



Indoor waterslides available at 24 of 34 centers



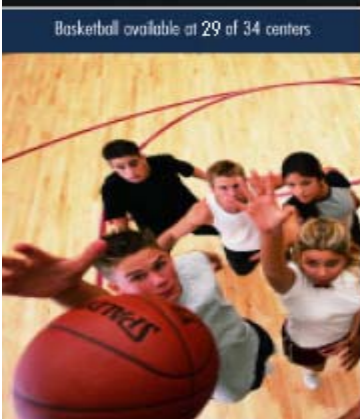
Fitness equipment available at all centers



Child care available at 31 of 34 centers



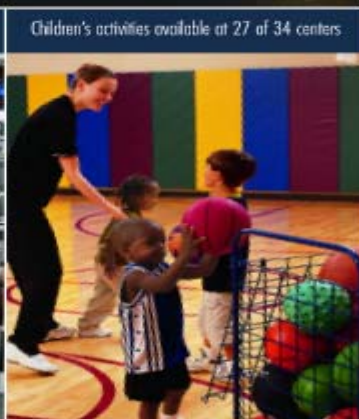
Family locker rooms available at 26 of 34 centers



Basketball available at 29 of 34 centers



Fitness equipment available at all centers



Children's activities available at 27 of 34 centers



Spas available at 26 of 34 centers

(Google)

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Why Lifetime

We chose Life Time Fitness (LTF) based on the guidelines outlined in our core criteria. To eliminate complexities driven by larger companies, we wanted a company with less than \$500 million in annual revenue and domestically based, LTF has revenue of \$655.8 million (slightly higher than we would have liked, but we felt this was within reason) and performs all its operations within the United States. Additionally, we wanted a company that has had steady growth, as well as consistent history going back at least 5 years. LTF was founded in 1992 and has experienced growth since with no known recent acquisitions. However, our main reason for choosing LTF was the large amount of information available which LTF has readily available. As a result, we chose Life Time Fitness to be our core company (AR).

Mission Statement

“We provide an Education, Entertainment, Friendly and Inviting, Functional and Innovative experience of uncompromising quality that meets the health and fitness needs of the entire family” (WS).

Vision

“To be a Premier Employer by making every team member more valuable each year while Building and Expanding a Macro Healthy Way of Life Company and Brand that is respected and coveted by Customers, Vendors and Competitors” (WS).

Overview

Founded in Minnesota in 1992 by Iranian immigrant Braham Akradi, Life Time Fitness (LTF) is a chain of fitness centers offering a wide range and diversity of products, services, and locations across the United States. As of 2007, LTF employs 15,000 people; 9,500 of which are part-time employees. At the end of 2007, LTF operated 71 different fitness centers in 17 different states within the United States with plans to open an additional 11 centers in 2008. Recently, LTF exceeded their goal of 11 by reaching a current total of 85 centers in 19 states. Of these centers, the large majority match two general working models LTF has for the dimensions and layouts of these facilities. The first model is LTF’s most current consisting of 110,000 square feet and has a targeted member base of 8,500 to 11,500. The second is LTF’s large design facility which consists of 95,000 square feet and has a customer base target of 7,900 memberships. Customer targets are based on a calculation of 750 to 1000 memberships per 10,000 square feet. FCA Construction is LTF’s wholly owned subsidiary which performs all of LTF’s building construction. Additionally, each one of these fitness “resorts,” so to speak, offers a wide range of health services including, but not limited to: basketball/volleyball courts, cardiovascular training, child center, free weights, group fitness studios, lap pool, resistance training, rock climbing, saunas, two-story water slides, whirlpools, Life Café, Life Spa, massage, scuba lessons, martial arts, free towel and locker service, nutrition coaching and products, educational seminars, summer camps, as well as LTF’s own magazine *Experience Life*. These



centers operate 24 hours a day, 7 days a week experiencing high traffic between the hours of 5:00 – 11:00 a.m. and 4:00 – 8:00 p.m. during the week, as well as 8:00 a.m. to 5:00 p.m. on weekends. After one year of operation, a LTF center hosts an average of 68,000 visits a month. Membership is steady throughout the year with the exception of a slight increase in membership at the beginning of the year. LTF offers a broad and diversified range of services and location; thus, demands the same of its workforce (WS).

Ethics

Life Time Fitness approaches all of its business operations with the idea of being a “healthy way of life” company. Their focus is to better the lives of individuals and families, both of their customers and employees. Additionally, LTF is committed to bettering the communities in which it operates through the Life Time Fitness Foundation [a 501(c) (3) company]. The foundation supports non-profit organizations that better the health and well-being of families and children with a special focus on developing youth to fulfill their maximum potential. Also, the foundation operates without the burden of administrative costs allowing one-hundred percent of all donations to go to directly to the organizations LTF supports (WS).

Break Down of Life Time Fitness employees.

