LIFE TIME FITNESS INC
Form S-1/A
June 09, 2004

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As filed with the Securities and Exchange Commission on June 9, 2004

Registration No. 333-113764

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 3
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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered (1)	Proposed Maximum Offering Price Per Share (2)	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee (3)
Common Stock, $.02 par value	**11,385,000 Shares**	**$19.00**	**$216,315,000**	**$27,408**

(1) Includes 1,485,000 shares of common stock that may be purchased by the Underwriters to cover over-allotments.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) of the Securities Act of 1933, as amended.

(3) $25,340 previously paid.

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 9, 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.

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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 for all of our large format centers is approximately 10,500, 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.

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 principal shareholders after the 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)

	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

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.

(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:

	Fiscal Year Ended December 31,			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

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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.

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.

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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, terrorism or natural disasters.

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 an 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	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 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.

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, except per share, center and membership data)								
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 For the Three Months Ended 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.

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(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:

	Fiscal Year Ended December 31,					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 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:

	Fiscal Year Ended December 31,			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 procuremen