INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
October 19, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

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

Date of Report: **October 18, 2004**

(Date of earliest event reported)

INTERNATIONAL BUSINESS MACHINES CORPORATION

(Exact name of registrant as specified in its charter)

New York	**1-2360**	**13-0871985**
(State of Incorporation)	(Commission File Number)	(IRS employer Identification No.)

ARMONK, NEW YORK	**10504**
(Address of principal executive offices)	(Zip Code)

914-499-1900
(Registrant s telephone number)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. **Results of Operations and Financial Condition.**

Attachment I of this Form 8-K is the transcript of IBM s Chief Financial Officer Mark Loughridge s third quarter earnings presentation to securities analysts on Monday, October 18. Attachment II are the charts for such presentation. Attachment III is reconciliation information in connection with certain information in Attachments I and II. All of the information in Attachment III (reconciliation information) is furnished under this Item 2.02 but not filed. All of the information in Attachment I (transcript) and Attachment II (charts) is hereby filed under this Item 2.02 except for the following information that is furnished but not filed:

Attachment I (Transcript):

The following sentences from page 2:

"Without the charge, IBM's pre-tax income was 2.9 billion, up 12 percent over third quarter of last year."

"Over the last four quarters, our return on invested capital was 28 percent, excluding the one-time pension charge and our Global Financing business. Twenty-eight percent is consistent with first half performance, and significantly above the S&P 500."

The following sentences from page 8 (Expense Summary):

"Excluding the one-time pension settlement, it was up 10 percent."

"Since revenue was up 9 percent, total expense-to-revenue, without the one-time charge, increased two-tenths of a point."

"First, without the one-time pension charge, retirement related plans, both pension and health, were a year-to-year hurt of $237 million, about 9 cents a share."

The following sentence from page 14: "In the third quarter, the former Technology Group delivered $11 million of profit, its second consecutive profitable quarter."

Attachment II (Charts):

In the chart on page 3 titled "IBM FINANCIAL SUMMARY", all the data in both columns under "Excluding Charge" except for the data in the rows identified as "Revenue", "@CC", "GP%" and "EPS".

In the chart on page 8 titled "IBM EXPENSE SUMMARY", the data in the column entitled "B/(W) Yr/Yr w/o Charge*" for the rows identified as "SG&A", "Total Expense and Other Income", and "E/R%".

The first two rows on the chart on page S9 titled "RECONCILIATION OF PRO FORMA TECHNOLOGY GROUP TO SYSTEMS AND TECHNOLOGY GROUP PTI", which rows are identified as "Pro forma Technology Group PTI" and "Pro forma Systems Group PTI and Related Intercompany Eliminations (estimate)*".

IBM s web site (www.ibm.com) contains a significant amount of information about IBM, including financial and other information for investors (www.ibm.com/investor/). IBM encourages investors to visit its various web sites from time to time, as information is updated and new information is posted.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

Date: October 19, 2004

By: /s/ Timothy S. Shaughnessy

(Timothy S. Shaughnessy)

Vice President and Controller

ATTACHMENT I

INTRODUCTION

Thanks and good afternoon. I am Patricia Murphy, Vice President of Investor Relations for IBM. Here with me this afternoon is Mark Loughridge, IBM s Senior Vice President and Chief Financial Officer. Thank you for joining us.

At this time, the opening page of the presentation should have automatically loaded, and you should be on Chart 1, the title page.

In roughly an hour, you will be able to link to the prepared remarks using a link found at the bottom of the presentation window.

As always, a replay of this webcast will be available on our Investor Relations website by this time tomorrow.

Let me also tell you about one new enhancement that we will add to our investor website this quarter. We have recently received some questions from institutional investors and many of the topics are relevant to a broader audience. We plan to post a list of questions and answers to our website for the benefit of all investors. Look for this in a few days under the Frequently Asked Questions section of the investor website at ibm.com. We also may address a couple of the most relevant questions in the Q&A at the end of this call.

This presentation includes certain non-GAAP financial measures, in an effort to provide additional information to investors.

All non-GAAP measures have been reconciled to their related GAAP measures in accordance with SEC rules. You will find reconciliation charts at the end, and in the Form 8-K to be filed with the SEC immediately following this call.

Now, please click on the Next button and move to Chart 2.

Certain comments made in this presentation may be characterized as forward looking under the Private Securities Litigation Reform Act of 1995.

Those statements involve a number of factors that could cause actual results to differ materially.

Additional information concerning these factors is contained in the company s filing with the SEC. Copies are available from the SEC, from the IBM web site, or from us in Investor Relations.

Please click again on the Next button for Chart 3.

Now, let me turn the call over to Mark Loughridge.

1

OPENING REMARKS

IBM again delivered strong results, reflecting the strength of our business model.

But, before getting into the results, let me remind you that IBM s reported results include a one-time charge relating to the partial settlement of legal claims against IBM s pension plan. We took you through the settlement and financial impact on September 29th. Because of the unique and non-recurring nature of the charge, this presentation will include IBM s results both with and without the charge, to better portray our operational performance.

For the third quarter we had $23.4 billion in revenue, which was up 9 percent as reported, and 5 percent at constant currency.

Our pre-tax income was $2.5 billion, which included a one-time charge of $320 million for the settlement. Without the charge, IBM s pre-tax income was 2.9 billion, up 12 percent over third quarter of last year.

We delivered $1.06 of earnings per share, including the impact of the settlement. Without the one-time, earnings per share were $1.17, which was a 15 percent improvement over last year s third quarter. This is consistent with the EPS growth in first and second quarters.