Corporate Governance – Board of Directors

Acting in the best interest of the company, the board of directors gives oversight and strategic guidance to senior management. LTF has a seven member board of directors (corporate target is 6-9 members), divided into four subcommittees each responsible for overseeing different aspects of the business. Braham Akradi resides as the Chairman of the board, Chief Executive Officer, Company Founder, and only inside director since the open of LTF in 1992. Mr. Akradi exercises a considerable amount of control over the company and has the capability of placing the articles of incorporation into default if he were to leave LTF (he has no non-compete agreement with LTF at this time). Board members have no term limits; however, the board is reviewed every five years to insure that fresh ideas are being integrated into the decision making of the board. Currently only one board member has reached the typical retirement age of 65 while two others have reached 60 or more, three have hit 50 or more, and Mr. Akradi is a young 46. The board members must consist of a majority of members who are deemed independent directors according to the guidelines set forth by the NYSE. Additionally, board members have complete access to LTF management as well as the use of outside advisors, at the expense of the company, to perform their duties. Meetings are held a minimum of four times a year and additional meetings are held if necessary (WS).

Board members are as listed below:

Braham Akradi
Chairman of the Board
CEO

Giles Batemen
Financial Expert
Chairman of the Finance Committee
Member of the Audit Committee
Member since 2006

Guy Jackson
Financial Expert
Chairman of the Audit Committee
Member of the Governance and Nominating
Committee
Member since 2004

John Richards
Chairman of the Governance and
Nominating Committee
Member of the Compensation Committee
Member since 2006

Martha Morfitt
Member of the Governance and Nominating
Committee
Member since 2008

Stephen Sefton
Financial Expert
Member of the Audit Committee
Member of the Finance Committee
Member of the Governance and Nominating
Committee
Member since 1996

Joseph Vassalluzzo
Member of the Compensation Committee
Member of the Finance Committee
Member since 2006 (WS)

Board of Director Committees

Audit Committee – Responsible for the oversight of independent auditors, the disclosure of consolidated financial statements, oversight of LTF’s internal audit function, compliance of financial statements with LTF code of ethics and state and federal law. This committee meets a minimum of once a quarter.

Compensation Committee – Responsible for the evaluation of the CEO and Sr. Executive compensation including fringe benefits. Committee members assess executive pay to align it with individual performance, the marketplace, company goals and objectives, and to award/motivate executives to continue to guide company success.

Finance Committee – Responsible for providing guidance to the board regarding major financial policies, such as capital structure and annual budget, as well as review the company’s delegation of authority, such as proposed investments and company debt in excess of \$5 million. This committee is also responsible to designate officers and employees who can complete the company’s financial documents. Committee meets a minimum of three times annually as well as annually meets with company management.

Governance and Nominating Committee – Responsible for the selecting members of the Board of Directors, as well as overseeing guiding company principles. The Governance and Nominating Committee continually evaluates the Board of Directors and Senior Management for to insure company performance (WS).

Executive Management

LTF's executive management consists of:

Braham Akradi
(See Board of Directors section).

Michael Gerend
President and Chief Operating Officer
Elected president in December 2007
Joined LTF as Executive Vice President and
Chief Operating Officer in March of 2003.

Michael Robinson
Executive Vice President and Chief
Financial Officer
Elected Executive VP and CFO upon joining
the company in March of 2002.

Mark Lutz - Executive Vice President and
Chief Marketing Officer
Elected Executive Vice President in upon
joining the company in May of 2008.

Eric Buss
Executive Vice President and General
Counsel and Secretary
Elected Executive VP in August of 2005
Joined LTF as Vice President of Finance
and General Counsel in September of 1999.

Mark Zaebst
Executive Vice President and Real Estate
Development
Elected Executive Vice President in March
2006; Joined LTF in 1996 as Director of
Real Estate; however, Mr. Zaebst help Mr.
Akradi in the original development of LTF
as he started with his beginnings.

Jeffery Zweifelh
Executive Vice President and Life Time
University (WS)

Staffing

Each of LTF's 84 centers average 250 full-time and part-time employees, 11 of which are management positions. Additionally, each center usually has its own general manager, sales department head, and operations department head to see that the center is well managed. To get a feel for the types of jobs LTF offers, one must consider again the numerous services each facility offers. A full gym, aquatics, spa, café and free child care require that LTF hire a slew of trained professionals, such as dietitians, cosmetologists, personal trainers, massage and physical therapists. Such professionals are required to maintain proper licensing or their industry's top certification as appropriate. Support staff must be hired in addition to these professionals. All employees are hired at will, and LTF does not engage in collective bargaining with its employees.

In addition to LTF's numerous centers, one must also consider LTF's subsidiaries. For example, LTF owns the subsidiary FCA Construction which performs almost all LTF's construction projects. FCA construction consists of 20 architects and a construction crew of 170 in addition to the typical staff of LTF which runs the actual facilities. These wholly owned subsidiaries pose additional management challenges in regards of additional regulation and risks assumed (WS).

Culture

LTF prides itself on being a “healthy way of life” company with a growth strategy focused on three main principles: large and high quality physical structures, a wide offering of services which attract a larger and stronger demographic and strong member experience focused on high quality thus high volume business with value pricing. This approach to business operations, as well as LTF’s 24-7 operating hours, forces LTF to seek large quantity low cost labor which results in a considerable amount of employee turnover. This turnover and LTF’s rapid growth may sometimes result in customer complaints regarding understaffed or unknowledgeable workers (“LifeTime Fitness & LifeTime Fitness Complaints”). Not to mention LTF stresses a high performance environment to the extent of paying all member advisors, personal trainers, and fitness instructors on commission. Employees are mandated to read through the company’s code of ethics and the mission is continuously communicated to employees. It is with the same efficiency and accuracy which LTF approaches growth that LTF addresses its employee training which will be discussed further in the Training section of this paper. Lastly, LTF promotes a culture of friendliness and fun to go along with its “resort-like” fitness facilities.

