

LIFE TIME FITNESS INC
Form 10-K
March 09, 2006

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File No. 001-32230

Life Time Fitness, Inc.

(Exact name of Registrant as specified in its charter)

Minnesota

(State or other jurisdiction of
incorporation or organization)

**6442 City West Parkway
Eden Prairie, Minnesota**

(Address of principal executive offices)

41-1689746

(I.R.S. Employer
Identification No.)

55344

(Zip Code)

Registrant's telephone number, including area code: **952-947-0000**

Securities registered pursuant to Section 12(b) of the Act

Title of Each Class
Common Stock, \$.02 par value

Name of Each Exchange on Which Registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Edgar Filing: LIFE TIME FITNESS INC - Form 10-K

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2005, the last business day of the registrant's most recently completed second fiscal quarter, was \$831,757,747, based on the closing sale price for the registrant's common stock on that date.

The number of shares outstanding of the Registrant's common stock as of March 1, 2006 was 35,685,467 common shares.

Table of Contents

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for the annual meeting of shareholders to be held May 4, 2006 are incorporated by reference in Part III.

FORWARD-LOOKING STATEMENTS

The information presented in this Annual Report on Form 10-K under the headings Item 1. Business and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. These statements are subject to risks and uncertainties, including those discussed under Risk Factors on pages 13-17 of this Annual Report on Form 10-K that could cause actual results to differ materially from those projected. Because actual results may differ, we caution you not to place undue reliance on these forward-looking statements. We are not obligated to update these forward-looking statements or publicly release the results of any revisions to them to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect the occurrence of unanticipated events.

TABLE OF CONTENTS

	Page
<u>PART I.</u>	
<u>Item 1.</u>	<u>Business</u> 3
<u>Item 1A.</u>	<u>Risk Factors</u> 13
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u> 17
<u>Item 2.</u>	<u>Properties</u> 17
<u>Item 3.</u>	<u>Legal Proceedings</u> 18
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u> 19
<u>PART II.</u>	
<u>Item 5.</u>	<u>Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> 19
<u>Item 6.</u>	<u>Selected Financial Data</u> 19
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 22
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 33
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u> 34
<u>Item 9.</u>	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u> 63
<u>Item 9A.</u>	<u>Controls and Procedures</u> 63
<u>Item 9B.</u>	<u>Other Information</u> 63
<u>PART III.</u>	
<u>Item 10.</u>	<u>Directors and Executive Officers of the Registrant</u> 64
<u>Item 11.</u>	<u>Executive Compensation</u> 65
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 65
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions</u> 65
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u> 65
<u>PART IV.</u>	
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u> 65
<u>SIGNATURES</u>	
<u>Form of Incentive Stock Option for 2004 Long-Term Incentive Plan</u>	
<u>Form of Non-Qualified Stock Option Agreement for 2004 Long-Term Incentive Plan</u>	
<u>Form of Restricted Stock Agreement (Employee) for 2004 Long-Term Incentive Plan</u>	
<u>Form of Restricted Stock Agreement (Non-Employee Director) for 2004 Long-Term Incentive Plan</u>	
<u>Subsidiaries</u>	
<u>Consent of Deloitte & Touche LLP</u>	
<u>Powers of Attorney</u>	
<u>Certification of Principal Executive Officer</u>	
<u>Certification by Principal Financial Officer</u>	
<u>Section 1350 Certifications</u>	

Table of Contents

PART I

Item 1. Business.

Company Overview

We operate distinctive and large sports and athletic, professional fitness, family recreation and resort/spa 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 March 1, 2006, we operated 48 centers primarily in residential locations across nine 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.

Over the past 14 years, as we have opened new centers, we have refined the size and design of our centers. Of our 48 centers, we consider 38 to be of our large format design, and of these 38 centers, we consider 24 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. Our current model centers target up to 11,500 memberships by offering, on average, 109,000 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 grown our company by opening new 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 2003 to 2005, we experienced annual revenue growth of 32%, 21% and 25%, respectively, with revenue of \$390.1 million in 2005; annual EBITDA growth of 63%, 20% and 25%, respectively, with EBITDA of \$120.4 million in 2005; and annual net income growth of 178%, 40% and 43%, respectively, with net income of \$41.2 million in 2005.

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 corporate name to Life Time Fitness, Inc. on December 8, 1998 to correspond with our brand name.