Our cash flow performance and balance sheet also remain strong. Net Cash from Operations was $3 billion in the third quarter, excluding Global Financing Receivables. And we have $9.7 billion of cash on hand, and low debt levels for our non-financing business.

Over the last four quarters, our return on invested capital was 28 percent, excluding the one-time pension charge and our Global Financing business. Twenty-eight percent is consistent with first half performance, and significantly above the S&P 500.

Last quarter I told you customer spending was improving, though not evenly across all segments and regions. In the third quarter, this pattern of moderate expansion continued, with Americas and Asia ahead of Europe in capital spending improvements.

Our business model is designed to provide consistent strong performance and growth. About 45 percent of our revenue, and more than half of our profit comes from annuity-like businesses, such as long-term services contracts, monthly-license charge software, maintenance, and financing contracts. These businesses deliver incremental growth, with a high degree of stability and cash generation. The other roughly 55 percent of revenue comes from our sales-based businesses, driving significant top line growth through our competitive products and solutions.

Our business model, together with the strong operating model that I described last quarter has again allowed us to post strong results. Our organic growth for the third quarter, that is growth without the benefit of currency or acquisitions, improved again to the best level in years.

Underneath the growth, we re seeing a shift from point products to solution-based offerings as customers recognize the unique value of IBM s broad industry-based capabilities.

Also contributing to our top line growth is success in emerging business opportunities. We re attacking a new opportunity area, Business Performance Transformation Services, where we capture spending that has historically been internal SG&A spending for customers. We do that with a rich and unique set of capabilities.

This quarter, we again posted very solid results overall. Based on these results, and the strength of our business model, you should roll through the third quarter overachievement of 3 cents to your full year earnings per share estimates. Remember, the analysts average estimate has already come up 4 cents since January. In total, this puts us on track to overachieve analysts beginning-of-the-year estimates by 7 cents.

Now, if you ll click on the Next button for Chart 4, we ll get into our third quarter results, starting with Revenue.

REVENUE   GEOGRAPHIC

I am going to start with our revenue by geography, since I believe it is more descriptive of our third quarter performance.

Total Revenue in the third quarter was up 9 percent as reported, and up 5 percent at constant currency.

This quarter we had strong growth in the Americas and Asia Pacific, while Europe s growth was driven by currency.

In the Americas, all three of its major regions grew at constant currency. The US had its strongest growth rate in over three years, as customers continued to invest for both efficiency and growth.

Asia Pacific also posted strong results, led by China and the ASEAN region. And Japan, which is about 60 percent of Asia Pacific s revenue, was up slightly at constant currency.

Europe was essentially flat without the benefit of currency. Some countries continue to lag in the economic recovery, and we saw weakness in several of our product areas.

Within EMEA, Eastern Europe, the Nordic countries, and Spain were all up. But other major countries, including UK, France, Italy and Germany, were all down year-to-year.

Across all of the geographies, we had very strong growth in emerging countries, as they aggressively invest in technology to build out their infrastructures. China, Russia, India and Brazil together, grew over 30 percent through the first three quarters of the year, to $3 billion.

One example of this trend is the Agricultural Bank of China. As part of their focus on becoming WTO compliant, the Bank is in the process of transforming their entire business from top to bottom. This includes modernizing their infrastructure on an open-standards based IBM platform so that data can be exchanged in a standardized, consistent manner across their client base.

Finally, our OEM revenue, which makes up 3 percent of IBM s revenue, was up 13 percent year-to-year, due primarily to improved performance in our microelectronics business.

Now let s turn to revenue by customer set, Chart 5.

REVENUE INDUSTRY SECTOR

This chart reflects our five worldwide industry sectors, as well as our Small and Medium Business customers. Our OEM business is excluded.

I want to expand the usual discussion on our performance by industry sector. This is an important view of the business, because while we manage and report our results by brand and by geography, our go-to-market strategy is based on customer sets.

We have about fifty-five thousand resources aligned by industry, in our sales organization, and in Business Consulting Services.

We have developed over 40 industry-specific solutions, to address a wide range of client needs. These solutions uniquely leverage our broad capabilities, combining technology and high value services to solve a client s business or IT problems. These solutions also provide the basis for a longer-term relationship with the customer, rather than a transaction-oriented sale.

Our performance this quarter reflects the fact that clients increasingly are recognizing the value of IBM s unique industry-specific capabilities, and shifting from point-product sales to solutions.

Turning to customer set performance:

The Financial Services sector grew 9 percent, led by banking and financial markets.

IBM has the largest share position in this sector, due to our mix of business and integrated solutions in areas such as core banking. Key wins include Agricultural Bank of China, CIGNA, and Suruga Bank.

Public Sector grew 11 percent, led by double-digit growth in education and US Federal.

And, within Life Sciences, we continue to see the strength of our industry solutions with clients such as The Cleveland Clinic. We re applying our new clinical genomics solution to deliver better, more personalized patient care by linking patient s electronic health-record data with clinical, genetic and other research data. It s a very powerful solution that demonstrates the value of applying research discoveries to our clients most pressing needs.

Industrial Sector grew 4 percent, with mixed performance by industry.

These customers continue to look for ways to improve efficiency, and we are addressing these needs through solutions such as pipeline monitoring, and the cognitive early warning system for automotives.

Distribution Sector growth of 11 percent was led by the retail industry.

Our retail solutions, including On Demand Workplace and RFID are helping retailers to revolutionize the store, motivate shoppers and enhance merchandising capability. Key wins include Circuit City, Williams-Sonoma, and Tesco.

Communications Sector was up 16 percent, with growth in all industries.