To further examine the corporate culture of LTF, three phone interviews were conducted with employees from locations in three different states, as well as different positions within the company. Years of service with LTF ranged from two months to four years. When asked what they disliked about working at LTF, none of the employees interviewed had anything negative to say. Despite their location differences of Texas, Nebraska, and Minnesota, all mentioned the friendliness of the culture, the joys of meeting a variety of people through their customers, as well as coworkers, and the opportunities they receive to help others. Additionally, they emphasized the availability of management, the importance that LTF places on their mission statement, and the continually improving and mainstreaming of LTF’s processes and services. Several mentioned the push for leadership within the organization and from management; one even mentioned the influence of Braham Akradi, the company founder and CEO. When asked about turnover, Lateef, a personal trainer in Texas who has worked with LTF for four years and in the fitness industry for twelve, stated that it was moderate for such an industry compared to what he had experienced in the past (Kendra, Johnson, & General Manager - MN, 2008). Overall, LTF’s culture is that of top-down management that requires adherence to policies and procedures (due to large numbers and safety) focused on performance, yet provides a relaxed fun environment in concordance with the services they provide.

Employee Training and Development

Much of LTF’s employee training and development is hidden from the public; nevertheless, after some digging, one will find that LTF has a rather extensive training program. Life Time University (LTU) is a division of LTF sole, devoted to training and educating its employees and was developed slightly before 2006. Phone interviews were also the major source of training information as LTF does not publish much information regarding LTU. LTU consists of three training methods: on-site training, online resources and courses, as well as training held at the LTF Minnesota based headquarters. Certification programs have been set up for numerous positions throughout LTF and LTU (certification is required of department managers). Many



positions require one to two weeks of training in the employee on-boarding process. In addition to LTU, employees are required to hold certain licenses and certifications for their profession (such as cosmetology or massage therapy). Maintenance of these licenses is the responsibility of LTF employees, but often LTF helps off-set these costs through discounted programs and training sessions held outside of LTF. Finally, all LTF team members must be CPR and AED certified (Kendra, Johnson, & General Manager - MN, 2008).

Employee Benefits and Compensation

LTF's employees are paid in accordance with LTF's high quantity low cost strategy which restricts employee wages depending on the marketplace; however, LTF does strive to be a premier employer. Additionally, LTF fuels its high performance culture by paying a large number of employees on a commission basis. Benefits offered to LTF employees include: medical, dental, vision, flex, short and long-term disability insurance, as well as an employee assistance program. These benefits are primarily offered to full-time employees; however, limited benefits are offered to part-time employees as well (Kendra, Johnson, & General Manager - MN, 2008).

Legal Liabilities

LTF is occasionally subject to litigation due to their normal course of business. Due to the large number of employees required to operate each center, LTF's availability to the general public, the nature of their business, as well as their variety of services, offerings and subsidiaries, LTF has a large exposure for legal risks. Such risks may include OSHA (example FCA Construction), Worker's Compensation (example employees climbing a rock wall), the U.S. Food and Drug Administration (LTF is currently under scrutiny for some of their nutritional products offered through Life Café), and the massive risk for potential customer injury or death. They have reserves set aside for such instances where insurance will not cover the damages. However, in general, LTF believes that any legal liabilities due to their normal course of business will not have a material effect on their financial position, operating results, or cash flows, although, this can not be predicted with certainty (WS).

Place

Location is one of LTF's main marketing points. Availability of services is a priority for LTF. To continually increase their consumer base, LTF undergoes new facility construction on a regular basis. Each facility averages about 110,000 square feet; which targets about 8,500 to 11,500 members and are generally located around high density populations. The cost of starting up a facility averages about \$31 million. This includes the land, building, and equipment. The equipment alone is about \$3 million (AR). LTF is a domestically based company and performs all of its operations in the United States. For more information regarding the fitness facilities please see "Overview."

Price

LTF's typical monthly membership dues range from \$60 to \$80 per month for an individual membership and from \$100 to \$150 per month for a couple or family membership. Most of the classes are included in the membership price. Towels and lockers are also included in the membership price. Any junior member (age 11 and under) only costs \$6 per month (AR).