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 annual report.

Our Competitive Strengths

We offer comprehensive and convenient programs and services.

Our large format centers offer high quality 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, free weight and resistance training equipment and an extensive offering of health and fitness classes. Our staff of member-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 center facilities with spacious play areas and computers, spas offering massage and beauty services and cafes with healthy product offerings throughout the day.

Table of Contents***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 typical monthly membership dues 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 memberships include the primary member's children under the age of 12 at either no additional or a nominal per child monthly cost. We provide the majority of our members with a variety of complimentary services, including lockers, towels, group fitness classes and our magazine, *Experience Life*. Our membership plans are month-to-month, cancelable at any time by giving advance notice and include initial 30-day money back guarantees. Our value proposition and member-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 residential 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 center services are available to the majority of our members for up to two hours per day and most of our centers offer the convenience of spa and dining services under the same roof.

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 2003 to 2005, this economic model has resulted in annual revenue growth of 32%, 21% and 25%, respectively, with revenue of \$390.1 million in 2005; annual EBITDA growth of 63%, 20% and 25%, respectively, with EBITDA of \$120.4 million in 2005; and annual net income growth of 178%, 40% and 43%, respectively, with net income of \$41.2 million in 2005. 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 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 9,000 for all of our large format centers and 10,500 to 11,500 for our large format centers that are current model. Average revenue at our 23 large format centers that we opened in 2003 or earlier exceeded \$12.1 million for the year ended December 31, 2005. At these centers during the same period, EBITDA averaged approximately 38% of revenue, and average net income exceeded 15% of revenue. Over the past three years, average revenue has grown, driven by the addition of larger centers and our in-center revenue expansion. EBITDA margins have declined slightly primarily due to the growth of in-center revenue which comes at lower margins. Net income as a percentage of sales has increased slightly. Our investment for a large format center has averaged approximately \$18.6 million, which includes the purchase of land, the building and approximately \$2.4 million of exercise equipment, furniture and fixtures. Our typical investment for a current model center has averaged approximately \$22.5 million from inception which includes the purchase of land, the building and approximately \$2.7 million of exercise equipment, furniture and fixtures. In 2005, the cost of our current model centers 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 applying our experience and analysis to predetermined physical, 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 Company, 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 approximately 1% of revenue during their first year of operation.

Table of Contents

Our Growth Strategy

Drive membership growth.

New Centers. Since the beginning of 1999, we have expanded our base of centers from nine to 48. We opened seven large format centers in 2005, six of which are current model centers. We expect to open eight centers in 2006, including one current model center and one smaller center which are already open, with the remaining six current model centers currently under construction. We plan to open eight current model centers in 2007. The new centers we plan to open will be built in both new and existing markets. We believe that there is the potential for adding over 200 additional current model centers throughout the U.S. in existing as well as new markets.

Existing Centers. Of our 48 centers, the 13 that opened in 2004 and 2005 averaged 58% of targeted membership capacity as of December 31, 2005. We expect the continuing ramp in memberships at these centers to contribute significantly to our growth in 2006 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 addition to membership growth, we focus on average dues per membership growth through junior membership programs and value-added memberships such as our Sports membership type. In order to achieve those goals, we employ marketing programs to effectively communicate our value proposition to existing and prospective members and have implemented a customer relationship management system that allows us to better manage and increase prospective member conversion.

Increase in-center products and services revenue.

From 2001 to 2005, revenue from the sale of in-center products and services grew from \$26.3 million to \$97.7 million and we increased in-center revenue per membership from \$173 to \$300. We believe the revenue from sales of our in-center products and services will continue to grow at a faster rate than membership dues and enrollment fees. Our centers offer a variety of in-center products and services, including private and group sessions with highly skilled and professional personal trainers and dietitians, relaxing LifeSpa services, engaging member activities programs and a nutritional LifeCafe restaurant. 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.

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 International Health, Racquet & Sportclub Association, or 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 \$14.8 billion in revenues for 2004 and 41.3 million memberships with approximately 27,000 clubs as of January 2005. Based on IHRSA membership data and U.S. Census Bureau population estimates, the percentage of the total U.S. population with health club memberships increased from 9.1%, or 24.1 million memberships, in 1995 to 14.0%, or 41.3 million memberships, in 2004. IHRSA reports that total U.S. health club memberships increased from 24.1 million memberships in 1995 to 41.3 million memberships in 2004, resulting in a compound annual growth rate of 7.9%. Over this same period, total U.S. health club industry revenues increased from \$7.8 billion to \$14.8 billion.