Telecommunications was particularly strong, where customers are focused on moving to the next-gen IP network, and improving customer care. Four hundred and fifty telco ISVs are now part of the IBM ecosystem.

Sales to our Small and Medium Businesses were up 5 percent.

We continue to roll out new products under the Express label that are designed and priced specifically for customers in the 100 to 1000 employee segment.

Now let s turn to our more traditional view of revenue, by brand, Chart 6.

REVENUE BRAND

Revenue for Global Services, which is about half of IBM s revenue, was up 10 percent year-to-year as reported.

Strategic Outsourcing again had double-digit growth.

Business Consulting Services revenue reflected a continued improvement in demand for consulting and BTO capabilities, and ITS services improved its growth rate from the second quarter.

Hardware performance was strong, up 12 percent as reported.

The growth was led by xSeries, PC s and zSeries servers.

Software revenue grew 5 percent, as customer demand improved after a challenging second quarter sales environment.

Global Financing revenue was down 11 percent as reported, driven primarily by a decline in used equipment sales.

Now please click on the Next button for Chart 7, and we ll discuss our gross profit.

GROSS PROFIT MARGIN

Gross profit margin in the third quarter was 36.9 percent, up six-tenths of a point from last year s third quarter.

Global Services gross profit margin was down one-tenth of a point year-to-year, and down two-tenths from the second quarter. We had sequential improvement in SO, ITS Services and Maintenance gross margins, while BCS was down. And, we improved the Global Services pre-tax segment margin sequentially.

Hardware gross profit margin improved 3.2 points year-to-year, due to continued improvements in our microelectronics business.

Software gross profit margin improved 1.5 points year-to-year.

And Global Financing gross profit margin improved, though the business is more appropriately measured on Return on Equity. This quarter, Global Financing s Return on Equity was 30 percent.

I ll have more on gross profit when I go into a discussion of the business units.

Now, turn to Chart 8, and we ll review expense.

EXPENSE SUMMARY

Total Expense and Other Income grew 16 percent in the third quarter, as reported. Excluding the one-time pension settlement, it was up 10 percent.

Since revenue was up 9 percent, total expense-to-revenue, without the one-time charge, increased two-tenths of a point. This was driven primarily by lower IP income. Both SG&A and R&D expense-to-revenue would have been essentially unchanged.

This quarter, we had only a few items that we traditionally report in our expense roadmap that materially impacted earnings growth.

First, without the one-time pension charge, retirement related plans, both pension and health, were a year-to-year hurt of $237 million, about 9 cents a share. This is consistent with what we have told you previously, though up slightly from the recent run rate due to an increase in non-US pension plans. In the fourth quarter, we would expect the year-to-year impact to return to first half levels.

Second, IP income was $259 million, down $147 million from the third quarter of last year. There were no significant transactions in the quarter.

Partially offsetting the IP income impact was a help from investment gains and continued workforce rebalancing expense.

Before I move on, let me comment on currency.

As you know, we have ongoing hedging programs that are intended to mitigate the volatility of currency on period results. The impact of these hedging programs is principally reflected in Other Income and Expense, as well as cost of goods sold.

The supplemental chart at the end of the presentation benchmarks currency s potential future impact on revenue, assuming Friday s exchange rates.

Now let s turn to Cash Flow Chart 9.

CASH FLOW ANALYSIS

As I said at the beginning of the call, we had strong cash performance.

This Cash Flow Analysis chart has one primary difference from the FAS 95 format which is included in our supplemental charts. It considers our Global Financing Receivables as an investment to generate profit, not as Working Capital that should be minimized for efficiency.

Year-to-date, Net Cash Provided from Operations, excluding the change in Global Financing Receivables, was $6.6 billion, up $900 million from last year. There are three main contributors to the improvement:

First, growth in net income.

Second, our continued focus on working capital and supply chain management. Our accounts receivable collections continue to improve on a year-to-year basis. Our inventory balance was essentially flat year-to-year and our turns have improved year-to-year, even in a dynamic demand environment.

Third, we paid out approximately $400 million less in restructuring payments this year versus last.

Turning to our use of cash for investments:

Net Capital Expenditures were $2.8 billion, down $100 million from last year, reflecting lower investments in our microelectronics business, partially offset by increased net investments in our services business.

Let me make a subtotal here since many investors look at cash flow after Capital Expenditures. We had a net source of $3.8 billion, one billion dollars better than last year.

Next, our Global Financing Receivables, net of changes in Global Financing Debt, was a source of $3.5 billion, due to continued decline in income generating assets.

Finally, acquisitions were one billion dollars, down from last year. In 2004 we have had several smaller acquisitions, while last year we acquired Rational Software.

Finally, we returned over $5.2 billion to investors.

Year to date, we have spent $4.4 billion on share repurchase, to buy back 47.8 million shares.

We have $2.6 billion remaining from our last board authorization.

Average diluted shares for the quarter were 1.7 billion, down 3.2 percent from a year ago.

And, we paid out $874 million in dividends through September.

Now, please turn to Chart 10, and we ll discuss the Balance Sheet.

BALANCE SHEET

At the end of September, our cash balance was $9.7 billion, up $3.5 billion from a year ago.

Ninety-nine percent of our total debt of $22 billion was driven by our Global Financing business, and Global Financing was leveraged at an appropriate 6.8 to 1.

The remaining non-financing debt level was $261 million, in line with last year s level.

Debt-to-capital was well within acceptable levels at one percent.

Our Balance Sheet remains very strong and we are well positioned to capitalize on future opportunities and meet our cash needs.

Now, I want to provide some detail on individual businesses, starting with Global Services Chart 11.

