners, Inc. in 1991 after working in brand management at The Procter & Gamble Company, a manufacturer and marketer of consumer products, and strategy consulting at Monitor Company, a strategy consulting firm. Mr. Landau is also a member of the board of directors of Performance, Inc. and Phillips-Van Heusen Corporation.

Stephen R. Sefton was elected a director of our company in May 1996. Mr. Sefton has been a partner with Norwest Equity Partners, an investment firm, since 1989, a firm he joined in 1986. In May 1997, Mr. Sefton founded Equity Research, Inc., a private equity investment firm. Mr. Sefton spends approximately 25% of his time overseeing two investments held by Norwest Equity Partners, including its investment in our company. The other 75% of his time is spent at Equity Research, Inc. Prior to 1986, Mr. Sefton spent nine years in commercial and investment banking. Mr. Sefton is also a member of the board of directors of Savillex Corporation and Streamfeeder, L.L.C.

Certain members of our board of directors were elected as designees of investors that had contractual rights to nominate a director under the terms of our preferred stock financing documents. Mr. DeVries was elected by the holders of our Series B preferred stock, which vote is controlled by Norwest Equity Partners. Mr. Landau was elected by the holders of our Series C and Series D preferred stock, which vote is controlled by Apax Partners. Mr. Sefton was originally elected by the holders of our Series A preferred stock, which vote was controlled by Norwest Equity Partners, before those shares were converted to common stock, and most recently he was elected by the holders of our Series B, Series C and Series D preferred stock, which vote is controlled by Norwest Equity Partners and Apax Partners. The rights of the investors to nominate a designee will terminate upon completion of this offering; however, we intend for each of these directors to continue to serve on our board of directors.

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Under our bylaws, our directors hold office until the next annual shareholders meeting or the director s resignation or removal. Under our bylaws, our officers hold office until their successors are elected and qualified or the officer s removal.

Board of Directors; Committees

Our board of directors currently consists of six members. We are in the process of identifying candidates for nomination to our board of directors.

Our board of directors has an audit committee, a compensation committee, a governance and nominating committee and a finance committee.

Audit Committee. Our audit committee consists of Messrs. Jackson (Chair), Driscoll and Sefton. The functions of the audit committee include oversight of the integrity of our financial statements, our compliance with legal and regulatory requirements and the performance, qualifications and independence of our independent auditors. Our audit committee is directly responsible, subject to shareholder ratification, for the appointment of any independent auditor engaged for the purpose of preparing or issuing an audit report or related work. Our audit committee is also responsible for the retention, compensation, evaluation, termination and oversight of our independent auditor. The purpose and responsibilities of our audit committee are set forth in the Audit Committee Charter approved by our board of directors on March 17, 2004.

Our board of directors has determined that Mr. Jackson qualifies as an audit committee financial expert as defined by applicable regulations of the SEC and that he is independent as defined by the listing standards of the New York Stock Exchange. Our board of directors has also determined that Mr. Jackson s service on the audit committees of three other public companies does not impair his ability to effectively serve on our audit committee.

Compensation Committee. Our compensation committee consists of Messrs. Landau (Chair), Sefton and DeVries. The functions of the compensation committee include reviewing and approving the goals and objectives relevant to compensation of our Chief Executive Officer, evaluating the Chief Executive Officer s performance in light of those goals and objectives and determining and approving the Chief Executive Officer s compensation level based on this evaluation. Our compensation committee also approves and makes recommendations to our board with respect to compensation of other executive officers, incentive-compensation plans and equity-based plans. The purpose and responsibilities of our compensation committee are set forth in the Compensation Committee Charter approved by our board of directors on April 28, 2004.

Governance and Nominating Committee. Our governance and nominating committee consists of Messrs. Sefton (Chair), DeVries, Jackson and Landau. The functions of the governance and nominating committee include identifying individuals qualified to become members of our board and overseeing our corporate governance principles. The purpose and responsibilities of our governance and nominating committee are set forth in the Governance and Nominating Committee Charter approved by our board of directors on April 28, 2004.