Product

LTF is a fitness organization that offers customers unique centers, programming, services a team of certified and dedicated employees, and more than 400 pieces of state-of-the-art cardio, resistance and free-weight training equipment which positions LTF well to support (AR). Facilities include (AR):

Amenities

Basketball/Volleyball
Courts
Cardiovascular training
Child Care
Free Weights
Group Fitness Studios
Lap Pool
Racquetball/ Squash
Courts
Resistance Training
Rock Climbing Cavern
Saunas
Two-story Waterslides
Whirlpools
Zero-depth Entry
Swimming Pools
Life Studio
Life Café
Life Spa
Pool-side Bistro
Men's, Women's and
family Locker Rooms

Services

24-Hour Availability
Fitness Assessments
Educational Seminars
Subscription to Experience
Life
Towel Service
Use of Lockers
Massage Therapy
Nutritional Products
Personal Training
T.E.A.M Programs
O2 Cardio Training
Metabolic Testing
Nutrition Coaching

Activities and Events

Aquatics
Athletic Leagues
Birthday Parties
Eastern/Martial Arts
Kid's Club
Pilates
Run Club
Scuba Lessons
Studio Cycling
Sports-specific Training
Camps
Summer Camps
Swimming Lessons
Yoga
Educational Camps
Dance Classes
Athletic Events



Along with these in-house programs and facilities, LTF also offers nutritional facts, programs to help a person outside of the facility, and dietary programs/pills. LTF also provides a magazine, *Experience Life*, which provides customers with ways to improve their health. A nice attribute to our Fitness program is that parents are able to drop off their children at the child services center while they workout. After their workout, customers are able to go to the Life Spa to relax or to the Life Café to get something to eat (all things included at each facility) (WS).

Additionally we offer customers four different memberships to choose from, varying in services and products offered, as listed below:



A great experience at our most affordable rate	Many club choices plus benefits outside the club	Nationwide access, premium partner benefits and tennis	The ultimate in access, service, amenities and benefits
CLUB ACCESS	CLUB ACCESS	CLUB ACCESS	CLUB ACCESS
All Bronze Clubs	All Bronze and Gold Clubs	All Bronze, Gold and Platinum Clubs	All Life Time Fitness locations nationwide, including Life Time Athletic clubs
IN-CLUB AMENITIES	IN-CLUB AMENITIES	IN-CLUB AMENITIES	IN-CLUB AMENITIES
Free towels Free lockers Two VIP passes per year	<i>All Bronze benefits, plus:</i> Free climbing wall Free racquetball and squash Four VIP passes per year	<i>All Gold benefits, plus:</i> Access to Platinum-level Tennis clubs Six VIP passes per year	<i>All Platinum benefits, plus:</i> Eight VIP passes per year
PARTNER BENEFITS	PARTNER BENEFITS	PARTNER BENEFITS	PARTNER BENEFITS
10+ local and national partners	500+ local and national partners	575+ local and national partners	575+ local and national partners

(WS)

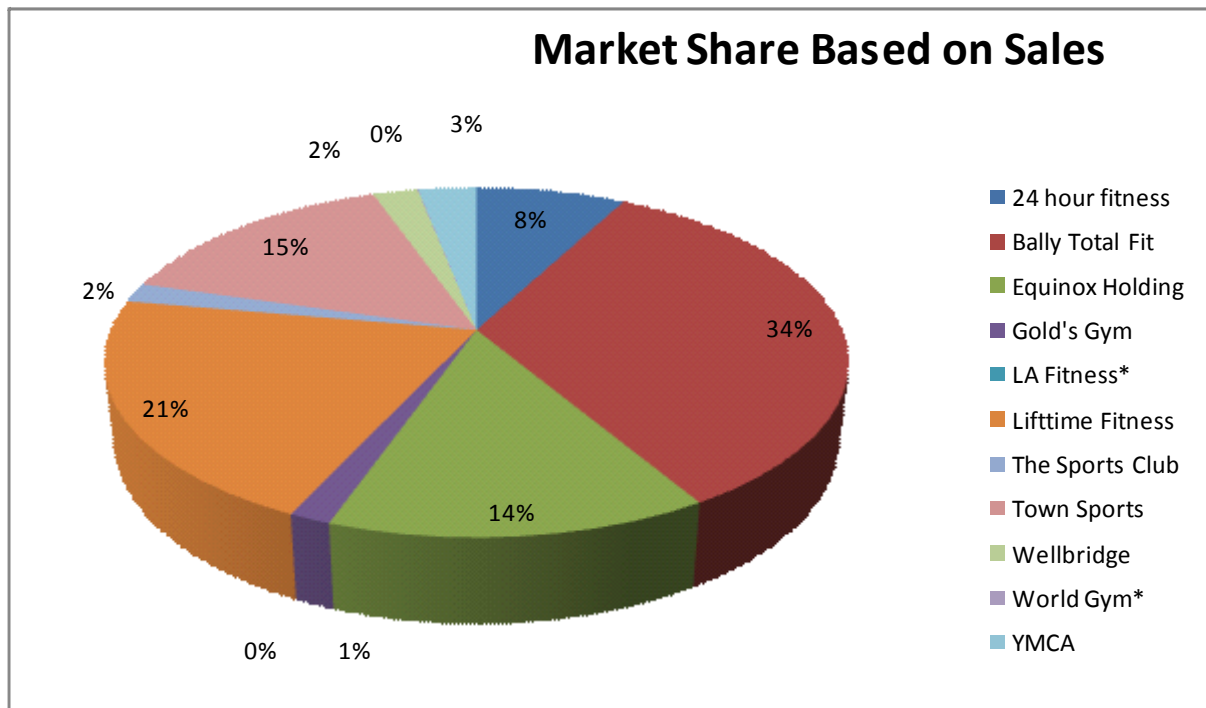
Promotion

LTF has a unique situation because they are able to advertise through their magazine, *Experience Life* (which is LTF's main source of advertising). Totaled with LTF's additional advertising ventures, LTF spent \$5,337,500 on advertising and marketing in the 2nd quarter of 2008 (WS).