GLOBAL SERVICES

Global Services, with $11.4 billion of revenue, grew 10 percent as reported. Excluding currency, IGS improved its revenue growth rate for the third straight quarter.

We continue to exercise financial discipline in the contracts we sign. Signings for Services this quarter were $10.5 billion at spot rates or $9.8 billion at constant currency. We signed eight deals larger than $100 million, including one over a billion dollars. This does not include a few large contracts that we expect to close in October. As you know, the pattern of large contract signings is not uniform, and customers don t necessarily sign based on quarter end dates.

The complexion of the deals and their impact on Global Services results has been changing:

First, over the last few quarters, in both Strategic Outsourcing and Business Consulting Services, contracts are smaller in size with shorter average duration. This leads to improved revenue yields year-to-year.

Second, we are improving our revenue performance in existing accounts through scope expansion and disciplined contract management.

Including Strategic Outsourcing, BCS, ITS Services and Maintenance, the ending balance of our backlog is estimated at $110 billion. This includes adjustments for our contract with JP Morgan Chase. Looking forward, we expect backlog erosion to return to more typical levels.

Regarding profit, we improved the Global Services pre-tax margin sequentially by half a point to 9.5 percent. We had sequential improvement in SO, ITS Services and Maintenance gross margins, although BCS was down due to seasonality. On a year-to-year basis, BCS improved, along with SO, and Maintenance.

In the fourth quarter we re driving for sequential and year-to-year improvement in the segment pre-tax income margin.

Now, let s review the three major segments of Global Services.

Strategic Outsourcing**,** which was about 40 percent of Global Services, was up 12 percent. Due in part to increased revenue from existing accounts, revenue was up in every geography.

Integrated Technology Services**,** including Maintenance, which was about 30 percent of Global Services, was up 10 percent, helped by a revenue reclassification of certain OEM equipment in the third quarter of 2003, and continued growth in our Business Continuity and Recovery Services.

Business Consulting Services continued to improve its growth rate at constant currency for the third consecutive quarter. BCS grew at 7 percent year-to-year, with strong performance in the Americas.

We are on track to improve profitability through several ongoing initiatives, including:

a targeted 4-point improvement in utilization,

a 15 percent reduction in overhead costs, and

optimization of the labor mix between partner and practitioner.

Our BTO revenue continues to show strong growth both sequentially and year-to-year. BTO is one of the initial capabilities that we ve leveraged to penetrate the new Business Performance Transformation Services opportunity.

So in summary, Global Services:

Improved revenue growth as reported and at constant currency,

Sequentially improved its segment pretax income margin by 50 basis points, and,

Continued to make progress in our Business Performance Transformation Services initiatives.

Now, click on the Next button to Chart 12, and we ll turn to Hardware.

12

HARDWARE

Hardware, at $7.5 billion of revenue, grew 12 percent year-to-year.

The Systems & Technology Group had year-to-year revenue growth of 9 percent in the third quarter, driven by strong growth in both zSeries and xSeries servers.

zSeries revenue grew 12 percent year-to-year, the fifth consecutive quarter of growth, and the last four were double-digits. This growth was driven primarily by new workloads as customers utilize zSeries as the managing platform for their on-demand infrastructure. Mainframes remain the platform of choice for hosting mission critical transactions as well as for consolidation and infrastructure simplification.

We continue to reinvent this platform to make it more relevant to customers changing needs, this quarter delivering a specialty processor designed for Java workloads.

And, our z890 mid-range processor continued to sell well showing the vitality of mainframe computing beyond large users.

Our pSeries UNIX server revenue grew 1 percent year-to-year and 6 percent sequentially, as we continue the transition to Power5. Volume shipments of our low-end and mid-range servers started at the end of August. We had strong customer acceptance with growth of 9 percent in the Americas and 8 percent in Asia Pacific. Revenue in EMEA declined 17 percent, driven by an elongated transition cycle.

Last Friday, we announced two new high-end systems which will begin shipping in November. These servers deliver almost twice the performance with less than half the processors when compared to a competitor s high end system. We expect to have the entire line transitioned to Power5 within the next four months.

iSeries revenue declined 26 percent year-to-year.

The transition to Power5 is taking longer than previous cycles, as existing customers must transition their operating environment to the new level required. The new Power5-based servers can run multiple operating system application environments.

Last week we announced the i595, the first 64-way iSeries server delivering over four times the processing power than the previous generation.

xSeries had a very strong quarter with server revenue growth of 26 percent year-to-year. This is the tenth consecutive quarter of double-digit growth. We had strong demand across the entire product line with double-digit growth in each of the three geographies. We are once again the fastest growing vendor in the Intel market.

Customers are increasingly utilizing Blades to simplify their infrastructure through the integration of storage and networking with servers. With revenue doubling year-to-year, we expect to retain leadership in the Blades space.

Revenue for IBM Total Storage grew 5 percent, reflecting the strength of our tape and mid-range disk products.

Tape grew 17 percent year-to-year, the fifth consecutive quarter of double-digit growth.

Total Disk was down 1 percent year-to-year. Midrange disk grew 27 percent year-to-year, however this was offset by a decline in high-end disk as customers anticipated our new Power5 high-end storage announcement.

Last week we introduced new mid-range and high-end enterprise storage featuring game-changing Power microprocessor technology. The IBM TotalStorage DS6000 series and DS8000 series leverage common components, breakthrough technologies from mainframes and supercomputers, and unmatched virtualization and management capabilities.

These technologies will allow customers to reduce the complexity of their operating environments, and reduce their overall costs.