Our Philosophy A Healthy Way of Life Company

We offer our members a healthy way of life in the areas of exercise, education, and nutrition 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 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 challenging and investing in themselves, they will associate our company with healthy living.

Table of Contents**Our Sports and Athletic, Professional Fitness, Family Recreation and Resort/Spa Centers*****Size and Location***

Our centers have evolved over the past several years. Out of our 48 centers, 38 are of our large format design and 24 of these 38 centers conform to our current model center. Our current model center averages 109,000 square feet and serves as an all-in-one sports and athletic club, professional fitness facility, family recreation center and spa and cafe. Our distinctive format is designed to provide an efficient and inviting use of space that accommodates our targeted capacity of up to 11,500 memberships and provides a premium assortment of amenities and services. Our 14 centers that have the large format design, but do not conform to our current model center, average approximately 83,000 square feet and have an average targeted capacity of 9,100 memberships. Generally, targeted capacity for a center is 1,000 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.

Center Environment

Our sports and athletic, professional fitness, family recreation and resort/spa 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, which are included in the cost of most of our memberships:

Large Format Centers, including Current Model Centers

Facilities	Amenities and Services	Activities and Events
Basketball/Volleyball Courts	24-Hour Availability	Aquatics
Cardiovascular Training	Fitness Assessments	Athletic Leagues
Child Centers	Child Center	Birthday Parties
Free Weights	Educational Seminars	Eastern/Martial Arts
Group Fitness Studios	Subscription to <i>Experience Life</i>	Kid's Club
Lap Pool	Towel Service	Pilates
Racquetball/ Squash Courts	Use of Lockers	Running Club
Resistance Training	LifeCafe	Scuba Lessons
Rock Climbing Cavern	LifeSpa	Studio Cycling
Saunas	Massage Therapy	Sports-specific Training Camps
Two-story Waterslides	Nutritional Products	Summer Camps
Whirlpools	Personal Training	Swimming Lessons
Zero-depth Entry Swimming Pools	Pool-side Bistro	Yoga
LifeStudio	T.E.A.M. Weight Loss	
	O ₂ Training	
	Nutrition Coaching	

Table of Contents***Other Centers***

Facilities	Amenities and Services	Activities and Events
Cardiovascular Training	Fitness Assessments	Pilates
Child Centers	Child Center	Running Club
Free Weights	Educational Seminars	Studio Cycling
Group Fitness Studios	Subscription to <i>Experience Life</i>	Yoga
Lap Pool	Towel Service	
Resistance Training	Use of Lockers	
Saunas	Massage Therapy	
	Nutritional Products	
	Personal Training	
	Nutritional Coaching	
	T.E.A.M. Weight Loss	
	O ₂ Training	

Fitness Equipment and Facilities. To help a member develop and maintain a healthy way of living, train for athletic events, or lose weight, our centers have up to 400 pieces of cardiovascular, free weight and resistance training equipment. 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 muscle group, 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, four of our current model centers have tennis courts.

Personalized Services. We offer programs featuring our professional personal trainers or dieticians that involve regular one-on-one sessions designed to help members achieve their healthy way of life goals. Our personal trainers are required to be certified by the National Academy of Sports Medicine within six months of employment. On average, we employ over 25 personal trainers at a current model center. Our personal trainers are skilled in assessing and formulating safe and effective individual and group exercise programs. One of those programs, our O₂ Training Program, focuses on training in the right heart rate zones, for the right duration of time and at the right frequency to burn fat more efficiently while improving overall health and wellness. Our dieticians, which we refer to as nutrition coaches, promote healthy eating habits by planning food and nutrition programs based on their knowledge of metabolism and the biochemistry of nutrients and food components. We employ, on average, two dieticians in a current model center. In addition to one-on-one sessions, we offer other personalized small group activities, including our T.E.A.M. Weight Loss program. Our T.E.A.M. Weight Loss program focuses on exercise, education and nutrition and provides the resources as well as support needed for long-term weight loss success.