Trademarks, Trade Names

LTF has registered over four Names with the U.S. Patent and Trademark Office (USPTO). These trademarks include LIFE TIME FITNESS®, EXPERIENCE LIFE®, Life Time Fitness Triathlon Series® and LIFE TIME®. LFT has also registered their logo. Life Time has been trademarked in order to use Life Time Fitness and the word LIFE TIME with our nutritional products. LIFE TIME FITNESS has also been trademarked in certain foreign countries (AR).

Market Share



*LA Fitness has zero sales in 2007 or it was not public information. World Gym had very low sales and was given a 0% market share. We derived this chart by looking at the top competitor sales of LTF from Lexus Nexis.

Most Direct Competition

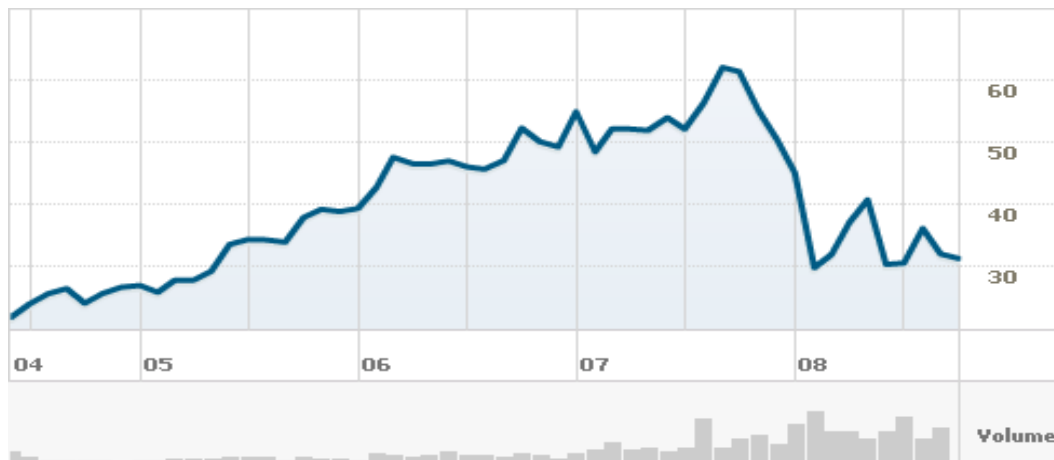
The following organizations are LTF’s major competitors. They have similar equipment, products, activities, and health plans.

- Health club operators, including 24 Hour Fitness Worldwide, Inc., Bally Total Fitness Holding Corporation, Equinox Holdings, Inc., LA Fitness International, LLC and Town Sports International, Inc.
- The YMCA and non-profit organizations.
- Physical fitness and recreational facilities established by local governments, hospitals and businesses.
- Local salons, cafés and businesses offering similar ancillary services.
- Exercise and small fitness clubs and studios, including Anytime Fitness, Curves International and Snap Fitness.
- Racquet, tennis and other athletic clubs.
- Amenity and condominium clubs.
- Country Clubs.
- Home-use fitness equipment industry.

The difference between LTF and their competitors is that a customer may have to be a part of multiple competitors’ organizations in order to get what s/he could receive in one visit at LTF (AR).

Stock

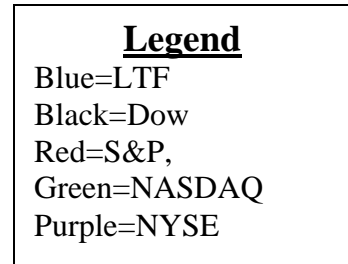
Currently, LTF has 250 record holders and 10,000 shareholders of their common stock. LTF has never paid any cash dividends and won’t ever without the approval of certain lenders. It is also important to mention that LTF plans to reinvest any money that could be used as a cash dividend. The beta for LTF is 1.76 (Morning Star). The following graph shows LTF’s stock price for the last four years.



(Reueters)

Market

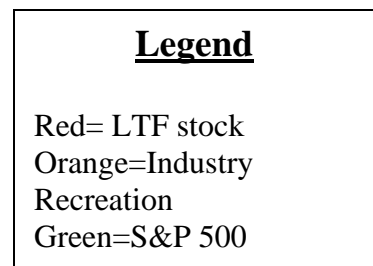
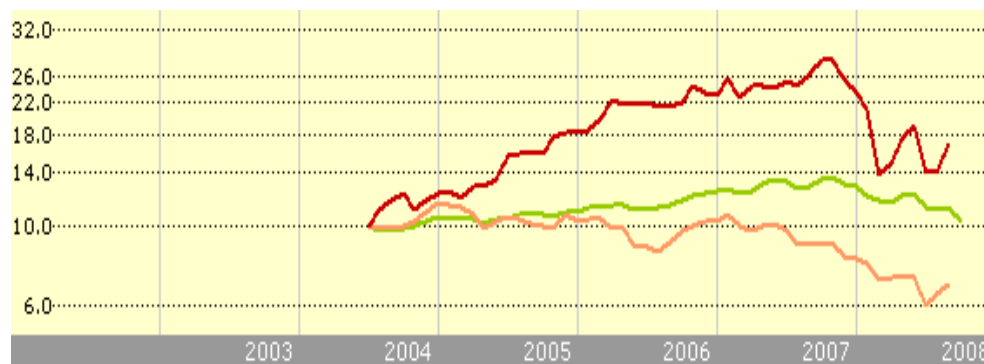
The current economic condition threatens LTF because as prices of other services increase, consumers may no longer be able to afford a LTF membership. Stock price must also be closely monitored throughout the acquisition process to ensure funding. Accordingly, as credit lines become shorter and the housing market drops even further, financing may be harder for LTF to obtain and thus slow LTF's growth. The following graph depicts LTF's stock price compared to the Dow Jones Industrial Average, S&P 500, NASDAQ, and NYSE.