Finance Committee. Our finance committee consists of Messrs. DeVries (Chair), Sefton, Akradi and Landau. The functions of the finance committee include reviewing our financial performance, annual budgets, capital planning projects, capital structure and financing decisions and selection of locations for new centers. The purpose and responsibilities of our finance committee are set forth in the Finance Committee Charter approved by our board of directors on March 17, 2004.

Limitation of Liability and Indemnification

Under the Minnesota Business Corporation Act, our articles of incorporation provide that our directors shall not be personally liable for monetary damages to us or our shareholders for a breach of fiduciary duty to the full extent that the law permits the limitation or elimination of the personal liability of directors.

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Compensation of Directors

Our non-employee directors are reimbursed for expenses actually incurred in attending meetings of our board of directors and committees of our board of directors. We are in the process of evaluating the compensation for our non-employee directors.

Compensation Committee Interlocks and Insider Participation

During 2003, Messrs. DeVries, Landau and Sefton served as the members of our compensation committee. No executive officer serves, or in the past has served, as a member of the board of directors or compensation committee of any entity that has any of its executive officers serving as a member of our board of directors or compensation committee.

Executive Compensation

Summary Compensation Table

The following table shows, for our Chief Executive Officer and each of the four other most highly compensated executive officers of our company, who are referred to as the named executive officers, information concerning annual and long-term compensation earned for services in all capacities during the fiscal year ended December 31, 2003.

	Annual Compensation			Long-Term Compensation Awards	
Name and Principal Position	Salary ($)	Bonus ($)	Other Annual Compensation ($)(1)	Securities Underlying Options (#)	All Other Compensation ($)(2)
Bahram Akradi Chairman of the Board of Directors, President and Chief Executive Officer	660,000	478,369	39,376		9,006
Stephen F. Rowland, Jr. President, FCA Construction Holdings, LLC	240,000	214,348	6,820		2,299
Michael J. Gerend Executive Vice President and Chief Operating Officer(3)	220,000	154,836	8,160	200,000	
Michael R. Robinson Executive Vice President and Chief Financial Officer	240,000	100,761	14,078	50,000	7,896
Mark L. Zaebst Senior Vice President of Real Estate and Development	180,000	65,347	13,995	5,000	8,909

(1) The amount for Mr. Akradi includes $22,250 related to the use of company aircraft, $13,520 for personal use of a company car and other car expenses, $2,500 of personal tax services provided by company personnel, a $1,000 car allowance and $106 of executive medical benefits. The amount for Mr. Rowland includes $6,820 for personal use of company aircraft. The amount for Mr. Gerend includes an $8,000 car allowance and $160 of executive medical benefits. The amount for Mr. Robinson includes a $9,000 car allowance and $5,078 of executive medical benefits. The amount for Mr. Zaebst includes $10,894 for personal use of a company car and $3,101 of executive medical benefits.

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(2) These amounts include our matching contribution to our 401(k) plan in the amount of $6,000 for the accounts of Messrs. Akradi, Robinson and Zaebst. These amounts also include our payment of premiums for short-term disability insurance in the amount of $3,006 for Mr. Akradi, $2,299 for Mr. Rowland, $1,896 for Mr. Robinson and $2,909 for Mr. Zaebst.

(3) Mr. Gerend joined us in March 2003.

Option Grants in Last Fiscal Year

The following table sets forth certain information concerning option grants to the named executive officers during the fiscal year ended December 31, 2003.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term ($)(2)	
Name	**Number of Securities Underlying Options Granted (#)**	**Percent of Total Options Granted to Employees in Fiscal Year(1)**	**Exercise or Base Price ($/share)**	**Expiration Date**	**5%**	**10%**
Bahram Akradi						
Stephen F. Rowland, Jr.						
Michael J. Gerend	200,000(3)	31.4%	8.00	03/03/13	4,264,021	7,737,473
Michael R. Robinson	5,000(4)	0.8%	8.00	04/01/13	106,601	193,437
Michael R. Robinson	45,000(5)	7.1%	12.00	12/17/13	779,405	1,560,931
Mark L. Zaebst	5,000(4)	0.8%	8.00	04/01/13	106,601	193,437

(1) Options to purchase a total of 333,000 shares of our common stock at an exercise price of $8.00 per share and options to purchase a total of 303,500 shares of our common stock at an exercise price of $12.00 per share were granted in 2003.