These products will begin to ship at the end of the fourth quarter.

Technology OEM continued to show operational performance improvements with revenue growth of 10 percent.

In microelectronics, 300 millimeter yields continued to improve. Output from the fab doubled again in the third quarter and we expect it to improve by approximately 40 percent in the fourth.

Demonstrating that performance improvements are being driven by integration, not frequency, two weeks ago IBM s Blue Gene computer set a new record in supercomputing. The chips inside Blue Gene run at a relatively slow frequency, and are more like what s inside a game machine than today s high-end servers.

Our Engineering and Technology Services business continues to be strong with revenue nearly doubling year-over-year. Consistent with IBM s power everywhere initiative, we signed a multiyear partnership agreement with Shanghai Belling, establishing a strong presence in the emerging China market.

When the integration of the Systems and Technology Groups was announced in January, we said we would provide a pro forma view of the former Technology Group during the transition period. This view requires estimates of transfer price, cost, and segmented expense.

In the third quarter, the former Technology Group delivered $11 million of profit, its second consecutive profitable quarter.

The integration of the businesses is essentially complete, from development to supply chain to finance. Looking forward, the business represented in the pro forma view can no longer be accurately segmented. It therefore does not make sense to continue with this view of the business. Next quarter, we will provide an update on progress on output in the 300 millimeter fab.

Turning to our Personal Systems Group:

Personal Systems had a very strong quarter, growing revenue 17 percent year-to-year, with double-digit growth in both ThinkPads and desktops. Our Retail Store Solutions also had an exceptionally strong quarter growing

50 percent and widening our number one position in that industry.

Driven again by strong performance in mobile, we believe we will gain share in commercial PCs when the data becomes available.

Earlier this month IBM introduced the first ThinkPad with a biometric fingerprint reader. ThinkPad, already the industry s most productive and secure notebook PC, now offers an unmatched level of data protection through the new fingerprint reader and embedded security subsystem.

Our Personal Systems Group delivered $54 million of profit this quarter.

Now if you ll move to Chart 13, we ll cover Software.

14

SOFTWARE

Software, at $3.6 billion, grew 5 percent year-to-year and 5 percent sequentially. We believe we gained share in key product areas, and held share in middleware overall.

Operating Systems were down 2 percent, while middleware was up 6 percent.

Before getting into the specifics, let me comment on the software sales environment.

After a difficult end to the second quarter, demand rebounded in the Americas and Asia, fueled in part by an increase in large deals.

The software industry remains highly competitive. Customers were thoughtful in their buying decisions, and increasingly purchased middleware products as a platform decision, rather than individual point products. This plays to IBM s strength, as we have the broadest and deepest portfolio of cross platform middleware in the market.

In the third quarter we saw strength across the portfolio in our strategic products, offset by a decline in some of our legacy products.

We improved gross margins by 1 point sequentially and 1.5 points year-to-year, assisted by currency and productivity improvements in distribution and support.

Now let s turn to our individual brands:

The WebSphere family of software, the market leading application integration platform, grew 14 percent for the quarter.

Application servers grew 16 percent, WebSphere Portal software grew 41 percent and Business Integration products grew 14 percent, as customers continue to shift their demand toward our higher value offerings.

We recently announced the latest version of our WebSphere Application Server, with a new messaging service, and enhanced autonomic capabilities.

Rational revenue grew 6 percent.

We continue to build and enhance the capabilities for the Rational portfolio of tools. Just a few days ago, we announced new products and major enhancements to the core solutions from Rational Software, with a new release integrating WebSphere and Rational offerings on a single platform.

Our Data Management software revenue grew 11 percent year-to-year.

DB2 database software grew 15 percent, driven by double-digit growth in both our host and distributed platforms.

DB2 tools grew 34 percent year-to-year.

Distributed Enterprise Content Management software was up 56 percent year-to-year.

Offsetting this, our IMS database grew at a lower rate and other legacy products declined.

In 3Q we announced the general availability of two key data management product offerings:

A new version of our distributed DB2 database, and,

A new version of our DB2 Information Integrator that enables businesses to access information from any location or data format.

Tivoli software was up 19 percent:-

Tivoli Systems Management software grew 21 percent, aided by the Candle acquisition. The integration of Candle is proceeding ahead of schedule, and exceeding our financial expectations.

Tivoli security software grew 47 percent, driven by the continued strength of our Tivoli Identity and Access Manager product lines, and,

Tivoli Storage software increased 2 percent, on a tough compare.

Lotus software was down 6 percent for the quarter.

We are continuing our product transition from Notes Domino, which declined 6 percent year-to-year, to our new workplace offering which exhibited strong growth both sequentially and year-to-year off a small base.

We also continue to provide value to our customers by including the key capabilities of our Quickplace and Sametime offerings in our WebSphere Portal offering.

In addition to these five key brands Other Middleware including some of our traditional host software products declined 1 percent for the quarter, driven by declines in Host Storage revenue.

We continue to strengthen our software portfolio through technology acquisitions:

Cyanea an improved monitor manager providing an enterprise-wide view of applications.

Venetica enabling businesses to integrate all forms of information content within their enterprise.

And just last week:

Systemcorp which adds portfolio and project management capabilities to Rational s suite of software development tools.

Finally, we continue to enhance our portfolio of Customer Solutions:

IBM and Honda introduced the most advanced speech-enabled navigation and command and control system in North America. This solution allows drivers to interact with their onboard system while keeping their hands on the wheel and their eyes on the road. With over 700 voice activated commands, drivers can do a variety of operations, such as getting directions for a new destination or just turning up the heat.