(Reuters)

Industry

On the positive side, while the recreation industry as a whole has suffered over the past five years, LTF has been increasingly higher than the industry. The recreation industry accounts for \$655.8 million in total revenue. LTF makes up for only 1.07% of the total industry revenue. Additionally, while that recreation industry generally has a low return on assets, in the past five years, LTF has been significantly higher than industry (Morning Star). The following graph shows LTF's performance compared to the recreation industry and S&P 500.



(Morning star)

Earnings Per Share

LTF has shown continuous growth in EPS over the last five years. In addition to the growth in the last five years, this year has already had period ending EPS of .44214 in March and .50421 in June. If LTF can make it through the next two periods without too much damage then LTF is looking at having another successful year.

Multi-Year Summary (USD) [Currency](#)

YEAR	SALES	NET INCOME	EPS
2007	655,786,000	68,019,000	1.81
2006	511,897,000	50,565,000	1.40
2005	390,116,000	41,213,000	1.19
2004	312,033,000	25,338,000	1.02
2003	256,942,000	13,618,000	0.85
5 YEAR GROWTH RATE	26.3	49.4	20.7

from [Disclosure\(R\) Online Database-US Public Company Profiles](#), September 30, 2008

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Debt

Much of LTF's rapid expansion is financed through debt. LTF's debt, as of December 31, 2007, was \$1.35 billion. These significant debt levels could restrict LTF in the pursuit of other business entities and any additional financing. A large portion of the incoming cash flows will be used to pay the interest and principle on these debts. Currently LTF relies on its ability to adjust membership rates on a month by month basis as a means to recoup building expenses; however, if LTF loses a lot of members, which is very plausible with the market slow, they may not be able to meet current debt requirements. Additionally, LTF could be considered at a competitive disadvantage because they will not have as much leverage as other fitness companies due to debt. As banks collapse and funding becomes short, LTF's large debt could bring its growth efforts to a screeching halt in a shrinking American market (Lexis Nexis).

Financial Status

Life Time Fitness' financial statements show that they are in a strong financial position. Not only has the company been profitable for the past five years, they have also had large growth rates in both revenue and net income. Between 2006 and 2007, their revenues increased by 28.1% from \$511.9 million to \$655.8 million. Over the past five years, they have more than tripled their net income from \$20.6 million in 2003 to \$68.0 million in 2007 (AR).

In 2007, LTF had EBITDA of \$197.7 million. This has also grown strongly over the past few years. From 2005 to 2007, EBITDA has had annual growth of 25%, 24%, and 33%, respectively (AR). This is a great indicator of the company's strong operating performance before accounting for depreciation, amortization, and taxes.

1) Revenues

LTF's main sources of revenue come from membership fees and enrollment dues. Other sources of revenue, referred to as "in-center revenue", include fees for personal training, dieticians, group fitness training, sales of products and services offered by the Life Spa, and sales of products offered by the Life Café. Of the \$140.7 million increase in revenues from 2006 to 2007, \$94.5 million was attributed to membership dues, a result of the increase in memberships from the new centers, the junior membership programs, and an increase in sales of value-added memberships. \$43.9 million of the increase was attributed to in-center revenues (AR).

2) Expenses

Center operating expenses increased by \$84.9 million from 2006 to 2007. The primary reason for this increase was growth. \$49.5 million of the increase was due to payroll-related costs to support the memberships at the new centers. \$18.2 million was due to facility-related costs. These facility-related costs mainly include lease expenses for seven centers LTF began leasing in July 2006. Other facility related costs include utilities, real estate taxes, and expenses to increase in-center products and services (AR).

3) Profit Margin

In 2007, LTF had a profit margin of 10.4%. This margin has remained steady over the past four years. This consistent profit margin is impressive considering that LTF has been expanding rapidly over recent years, and there have been no negative impacts to their financial status during transition periods.

Cash flows

Net cash provided by operating activities was \$142.2 million in 2007. This was a 13% increase from 2006. The primary reason for this increase was the \$17.5 million increase in net income. LTF has had consistent cash flow growth for the past several years (AR).

Their cash outflows from investing activities have dramatically increased over the past several years. The majority of this increase is due to expanding. LTF has been investing large amounts in the construction of new facilities and purchasing new fitness equipment. They do also invest in the maintenance and updating of their existing facilities. In 2007, LTF invested \$415.8 million for the purchase of property and equipment (AR).