(2) In accordance with the rules of the SEC, the amounts shown on this table represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. These gains are based on the assumed rates of stock appreciation of 5% and 10% compounded annually and do not reflect our estimates or projections of the future price of our common stock. These amounts represent assumed rates of appreciation in the value of our common stock from the initial public offering price, assuming an initial public offering price of $18.00 per share. The gains shown are net of the option exercise price, but do not include deductions for taxes or other expenses associated with the exercise. Actual gains, if any, on stock option exercises will depend on the future performance of our common stock, the option holder s continued employment through the option period, and the date on which the options are exercised.

(3) The options were granted under our 1998 Plan and vest as to 20% of the shares on each of the first five anniversaries of the date of grant.

(4) The options were granted under our 1998 Plan and vest as to 20% of the shares on each January 1st, commencing January 1, 2004.

(5) The options were granted under our 1998 Plan and vest as to 50% of the shares on August 15, 2005 and as to 25% of the shares on each of August 15, 2006 and August 15, 2007, respectively.

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Aggregated Option Exercises in Last Fiscal Year

and Fiscal Year-End Option Values

The following table sets forth certain information concerning stock option exercises by the named executive officers during the fiscal year ended December 31, 2003 and unexercised options held by the named executive officers as of December 31, 2003.

Name	Shares Acquired on Exercise (#)	Value Realized ($)(1)	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-The-Money Options at Fiscal Year-End ($)(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Bahram Akradi	100,000	1,705,000	420,000	690,000	6,146,000	10,706,250
Stephen F. Rowland, Jr.			138,300	11,700	2,142,900	117,000
Michael J. Gerend				200,000		2,000,000
Michael R. Robinson			20,000	130,000	200,000	1,120,000
Mark L. Zaebst			57,000	23,000	890,660	280,750

(1) There was no public trading market for our common stock as of December 31, 2003. Accordingly, the value realized and the value of the unexercised in-the-money options listed above have been calculated on the basis of the assumed initial public offering price of $18.00 per share, less the applicable exercise price per share multiplied by the number of shares underlying the options.

Employment Agreements

We were a party to an employment agreement with Bahram Akradi, our Chairman of the Board of Directors, President and Chief Executive Officer, that expired on December 31, 2003. The terms of the agreement, as amended, provided for a base salary of $660,000 in 2003 and incentive compensation based upon the attainment of certain financial goals. Mr. Akradi s bonus was based primarily on our earnings before taxes performance as compared to our plan. We measured performance monthly and made bonus payments monthly if we continued to meet or exceed our year-to-date plan with respect to earnings before taxes. Mr. Akradi was granted options to purchase 600,000 shares of common stock at $1.66 per share concurrent with the signing of the agreement in May 1996. These options fully vest on November 8, 2005 and expire 10 years from the date of grant. However, vesting will be accelerated if our common stock is publicly traded and the price remains above $10.00 per share for 30 consecutive trading days or there is a sale of all of our stock or all or substantially all of our assets that results in proceeds to our shareholders of at least $10.00 per share. Commencing January 1, 2004, Mr. Akradi is no longer subject to an employment agreement with us and we do not expect to negotiate any new employment or non-competition agreement with him. We believe that Mr. Akradi s significant ownership of our stock provides adequate incentive for him to continue his employment with us and refrain from competing with us. Mr. Akradi s compensation for 2004 was determined by our compensation committee using similar performance measures as were used to determine the compensation of other executives. We expect that Mr. Akradi s compensation for future years will be determined annually by our compensation committee in the same manner.