Building upon our early services success with RFID, IBM announced its intent to make a significant investment in software-related RFID solutions. In the fourth quarter, IBM will offer a new RFID solution that integrates physical devices such as computers, sensors, actuators and production machines with business process applications.

So, overall, our Software business had a solid quarter:

Gaining share in key segments,

Improving both gross profit and operating margins, and,

Strengthening its portfolio with strategic acquisitions of technology and enhanced customer solutions.

Now turn to Chart 14, and I ll discuss one of our emerging growth opportunities Business Performance Transformation Services.

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BUSINESS PERFORMANCE TRANSFORMATION SERVICES

BPTS isn t just an incremental opportunity as we work with clients on their on demand transformations. What we re describing is a fundamental redefinition of the IT industry, based on a type of client engagement that s new, and frankly beyond the scope of most traditional IT companies.

This opportunity is emerging in the sense that clients are reallocating budgets. Money that they are spending internally today in two main categories, SG&A and Research and Development, will be spent externally in the future with third parties who can do three things:

First, provide deep industry or domain expertise in areas from HR and logistics to engineering services

Second, apply advanced technologies to model, restructure and optimize these activities, and,

Third, deliver it all with economies of scale.

That combination will unlock the ability for clients to do things they can t do today, because the capabilities to enable them simply haven t existed before.

Last quarter I told you about four areas where we are making substantial investments to expand our existing capabilities.

- Business Transformation Outsourcing
- Engineering and Technology Services
- Strategy and Change consulting, and
- Business Performance Management Software

Together, these four categories have generated over $2 billion in revenue through the third quarter this year, and grew over 45 percent year-to-year.

Let me show you how we re applying our capabilities to an industrial sector client.

As part of a major strategic push to reposition its brand in North America, Philips Consumer Electronics has asked us to transform and manage all their after-sales service, including product repair and warranty management. There are a few important aspects of this BTO engagement.

First, providing the service after sale moves us into a completely new market opportunity.

Second, it s core to every consumer electronics company, and fundamental to the buyers brand experience. Most companies choose to do it themselves.

Third, Philips has decided to turn it over to us, leverage our portfolio, and become world class in the process.

So Philips is a great example of how SG&A activities are shifting from internal spending to external spending with IBM.

Now, Click on the Next button, and we ll wrap up.

CLOSING REMARKS

Our strategy is based on helping to transform customers through innovation and integration.   And our business model, with both annuity businesses and sales-based revenue growth, protects us on the downside while enabling us to deliver growth through our leading products and solutions.

Our third quarter revenue and profit performance reflects the strength of this   business model.

We had strong performance in Americas and Asia Pacific.

Servers, led by zSeries and xSeries, continued to show good growth.

Personal Systems had another strong quarter, resulting in a profitable business for the second consecutive quarter.

Our software business, led by our integrated middleware platform, returned to growth.

BPTS grew over 45 percent.

And business in emerging countries is providing robust growth.

We   re continuing to demonstrate success in key customer segments through industry-specific solutions.

And we were profitable in all major brand segments.

The net result was the best organic revenue growth in years, and 15% earnings per share growth, without the one-time pension charge.

Based on these results, together with our business model, we are comfortable with analysts   average estimates for earnings per share for fourth quarter.   And while it is early to comment on next year, based on what we know now, we are confident in our model as we look toward 2005.

Now Patricia and I will take your questions.

CLOSING P. Murphy

Thanks Mark.

Now, if you ll all go to the next chart, you ll find an index of our slides that may be helpful during the Q&A.

Remember that we also have a few supplemental charts following the index.

OK operator, let s get started.

Attachment II

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IBM 3Q 2004

Earnings Presentation

October 2004

1

Certain comments made in this presentation may be characterized as forward looking under the Private Securities Litigation Reform Act of 1995.

Those statements involve a number of factors that could cause actual results to differ materially.

Additional information concerning these factors is contained in the Company s filing with the SEC. Copies are available from the SEC, from the IBM web site, or from IBM Investor Relations.

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IBM FINANCIAL SUMMARY

Continuing Operations ($B except EPS)	As Reported 3Q04	As Reported B/(W) Yr/Yr	Pension Settlement Charge	Excluding Charge 3Q04	Excluding Charge B/(W) Yr/Yr
Revenue	**23.4**	**9%**		**23.4**	**9%**
@CC		**5%**			**5%**
GP %	**36.90%**	**0.6 pts**		**36.9%**	**0.6 pts**
Expense	**6.1**	**(16%)**	**0.3**	**5.8**	**(10%)**
E/R %	**26.1%**	**(1.6 pts)**		**24.7%**	**(0.2 pts)**
Pre-Tax Income	**2.5**	**(1%)**	**(0.3)**	**2.9**	**12%**
PTI %	**10.8%**	**(1.0 pts)**		**12.2%**	**0.4 pts**
Tax Rate	**28.9%**			**30%**	
EPS	**$ 1.06**	**4%**	**($0.11)**	**$ 1.17**	**15%**

May not add due to rounding

IBM GEOGRAPHIC REVENUE

		B/(W) Yr/Yr			B/(W) Yr/Yr			B/(W) Yr/Yr		% of YTD
($B)	1Q04	Rptd	@CC	2Q04	Rptd	@CC	3Q04	Rptd	@CC	Rev
Americas	**9.1**	**6%**	**4%**	**9.7**	**2%**	**2%**	**10.1**	**8%**	**7%**	**42%**
Europe/ME/A	**7.3**	**15%**	**1%**	**7.5**	**9%**	**2%**	**7.3**	**8%**		**32%**
Asia Pacific	**5.2**	**16%**	**6%**	**5.2**	**13%**	**6%**	**5.3**	**11%**	**6%**	**23%**
OEM	**0.7**	**(3%)**	**(3%)**	**0.7**	**19%**	**19%**	**0.7**	**13%**	**13%**	**3%**
IBM	**22.2**	**11%**	**3%**	**23.2**	**7%**	**4%**	**23.4**	**9%**	**5%**	**100%**

May not add due to rounding

IBM REVENUE - KEY INDUSTRY SALES ORGS.