LTF expects to spend \$440-460 million on capital expenditures in 2008. In addition, they expect to incur \$385-395 million in construction of the new centers and \$30-35 million in maintenance and updates to their existing facilities. They plan to fund the capital expenditures using cash from operations, their revolve line of credit, and long-term financing (AR).

As of December 31, 2007, LTF had debt obligations of close to \$1.35 billion. Of that total, \$371.0 million is related to operating leases, \$9.3 million is related to capital leases, and \$156.4 million is related to purchase obligations, such as contracts for construction of new facilities and purchases of land (AR).

Liquidity

In the past, LTF has not had problems regarding liquidity. They use debt arrangements, sales of equity, and cash from operations to pay their obligations. In the future, they plan to use the following means to satisfy their current and long-term obligations: cash from operations, extensions or refinancing existing debt, sale-leaseback transactions, and obtaining new debt and equity capital (AR).

1) Receivables

The company does not have many outstanding account receivables, due to the nature of the business, and their ability to directly withdraw funds from customer accounts. At December 31, 2007, their balance sheet showed a receivables balance of \$4.5 million (AR).

2) Current Ratio

Their *current ratio* at December, 31, 2007 was only .39 because their current liabilities exceed their current assets. This means that the company could have problems meeting short-term obligations. On a positive note, the current ratio was higher in 2007 than in the previous year, and they did not have problems meeting their short-term obligations in either year (AR).

Government Regulation

LTF is subject to both state and federal government regulation in many areas of business. Because LTF is a publicly traded company, they are regulated by the Federal Accounting Standards Board (FASB) and the Securities Exchange Commission (SEC). They are expected to prepare their external financial reports according to the Generally Accepted Accounting Principles (GAAP) established by FASB. They are also required to file a variety of reports throughout the year with the SEC.

LTF is also under the regulation of the Federal Trade Commission and other consumer protection agencies. Some of the regulations that affect the health club industry include: the right for a person to cancel their membership within three to ten days after signing up, a maximum price and terms for membership contracts, and limitations on the financing of the terms of the contract (AR).

They must also comply with state and federal regulations governing the manufacturing and sales of supplement and food products. The U.S. Food and Drug Administration is especially concerned with supplements and food products that make claims about weight loss (AR).

LTF has internal control procedures in place to ensure that they are complying with these government regulations, and they confirm a belief that they are in compliance with all applicable rules, statutes, and decisions (AR).

Internal Controls

See Board of Directors' Audit Committee.

Unconsolidated Affiliated Entity

In 1999, LTF formed Bloomingdale LLC with two unrelated organizations for the purpose of constructing and operating a sports and professional fitness resort and spa in Bloomingdale, IL. The terms of the relationship between LTF and the other two members are governed by an operating agreement. Bloomingdale LLC and LTF have an agreement that LTF will manage the operations of the resort and spa, but all operations will be supervised by the Management Committee of Bloomingdale LLC. LTF does not have independent control of Bloomingdale LLC; therefore, all decisions require the approval of the majority of the six members of the Management Committee. Bloomingdale, LLC is classified as an investment in an unconsolidated affiliated entity and is not consolidated in LTF's financial statements (AR).

In June 2000, Bloomingdale LLC was issued debt in the amount of \$17.4 million. Each of the three members guaranteed one-third of the debt obligation to the bank. The operating agreement entitles each of the three members to monthly distributions from Bloomingdale LLC. If Bloomingdale LLC does not generate enough to make the monthly distributions, LTF is obligated to make the required monthly distribution to the other two members. To date, Bloomingdale LLC has generated enough inflows to make all of their required distributions. In the 2005, 2006, and 2007, each of the three members received a total of \$0.7 million in distributions each year (AR).

Accounting Policies and Estimates

1) Consolidated Financial Statements

Their financial statements are consolidated to include Life Time Fitness, Inc. and its wholly owned subsidiaries. All internal company transactions are eliminated through the consolidation of financial statements (AR).

2) Revenue Recognition

LTF receives an enrollment fee at the time when a new member joins. The enrollment fees are recorded as deferred revenue and are recognized on a straight-line basis over a period of 36 months. Based on historical data, 36 months is the estimated membership period (AR).

Monthly membership dues are recognized as revenue in the month they pertain to. All service revenue provided by personal training, Life Spa, Life Cafe, or other services are recognized at the time the service is rendered. For example, often personal training revenue is received in advance. This revenue will be deferred until the services have been performed (AR).

3) Inventories

Inventory consists mainly of operating supplies, nutritional products, and uniforms. Inventory is recorded at the lower of cost or market value (AR).

4) Property and Equipment

LTF records their property, equipment, and leasehold improvements at cost. Improvements are capitalized, whereas, maintenance and repair costs are expensed in the period they are incurred (AR).

Equipment is depreciated on a straight-line basis over its estimated useful life. Leasehold improvements are amortized on a straight-line basis over the shorter of its estimated useful life or the lease term. Accelerated depreciation methods are used for tax purposes (AR).

New Construction Sites

1) *Pre-Opening Operations*

Any Memberships that are sold before the center has opened are deferred until the construction of the center is completed. They are then recognized over a 36 month period. Based on historical data, 36 months is the estimated membership period. Any advertising, rent, or other expenses incurred before the opening of the new centers are expensed as incurred (AR).