We are a party to an employment agreement, dated January 23, 2003, with Michael J. Gerend, our Executive Vice President and Chief Operating Officer. The terms of the agreement provide for a base salary of $264,000 and incentive compensation of up to $132,000 based upon the attainment of certain financial goals. Mr. Gerend s annual compensation is subject to annual review and adjustment by our Chief Executive Officer or our board of directors, but it may not be reduced below the total amount of salary plus bonus in the prior year except in the case of across-the-board reductions. In addition, the agreement provides Mr. Gerend with a $850.00 per month car allowance, a $300.00 per month cellular phone allowance and reimbursement of Mr. Gerend s fees for membership to two professional organizations. The agreement also includes a non-competition covenant that covers the term of Mr. Gerend s employment plus a period of two years after the termination of his employment. The agreement can be terminated by either party at any time and will terminate automatically in the event of the death or disability of the executive. In March 2003, Mr. Gerend was granted options to purchase 200,000 shares of common stock at $8.00 per share in connection with the commencement of his employment. These options vest as to 20% of the shares on the first through fifth anniversaries of the date of grant and expire 10 years from the date of grant. However, vesting will be accelerated in full in the event that Mr. Gerend s employment is terminated or certain other events occur following a change of control of our company and may be partially accelerated in the event that his employment is terminated without cause or he terminates for good reason. If Mr. Gerend s employment is terminated without cause or if he terminates his employment for good reason, as defined in the agreement, Mr. Gerend is entitled to receive a lump sum payment equal to the annual amount of the guaranteed component of his salary plus an additional payment equal to two-thirds of such annual guaranteed component to be paid over 24 months commencing one year after termination so long as his non-competition obligations remain in effect.

We are a party to an employment agreement, dated March 4, 2002, with Michael R. Robinson, our Executive Vice President and Chief Financial Officer. The terms of the agreement provide for a base salary of $228,000 plus incentive compensation of up to $32,000 based upon the attainment of certain financial goals. Mr. Robinson s annual compensation is subject to annual review and adjustment by our Chief Executive Officer or our board of directors, but it may not be reduced below the total amount of salary plus bonus in the prior year except in the case of across-the-board reductions. In addition, the agreement provides Mr. Robinson with a $750.00 per month car allowance and a $100.00 per month cellular phone allowance. The agreement also includes a non-competition covenant that covers the term of Mr. Robinson s employment plus a period of two years after the termination of his employment. The agreement can be terminated by either party at any time and will terminate automatically in the event of the death or disability of the executive. Mr. Robinson was granted options to purchase 100,000 shares of common stock at $8.00 per share in connection with his commencement of employment on March 11, 2002. These options vest as to 20% of the shares on the first through fifth anniversaries of the date of grant and expire 15 years from the date of grant. However, vesting will be accelerated in the event of a change of control of our company, as defined in the agreement, and the options will be ratably vested for any portion of a year during which Mr. Robinson is terminated without cause or he terminates for good reason. If Mr. Robinson s employment is terminated without cause or if he terminates his employment for good reason, as defined in the agreement, Mr. Robinson is entitled to receive a lump sum payment equal to one-half of the annual amount of the guaranteed component of his salary and $100.00 per month for 24 months so long as his non-competition obligations remain in effect.

Our compensation committee has approved a form of employment agreement for certain of our executive officers and other members of management. We expect that these agreements will also replace the employment agreements currently in effect with Messrs. Gerend and Robinson. The terms of the proposed form of agreement include a non-competition covenant that covers the term of employment plus a period of up to two years after the termination of employment. If the executive s employment is terminated without cause or the executive terminates his employment for good reason, as defined in the agreement, the executive is entitled to receive payments equal to nine to 18 months of salary and bonus, depending upon the employment level of the executive, over such time period. If, following a change of control as defined in the agreement, the executive s position at the company is eliminated or the executive s responsibilities are diminished within the following year, the executive will be entitled to receive payments equal to 12 to 21 months of salary and bonus, depending upon the employment level of the executive, over such time period.

All of our executive officers also participate in a performance bonus program pursuant to which additional bonus payments are made based upon achievement of company-level financial performance measures. In addition, our executive officers are entitled to the benefits that we generally provide to our other employees under applicable benefit plans and policies.