($B)	1Q04	B/(W) Yr/Yr*	2Q04	B/(W) Yr/Yr*	3Q04	B/(W) Yr/Yr*	% of YTD Rev
Financial Svcs	**5.5**	**13%**	**6.0**	**12%**	**5.9**	**9%**	**25%**
Public	**3.2**	**6%**	**3.4**		**3.8**	**11%**	**15%**
Industrial	**3.0**	**13%**	**3.0**	**8%**	**3.0**	**4%**	**13%**
Distribution	**2.1**	**9%**	**2.1**	**5%**	**2.1**	**11%**	**9%**
Communications	**2.1**	**13%**	**2.1**	**4%**	**2.2**	**16%**	**9%**
Small / Medium	**4.9**	**15%**	**5.1**	**7%**	**5.0**	**5%**	**22%**
All Sectors	**21.6**	**12%**	**22.5**	**7%**	**22.7**	**9%**	

*** Reclassified to conform with 2004 presentation**

IBM REVENUE

($B)	1Q04	B/(W) Yr/Yr Rptd	B/(W) Yr/Yr @CC	2Q04	B/(W) Yr/Yr Rptd	B/(W) Yr/Yr @CC	3Q04	B/(W) Yr/Yr Rptd	B/(W) Yr/Yr @CC	% of YTD Rev
Global Services	**11.1**	**9%**	**1%**	**11.3**	**7%**	**2%**	**11.4**	**10%**	**5%**	**49%**
Hardware	**6.7**	**16%**	**10%**	**7.4**	**12%**	**10%**	**7.5**	**12%**	**9%**	**31%**
Software	**3.5**	**11%**	**3%**	**3.5**		**(4%)**	**3.6**	**5%**	**1%**	**15%**
Global Financing	**0.7**	**(6%)**	**(12)%**	**0.7**	**(3%)**	**(6%)**	**0.6**	**(11%)**	**(14%)**	**3%**
Enterprise Inv. /Other	**0.3**	**13%**	**6%**	**0.3**	**23%**	**19%**	**0.3**	**4%**	**2%**	**1%**
IBM	**22.2**	**11%**	**3%**	**23.2**	**7%**	**4%**	**23.4**	**9%**	**5%**	**100%**

May not add due to rounding

IBM GROSS PROFIT MARGIN

	1Q04	B/(W) Yr/Yr	2Q04	B/(W) Yr/Yr	3Q04	B/(W) Yr/Yr	% of YTD Rev
Global Services	**24.5%**	**(0.4 pts)**	**25.2%**	**(0.7 pts)**	**25.0%**	**(0.1 pts)**	**49%**
Hardware	**26.7%**	**0.1 pts**	**29.2%**	**2.3 pts**	**28.4%**	**3.2 pts**	**31%**
Software	**86.0%**	**1.4 pts**	**86.3%**	**0.1 pts**	**87.3%**	**1.5 pts**	**15%**
Global Financing	**60.5%**	**1.6 pts**	**59.4%**	**4.8 pts**	**60.1%**	**2.4 pts**	**3%**
Enterprise Inv./Other	**39.5%**	**2.8 pts**	**46.4%**	**4.5 pts**	**44.3%**	**(9.1 pts)**	**1%**
IBM	**36.0%**		**36.8%**	**(0.2 pts)**	**36.9%**	**0.6pts**	**100%**

May not add due to rounding

IBM EXPENSE SUMMARY

($B)	1Q04	B/(W) Yr/Yr	2Q04	B/(W) Yr/Yr	3Q04	B/(W) Yr/Yr	B/(W) Yr/Yr w/o Charge *
SG&A	**4.5**	**(6%)**	**4.6**	**(4%)**	**5.0**	**(16%)**	**(8%)**
RD&E	**1.4**	**(14%)**	**1.4**	**(16%)**	**1.4**	**(9%)**	**(9%)**
IP and Custom Dev. Income	**(0.2)**	**(36%)**	**(0.4)**	**nm**	**(0.3)**	**(36%)**	**(36%)**
Other Income and Expense		**85%**		**nm**	**(0.1)**	**nm**	**nm**
Interest Expense		**12%**		**21%**		**3%**	**3%**
Total Expense and Other Income	**5.7**	**(9%)**	**5.7**	**(3%)**	**6.1**	**(16%)**	**(10%)**
E/R%	**25.7%**	**0.5 pts**	**24.5%**	**1.1 pts**	**26.1%**	**(1.6 pts)**	**(0.2 pts)**

*** Without $0.3B pension settlement charge to SG&A**

nm = not meaningful

May not add due to rounding

IBM CASH FLOW ANALYSIS - YTD

($B)	3Q03 YTD	FY03	3Q04 YTD
Net cash from Operations (Cont. Ops.)	9.8	14.6	11.4
Less: GF Accounts Receivable	4.2	1.9	4.8
Net cash from Operations (Cont. Ops.), excl GF rec.	5.6	12.7	6.6
Investing Activities			
Capital Expenditures, Net	(2.9)	(3.9)	(2.8)
GF A/R	4.2	1.9	4.8
GF Debt	(2.3)	(2.6)	(1.4)
Net GF Debt to A/R	1.9	(0.7)	3.5
Acquisitions	(1.8)	(1.8)	(1.0)
Divestitures		0.1	
Return to shareholders			
Share Repurchase	(1.3)	(4.3)	(4.4)
Dividends	(0.8)	(1.1)	(0.9)
Change in Non-GF Debt	(1.5)	(0.9)	(0.2)
Other	1.2	1.8	1.3
Discontinued Operations	(0.2)	(0.2)	(0.1)
Change in cash & marketable securities	0.2	1.7	2.0