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. In addition, in 2005, we began offering a LifeStudio mind/body area for yoga and Pilates as well as a studio dedicated to studio cycling in our current model centers. On average, we offer 85 group fitness classes per week at each current model center, including studio cycling, 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.

Table of Contents

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 in addition to third-party 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 located inside the centers. Our LifeSpas offer hair, body, skin care and massage therapy services, customized to each client's individual needs. The LifeSpas are located in separate, self-contained areas that provide a relaxing environment.

Almost all of our centers offer on-site child centers 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 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 typically include 24-hour access, 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 incorporate that feedback into our offerings.

As part of our value proposition, the majority of our new members are entitled to receive a free 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. The majority of our 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 all the benefits of our Fitness membership, plus access to all but two of our centers, while also offering discounts on our other in-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. We also offer an All Access membership option at the majority of our centers, which offers all of the benefits of our Fitness and Sports memberships, unlimited yoga and Pilates, and access to all of our centers, including our two Athletic-designated centers. In certain centers we also offer an Express membership plan, which involves a lower membership fee than our Fitness membership plan, but restricts access to a single center and does not include a subscription to *Experience Life* magazine, an initial fitness assessment or access to the child center. Each of these membership plans currently requires new members to pay a per child monthly fee in order to include a junior member, or child under the age of 12, on the membership.

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 \$60 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. In addition, new members pay a \$5 per child monthly fee to include junior members on a membership. Our current model centers average approximately 2.4 people

per membership.

Table of Contents

Usage

Our centers are generally open 24 hours a day, seven days a week and our current model centers average approximately 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 typically target market areas that have at least 150,000 people within a trade area 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 approximately 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 Minneapolis, Minnesota, and a restaurant that we operate in the same building. The center 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 prototypical 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 bid phase specialists 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. 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 agency is responsible for generating membership leads for our sales force, supporting our corporate business and promoting our brand. Our marketing agency consists of four fully integrated divisions, which are planning and analysis, creative development and production, public relations and corporate communications and web development. 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 agency into new memberships. During the pre-opening and grand opening phases described below, we have up to 12 membership advisors on staff at a center. As the center matures,

Table of Contents

we reduce the number of membership advisors 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 approximately 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 a portfolio of broad-reach and targeted consumer and business-to-business media as well as referral promotions. To further attract new members during this period, we offer pre-opening 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 strategically designated trade area, based on local access considerations, housing density and travel patterns, receive targeted advertising. 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 as drive-by visibility and word-of-mouth marketing become more influential. The goal of each center is to achieve consistent membership growth until targeted capacity is reached. Once the center has reached its targeted capacity, marketing efforts are directed at keeping membership levels stable and at growing 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

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 internationally-recognized and award winning triathlon and our line of nutritional products.

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 nutrition and weight-loss objectives.

Our *Experience Life* magazine includes an average of 98 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 2006. In 2005, *Experience Life* received a gold Ozzie (a national award) for excellence in use of an illustration for consumer magazines with circulation greater than 250,000. Additionally, the Minnesota Magazine Publications Association honored *Experience Life* with a gold medal for Overall Excellence, a gold medal for Best How-To Article, a silver medal for Best Use of Visual Art, a silver and a bronze medal for Best Single Topic Issue, and a bronze medal for Best Overall Design.

Athletic Events. Our annual LIFE TIME FITNESS Triathlon attracted participants from 40 states and 13 countries in 2005, 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 has been broadcast nationally by NBC since 2003 and will be broadcast by NBC again in 2006. In addition to the Triathlon,

Table of Contents

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.

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 and through our Web site. Our current nutritional product line focuses on four areas, which are daily health, weight management, energy and athletic performance. Our weight management products 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.

Our Employees

Most of our current model centers are staffed with an average of 270 full-time and part-time employees, of which approximately 12 are in management positions, and 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 December 31, 2005, we had approximately 9,500 employees, including approximately 6,100 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. We have deployed a customer relationship management system to enhance our marketing campaigns and management oversight regarding daily sales and marketing activities.

Competition

There are a number of health club industry participants that compete directly and indirectly with us that may have significantly 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 24 Hour Fitness Worldwide, Inc., Bally Total Fitness Holding Corporation, Equinox, LA Fitness, Town Sports International, Inc. and The WellBridge Company doing business under various names such as Northwest Athletic Club;

the YMCA and similar non-profit organizations;

physical fitness and recreational facilities established by local governments, hospitals and businesses;

Table of Contents

local salons, cafes and businesses offering similar ancillary services;

exercise studios;

racquet, tennis and other athletic clubs;

amenity and condominium clubs;

country clubs; 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.