401(k) Plan

In March 1997, we implemented a 401(k) plan covering qualified full-time employees. Under our 401(k) plan, participants may defer compensation, subject to the limits established by the Internal

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Revenue Service, and we may make a discretionary matching contribution at the option of our board of directors. We made a matching contribution for 2003 and 2002 but not for 2001, and we may make matching contributions in the future. The trustee under the 401(k) plan holds and invests the 401(k) plan contributions at the participant s written direction. Participants in our 401(k) plan are immediately vested in their contributions; however, the vesting of our matching contribution is based upon the participant s years of continuous service. The 401(k) plan qualifies under Section 401(a) of the Internal Revenue Code of 1986, as amended, or the Code, and, as a result, the related trust is not subject to tax under current tax law. Although we have not expressed any intent to do so, we do have the right to discontinue our matching contributions to the 401(k) plan at any time and to terminate or amend the 401(k) plan, subject to the provisions of the Employee Retirement Income Security Act of 1974.

Stock Option Plans and Other Employee Incentive Plans

During 1996, we adopted the FCA, Ltd. 1996 Stock Option Plan, referred to as the 1996 Plan, which reserved up to 2,000,000 shares of our common stock for issuance thereunder. Under the 1996 Plan, our board of directors may grant options to purchase shares of our common stock to eligible employees, directors and contractors. Incentive stock options are granted at a price determined by our board of directors but not less than 100% of the fair market value at the time of the grant, and nonqualified stock options are granted at prices determined by our board of directors. Incentive stock options expire no later than 10 years from the date of grant, and nonqualified stock options expire no later than 15 years from the date of grant. As of March 31, 2004, we had granted options to purchase a total of 1,700,000 shares of our common stock at exercises prices of $1.25 to $3.00 per share under the 1996 Plan, of which options to purchase 1,350,000 shares are outstanding. Of those options, incentive stock options to purchase 640,000 shares of our common stock at an exercise price of $1.66 per share were granted under the 1996 Plan to seven employees that included two executive officers, Messrs. Akradi and Zaebst. These options vest upon the public market price of our common stock remaining above $10.00 for 30 consecutive days, or approximately 10 years from the date of grant, whichever occurs first.

During 1998, we adopted the LIFE TIME FITNESS, Inc. 1998 Stock Option Plan, referred to as the 1998 Plan, which reserved up to 1,600,000 shares of our common stock for issuance thereunder. In December 2003, our board of directors and shareholders approved an amendment to the 1998 Plan providing that an additional 1,500,000 shares of our common stock could be issued under this Plan. Under the 1998 Plan, the compensation committee of our board of directors may grant options to purchase shares of our common stock to eligible employees, directors and contractors. Incentive stock options are granted at a price determined by our compensation committee but not less than 100% of the fair market value at the time of the grant, and nonqualified stock options are granted at prices determined by the compensation committee. Incentive stock options expire no later than 10 years from the date of grant, and nonqualified stock options expire no later than 15 years from the date of grant. As of March 31, 2004, we had granted options to purchase a total of 1,957,500 shares of our common stock at exercise prices of $4.00 to $12.00 per share under the 1998 Plan, of which options to purchase 1,668,350 shares are outstanding.

On April 30, 2004, our board of directors adopted, subject to shareholder approval, the Life Time Fitness, Inc. 2004 Long-Term Incentive Plan, referred to as the 2004 Plan, which reserved up to 3,500,000 shares of our common stock for issuance thereunder. Our shareholders approved the 2004 Plan on May 10, 2004. Under the 2004 Plan, the compensation committee of our board of directors administers the 2004 Plan and has the power to select the persons to receive awards and determine the type, size and terms of awards and establish objectives and conditions for earning awards. The types of awards that may be granted under the 2004 Plan include incentive and non-qualified options to purchase shares of our common stock, stock appreciation rights, restricted shares, restricted share units, performance awards and other types of stock-based awards. Eligible participants under the 2004 Plan include our officers, employees, non-employee directors and consultants. Each award agreement will specify the number and type of award, together with any other terms and conditions as determined by our compensation committee. No shares or rights to acquire shares have been issued under the 2004 Plan; however, in connection with this offering, we intend to issue options to purchase 1,071,000 shares of our common stock at an exercise price per share equal to the price of shares sold in this offering. In connection with approval of the 2004 Plan, our board of directors approved a resolution to cease making additional grants under the 1996 Plan and 1998 Plan.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

We believe that the transactions set forth below were on terms no less favorable than we could have obtained from unaffiliated parties. We intend that all future transactions between us and our officers, directors, principal shareholders and their affiliates will be approved by a majority of our independent and disinterested directors, and will be on terms no less favorable to us than we could obtain from unaffiliated third parties.