2) *Cost of new sites*

The cost of starting up a facility averages about \$31 millions dollars. This includes the land, building, and equipment. The equipment alone is about \$3 million (AR).

Property and Equipment

Property and equipment consist of the following:

	Depreciable Lives	December 31,	
		2007	2006
Land		\$ 219,347	\$ 154,680
Buildings			
	3-40 years	869,365	630,565
Leasehold improvements	1-20 years	36,253	34,695
Construction in progress		<u>137,335</u>	<u>82,589</u>
		1,262,300	902,529
Equipment:			
Fitness	5-7 years	76,620	59,559
Computer and telephone.	3-5 years	35,792	32,335
Capitalized software	5 years	21,884	17,345
Decor and signage	5 years	8,962	7,018
Audio/visual	3-5 years	15,319	11,349
Furniture and fixtures	7 years	9,300	7,579
Other equipment	3-7 years	<u>48,135</u>	<u>33,965</u>
		<u>216,012</u>	<u>169,150</u>
Property and equipment, gross		1,478,312	1,071,679
Less accumulated depreciation		<u>219,041</u>	<u>169,557</u>
Property and equipment, net		\$1,259,271	\$902,122

(Chart from 2007 Annual Report)

Income Taxes

Income taxes are accounted for under the asset and liability method, meaning that they recognize deferred tax assets and liabilities for the expected future tax events in their financial statements. If there is a change in tax rate, any income or loss on the deferred tax assets and liabilities must be recognized in the period the new tax rate is effective.

The provision for income taxes is comprised of:

	December 31,		
	2007	2006	2005
Current tax expense	\$33,358	\$30,348	\$ 23,443
Deferred tax expense.	8,297	3,165	3,315
Non-current tax expense	<u>3,565</u>	<u>—</u>	<u>—</u>
Income tax provision	\$45,220	\$33,513	\$26,758

(Chart from 2007 Annual Report)

Intangible Assets

LTF's intangible assets include goodwill, leasehold rights, and trade names. These intangibles have indefinite lives; therefore, they are not amortized. However, they are tested for impairment at least annually (AR).

The following table summarizes the carrying amounts of our intangible assets:

	December 31,	
	<u>2007</u>	<u>2006</u>
Goodwill	\$2,599	\$1,346
Leasehold rights	2,318	2,318
Trade names	<u>588</u>	<u>588</u>
	\$ 5,505	\$ 4,252

(Chart from 2007 Annual Report)

Company Analysis - SWOT

Strengths

LTF enjoys multiple competitive strengths, including: comprehensive and convenient programs and services, a value proposition that encourages membership loyalty, as well as an established and proven economic model. Additionally, LTF offers a rarely found month by month membership dues. as well as fast and convenient service “by providing 24 hour service, ample parking in centrally located areas, child care center, speedy and delicious café, hair cuts, manicures, and massage at our spa, and about 100 free group fitness sessions per week for members” (AR). These strengths allow LTF to reach multiple markets and a wide range of demographics to build their consumer base. Besides its services and products, LTF benefits from strong financials built on years of consistent growth, a young but experienced board of directors and senior management (some of which were involved in the founding of the company) which will continue to provide steady leadership for possibly many years to come, as well as an established employee training and certification program.

Weaknesses

LTF has three main weaknesses: their dependence on the currently declining American market, their large amount of debt, and new and inexperienced staff as a result of extremely rapid expansion. As the market continues to decline, it is only a matter of time before LTF's revenues and profits are affected. Additionally, LTF's debt may slow future growth, incur large interest expenses, pose large fixed costs, and hinder their ability to obtain additional financing which may slow or stop their growth. Lastly, LTF's extremely rapid rate of expansion may open its doors to increased risks and confusion due to recruiting large number of low wage employees with no experience in a LTF center.

Opportunities

Rising healthcare costs and obesity, which drive many health risks, open many possibilities to move beyond the general public and target businesses as well as healthcare facilities looking to cut costs through bettering individual health. LTF may also consider providing different services helping individuals cope with the economic crisis, such as employee assistance programs, which would again generate revenue from businesses rather than individuals. Not to mention, LTF may also want to consider expanding its operations internationally to escape the growing tension within the United States.

Threats

LTF's major threats are in the area of legal regulation. With the large quantity of services, employees, and consumers, LTF has high exposure for possible violations of regulation (intentionally or unintentionally) or suit if injury were to occur.

Strategic Direction

Life Time Fitness is a company focused on growth in both number of operating facilities, as well as in the variety of services and products they offer. Rapid expansion is LTF's way of doing business. As the company looks in to the future, it must also address the rapidly slowing United States economy upon which it is dependent. Means of offsetting losses may possibly be achieved by growing numbers or competitor buyouts to increase the quantity of revenues coming in, expanding product and service offerings to expand into stronger markets to increase cash flows during hard economic times, or to find further means to reduce operating costs and increase profit margins. Since going public in 2004, LTF has experienced nothing but increasingly strong growth in numbers, operations, and revenues; however, to continue this pattern LTF must find a way fuel its expansion while many of its American customers experience sliming wallets that may no longer be able to justify a pass to the fitness center.

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