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. 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;

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.

We are subject to 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 related 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.

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® and EXPERIENCE LIFE®. 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 the LIFE TIME FITNESS mark in certain foreign countries. 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.

Table of Contents

Available Information

Our Web site is www.lifetimefitness.com. We make available through our Web site all reports and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities and Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the SEC).

Item 1A. Risk Factors.

If we are unable to identify and acquire suitable sites for new sports and athletic, professional fitness, family recreation and resort/spa 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 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 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 separately 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 providing advance 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 temporarily relocate members if a center is closed for remodeling or due to hurricane, fire, earthquake or other casualty.

Delays in new center openings could have a material adverse effect on 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.

Table of Contents

The opening of new centers in existing locations may negatively impact our same-center revenue increases and our operating margins.

We currently operate centers in nine states. During 2006, we plan to open eight centers, one of which opened in January and one of which opened in February. Three of the remaining six openings in 2006 are in existing markets. 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 same-center revenue increases may be lower in future periods than in the past.

Another result of opening new centers is that our center operating margins may be lower than they have been historically while the centers build membership base. We expect both the addition of pre-opening expenses and the lower revenue volumes characteristic of newly-opened centers to affect our center 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 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 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.

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

As of December 31, 2005, we had total consolidated indebtedness of \$273.3 million, consisting principally of obligations under 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 centers and obligations under capital leases.

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 economy in general; and

- some of our debt has a variable rate of interest, which increases our vulnerability to interest rate fluctuations.

Table of Contents

In addition to the amount of indebtedness outstanding as of December 31, 2005, we have access to an additional \$81.0 million under our credit facilities. We also 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 obtain 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 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 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, local salons, cafes and businesses offering similar ancillary services, and to a lesser extent, amenity and condominium clubs and similar non-profit organizations, exercise studios, racquet, tennis and other athletic clubs, country clubs and the home fitness equipment industry. Competitors, which may have 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 centers in several metropolitan areas, including 17 in the Minneapolis/ St. Paul market, eight in the Chicago market, six in the Detroit market, and five in the Dallas market, with continued planned expansion in these and 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.

Table of Contents

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 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 center 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.

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 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 and through our Web site. 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 become involved in costly litigation or be required to pay royalties or fees.

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

Table of Contents

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 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.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters, located in Eden Prairie, Minnesota, is approximately 61,150 square feet, of which approximately 49,000 square feet is currently under lease until October 2007 and approximately 12,150 square feet is currently under lease until October 2008.

As of March 1, 2006, we operated 48 centers, of which we leased 12 sites, were parties to long-term ground leases for four sites and owned 32 sites. We expect to open eight centers on sites we own in various markets in 2006, two of which are already open, with the remaining six currently under construction. Excluding renewal options, the terms of leased centers, including ground leases, expire at various dates from 2006 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 center locations:

	Location	Owned/Leased	Center Format	Square Feet (1)	Date Opened
1.	Brooklyn Park, MN	Leased	Other	26,982	July 1992
2.	Eagan, MN	Owned	Large	64,415	September 1994
3.	Woodbury, MN (2)	Leased	Large	73,050	September 1995
4.	Roseville, MN	Leased	Other	14,000	September 1995
5.	Highland Park, MN (3)	Owned	Other	25,827	November 1995
6.	Coon Rapids, MN (4)	Leased	Other	90,262	May 1996
7.	Bloomington, MN	Owned	Other	47,307	November 1996
8.	Plymouth, MN	Leased (Ground)	Large	109,558	June 1997
9.	St. Paul, MN	Leased	Other	85,630	December 1997
10.	Troy, MI	Owned	Large	93,579	January 1999
11.	Apple Valley, MN	Leased	Other	10,375	June 1999
12.	Columbus, OH	Leased (Ground)	Large	98,047	July 1999
13.	Indianapolis, IN	Owned	Large	90,956	August 1999
14.	Novi, MI	Owned	Large	90,956	October 1999
15.	Centreville, VA	Owned	Large	90,956	January 2000
16.	Shelby Township, MI	Owned	Large		