Certain of our refurbishing and remodeling construction projects at our centers in Minnesota were managed by a general contractor, which is primarily owned by Mr. Rowland, the President of our construction subsidiary. We did not pay any amounts for these services in 2003 or the three months ended March 31, 2004 and we do not anticipate doing so in the future. We paid $418,400 and $48,500 for these services in 2001 and 2002, respectively.

We leased one jet until June 2003, and two jets in 2001 and 2002, from an aviation company that is wholly owned by Mr. Akradi, our Chairman of the Board of Directors, President and Chief Executive Officer, and Mr. Rowland. Each month we were charged the equivalent of the debt service for the exclusive use of the jets. We also paid an hourly fee for the periodic use of other aircraft owned by the aviation company. Beginning in July 2003, we paid an hourly market rate for the periodic use of one jet owned by the aviation company. We were charged $1,052,700, $857,100 and $891,600 for the use of the aircraft in 2001, 2002 and 2003, respectively. We purchased one jet from the aviation company for fair market value of $4.0 million in January 2004 and, as a result, we will no longer lease any aircraft from this aviation company. The price we paid was determined based on the average of three independent appraisals. We may continue to pay hourly fees for the periodic use of aircraft owned by the aviation company.

Until August 2003, Mr. Akradi was the landlord under a lease involving a center leased for one of our Minnesota centers. We made payments for monthly rent to Mr. Akradi under the lease in the amounts of $349,000, $355,000 and $234,200 during 2001, 2002 and 2003, respectively.

We lease various fitness and office equipment for use at the center in Bloomingdale, Illinois. We then sublease this equipment to Bloomingdale LIFE TIME Fitness, L.L.C., of which our company has a one-third interest. Bloomingdale LLC is charged the equivalent of the debt service for the use of the equipment. We charged Bloomingdale LLC $339,700, $426,400 and $424,900 in 2001, 2002 and 2003, respectively. We anticipate that we will charge Bloomingdale LLC similar amounts in the future.

In May 2001, we completed a transaction to sell and simultaneously lease back one of our large format centers. This center was developed at a cost of $6.6 million and we sold it at a price of $7.2 million. The purchaser and landlord in such transaction is a limited liability company, of which Mr. Rowland owns 61% of the membership interests. We paid $550,000, $880,000 and $880,000 in 2001, 2002 and 2003, respectively, in rent pursuant to the lease of the center. We expect to pay $880,000 in rent annually in the future. This lease expires in May 2026. In connection with the sale in 2001, we received a note in the amount of approximately $264,000, which was repaid in December 2003. This transaction was reviewed and approved by our board of directors. Our board of directors considered our desire to finance this center and the general market conditions for financing transactions to determine that the terms of this transaction were favorable to our company.

In October 2003, we leased a center located within a shopping center that is owned by a general partnership in which Mr. Akradi has a 50% interest. In December 2003, our company and the general partnership executed an addendum to this lease whereby we leased an additional 5,000 square feet of office space on a month-to-month basis within the shopping center. We paid rent pursuant to this lease of $125,000 in 2003 and anticipate paying approximately $540,000 in rent annually in the future. The terms of the lease were negotiated by one of our independent directors on behalf of our company and were

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reviewed and approved by our board of directors. To assist our board of directors in evaluating this transaction, a third-party expert was retained to review the terms of the lease. The third-party expert determined that the terms of the lease were at market rates.

The following table summarizes sales of our preferred stock to certain of our directors, executive officers and holders of more than 5% of our voting securities, and their affiliated entities, in private placement financing transactions. All shares are reported on an as-converted basis based on the assumption that all possible conversion ratio adjustments that could cause the number of shares of common stock to be issued upon conversion to increase will have occurred.

Investor(1)	Series A Preferred Stock(2)	Series B Preferred Stock(3)	Series C Preferred Stock(4)	Series D Preferred Stock(5)
Directors and executive officers:				
Bahram Akradi				187,500
W. John Driscoll(6)				200,000
Entities affiliated with directors and executive officers:				
Apax Managers, Inc.(7)			4,374,999	624,999
Minnesota Private Equity Fund(8)		146,285		125,000
Norwest Equity Partners(9)	4,799,998	4,114,285	1,250,000	625,000
Windsor Aviation, Inc.(10)				12,500
Five percent shareholders:				
Bahram Akradi				187,500
W. John Driscoll(6)				200,000
Norwest Equity Partners(9)	4,799,998	4,114,285	1,250,000	625,000
Apax Managers, Inc.(7)			4,374,999	624,999

(1) See Principal and Selling Shareholders for additional information about ownership of shares held by these shareholders.

(2) The Series A preferred stock was sold in May 1996 for an aggregate purchase price of $6.3 million. All shares of Series A preferred stock converted into shares of common stock. Each share of Series A preferred stock converted into five and three-tenths shares of our common stock. As a result, there are no shares of Series A preferred stock currently outstanding.

(3) The Series B preferred stock was sold in December 1998 for an aggregate purchase price of $20.0 million. Each share of Series B preferred stock is currently convertible into 4.571428 shares of common stock. The Series B preferred stock will automatically convert into shares of common stock upon the closing of this offering.

(4) The Series C preferred stock was sold in August 2000 for an aggregate purchase price of $45.0 million. Each share of Series C preferred stock is currently convertible into one share of common stock. The Series C preferred stock will convert into shares of common stock upon the closing of this offering. If the initial public offering price of our common stock is less than $30.00 per share and does not yield a 30% internal rate of return, each share of Series C preferred stock will convert into 1.25 shares of common stock. For purposes of disclosing these shares on an as-converted basis, we have assumed these targets will not be met and the conversion price adjustment will occur.

(5) The Series D preferred stock was sold in July 2001 for an aggregate purchase price of $19.5 million. Each share of Series D preferred stock is currently convertible into one share of common stock. The Series D preferred stock will convert into shares of common stock upon the closing of this offering. If the initial public offering price of our common stock is less than $30.00 per share and does not yield a 30% internal rate of return, each share of Series D preferred stock will convert into 1.25 shares of common stock. For purposes of disclosing these shares on an as-converted basis, we have assumed these targets will not be met and the conversion price adjustment will occur.

(6) Includes shares held in a trust for which his spouse has sole voting and investment power. Mr. Driscoll disclaims beneficial ownership of such shares.

(7) Mr. Landau is an officer and shareholder of Apax Managers, Inc., which is the general partner of the general partner of the affiliated limited partnerships that hold our stock.

(8) Mr. Sefton is a general partner of Minnesota Private Equity Fund.

(9) Mr. Sefton is a general partner of the general partner of Norwest Equity Partners V, L.P. Mr. DeVries is a general partner of the general partner of Norwest Equity Partners VI, L.P. and one of three managing partners of the general partner of Norwest Equity Partners, VII, L.P. Norwest Equity Partners V, L.P. transferred 10,699 shares of Series B preferred stock to a former director who was designated by Norwest Equity Partners.

(10) Mr. Akradi and Mr. Rowland are each 50% shareholders of Windsor Aviation, Inc.

We expect to grant stock options at an exercise price per share equal to the initial public offering price in this offering. The proposed grants, which have been reviewed by our compensation committee, to our executive officers include Mr. Akradi 300,000 shares; Mr. Rowland 67,500 shares; Mr. Gerend 54,000 shares; Mr. Robinson 67,500 shares; Mr. Zaebst 54,000 shares and Mr. Buss 54,000 shares. The options would vest as to 50% of the shares on each of the sixth and seventh anniversaries of the date of grant, subject to accelerated vesting. Under the accelerated vesting provisions, 20% of the shares would vest if the public market price of our common stock remains above $25.00 for a consecutive 90 calendar day period, and an additional 20% would vest if the public market price remains above $30.00, $35.00, $40.00 and $45.00, respectively, in each case for a consecutive 90 calendar day period.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth information with respect to the beneficial ownership of our common stock as of May 31, 2004, and after the sale of shares in this offering, by:

- each person who is known by us to own beneficially more than 5% of our voting securities;
- each current director;
- each of the named executive officers;
- all directors and executive officers as a group; and
- each selling shareholder participating in this offering.

Beneficial ownership is determined in accordance with the SEC s rules. In computing percentage ownership of each person, shares of common stock subject to options held by that person that are currently exercisable or convertible, or exercisable or convertible within 60 days of May 31, 2004, are deemed to be beneficially owned by that person. These shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

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Except as indicated in this table and pursuant to applicable community property laws, each shareholder named in the table has sole voting and investment power with respect to the shares set forth opposite such shareholder s name. Percentage of ownership is based on 28,825,565 shares of our common stock outstanding on May 31, 2004, which assumes the conversion of all preferred stock into common stock at the respective conversion ratios based on the assumption that all possible conversion ratio adjustments that could cause the number of shares of common stock to be issued upon conversion to increase will have occurred. All shares in the following table and notes are reported on an as-converted basis. The address for each executive officer is 6442 City West Parkway, Eden Prairie, MN 55344.

Name and Address of Beneficial Owner	Beneficial Ownership Prior to Offering		Shares Being Offered	Beneficial Ownership After Offering		Over-allotment Shares Being Offered(1)	Beneficial Ownership After Over-allotment(1)	
	Shares	Percent		Shares	Percent		Shares	Percent
Principal Shareholders(2):								
Norwest Equity Partners(3)	10,845,085	37.6%	1,326,850	9,518,235	28.7%	234,150	9,284,085	27.6%
Apax Managers, Inc.(4)	4,999,998	17.3%	850,000	4,149,998	12.5%	150,000	3,999,998	11.9%
Non-Employee Directors:								
Timothy C. DeVries(5)	2,507,258	8.7%		2,507,258	7.5%		2,507,258	7.5%
W. John Driscoll(6)	1,892,000	6.6%	952,000	940,000	2.8%	168,000	772,000	2.3%
Guy C. Jackson								
David A. Landau(7)	4,999,998	17.3%	850,000	4,149,998	12.5%	150,000	3,999,998	11.9%
Stephen R. Sefton(8)	8,609,112	29.9%	1,360,000	7,249,112	21.8%	240,000	7,009,112	20.9%
Named Executive Officers:								
Bahram Akradi(9)	3,934,201	13.4%		3,934,201	11.7%	120,000	3,814,201	11.2%
Michael J. Gerend(10)	40,000	*		40,000	*		40,000	*
Michael R. Robinson(11)	43,500	*		43,500	*		43,500	*
Stephen F. Rowland, Jr.(12)	571,254	2.0%		571,254	1.7%	40,000	531,254	1.6%
Mark L. Zaebst(13)	67,000	*		67,000	*		67,000	*
All directors and executive officers as a group (11 persons)(14)	22,503,269	76.0%	3,162,000	19,341,269	56.9%	678,000	18,663,269	54.3%
Selling Shareholders:								
WWF & Co.(15)	781,126	2.7%	357,170	423,956	1.3%	63,030	360,926	1.1%
Eagan 30.7C, a Minnesota Limited Partnership(16)	402,000	1.4%	255,000	147,000	*	45,000	102,000	*
E.R. Middleton, F.J. Weyerhaeuser & A.E. Zaccaro, Trustees u/a T/A executed by Margaret W. Driscoll June 13, 1958 FBO W. John Driscoll(17)	341,880	1.2%	145,299	196,581	*	25,641	170,940	*
Piper Jaffray Investors Fund XI(18)	308,570	1.1%	51,000	257,570	*	9,000	248,570	*
Minnesota Private Equity Fund, LP(19)	271,285	*	33,150	238,135	*	5,850	232,285	*
Antares Capital Corporation(20)	247,321	*	210,222	37,099	*	37,099		
Windsor Aviation, Inc.(21)	214,054	*		214,054	*			