May not add due to rounding

IBM BALANCE SHEET

($B)	Sept 2003	Dec 2003	Sept 2004
Cash & Marketable Securities	6.2	7.6	9.7
Non-GF Assets*	59.8	61.8	61.4
Global Fin. Assets*	31.2	35.0	29.6
Total Assets	97.2	104.5	100.7
Other Liabilities	46.8	53.0	49.0
Non-GF Debt	0.3	0.4	0.3
Global Fin. Debt	22.7	23.3	21.7
Total Debt	23.0	23.6	22.0
Total Liabilities	69.9	76.6	71.0
Equity	27.3	27.9	29.7
Non-GF Debt/Cap	1%	1%	1%
Global Fin. Leverage	6.7	6.9	6.8

*** Excluding Cash & Marketable Securities**

May not add due to rounding

GLOBAL SERVICES

Revenue $11.4B, +10%; 5% @CC

($B)	3Q04	Yr/Yr
Revenue	**11.4**	**10%**
Margin	**25.0%**	**(0.1 pts)**
Revenue		
Strategic Outsourcing		**12%**
Business Consulting Services		**7%**
Integrated Tech Services		**10%**
Maintenance		**2%**

IGS WW Contract Signings

[CHART]

3Q04 Signings		
@ spot rates	**$**	**10.5B**
@CC	**$**	**9.8B**
Estimated Backlog	**$**	**110B**

HARDWARE

Revenue $7.5B, +12%; 9% @CC; GP% +3.2 pts

		Revenue		Share	
Systems & Technology	**$**	**4.1B**	**+9%**	**=**	**Gross Profit up 3.2 pts**
zSeries			**+12%**	**+**	**MIPS up 17%**
pSeries			**+1%**	**=**	**POWER5 acceptance European weakness**
iSeries			**-26%**	**-**	**Product transition**
xSeries Servers			**+26%**	**+**	**Strength across all geographies Continued Blade leadership**
Storage			**+5%**	**=**	**Midrange disk and tape strength**
Technology OEM			**+10%**		**Continued yield and operational improvement**
Personal Systems	**$**	**3.3B**	**+17%**	**+**	**Profit and share growth**

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SOFTWARE

Revenue $3.6B, +5%; 1% @CC

[CHART]

Brand	Yr/Yr
WebSphere Family	14%
Data Management	11%
Lotus	(6%)
Tivoli	19%
Rational	6%
Other Middleware	(1%)

	3Q04	Yr/Yr
GP Margin	87.3%	+1.5pts

Product announcements enhancing on demand capabilities

Rational

Data Management

WebSphere

Portfolio strengthened with three technology acquisitions

Cyanea

Venetica

Systemcorp

KEY GROWTH INITIATIVES

	3Q YTD Revenue
Business Performance Transformation Services	
Business Transformation Outsourcing	
Engineering & Technology Services	$2.1B +46% yr/yr
Strategy & Change Consulting	
Business Performance Management Software	
Emerging Countries	
China	
Russia	$3.0B +33% yr/yr
India	
Brazil	

[LOGO]

CURRENCY: YEAR-TO-YEAR COMPARISON

QUARTERLY AVERAGES PER US$

	1Q04	2Q04	3Q04	10/15 Spot	@ 10/15 Spot 4Q04				
Euro	**0.80**	**0.83**	**0.82**	**0.81**					
Yr/Yr	**14%**	**6%**	**8%**		**4%**				
Pound	**0.54**	**0.55**	**0.55**	**0.56**					
Yr/Yr	**13%**	**10%**	**11%**		**5%**				
Yen	**107**						138,300		11,700
Michael J. Gerend								200,000	
Michael R. Robinson						20,000		130,000	
Mark L. Zaebst						57,000		23,000	

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

Employment Agreements

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

We are a party to an employment agreement, dated January 23, 2003, with Michael J. Gerend, our Executive Vice President and Chief Operating Officer. The terms of the agreement provide for a base salary of $264,000 and incentive compensation of up to $132,000 based upon the attainment of certain financial goals. Mr. Gerend s annual compensation is subject to annual review and adjustment by our Chief Executive Officer or our board of directors, but it may not be reduced below the total amount of salary plus bonus in the prior year except in the case of across-the-board reductions. In addition, the agreement provides Mr. Gerend with a $850.00 per month car allowance, a $300.00 per month cellular phone allowance and reimbursement of Mr. Gerend s fees for membership to two professional organizations. The agreement also includes a non-competition covenant that covers the term of Mr. Gerend s employment plus a period of two years after the termination of his employment. The agreement can be terminated by either party at any time and will terminate automatically in the event of the death or disability of the executive. In March 2003, Mr. Gerend was granted options to purchase 200,000 shares of common stock

at $8.00 per share in connection with the commencement of his employment. These options vest as to 20% of the shares on the first through fifth anniversaries of the date of grant and expire 10 years from the date of grant. However, vesting will be accelerated in full in the event that Mr. Gerend s employment is terminated or certain other events occur following a change of control of our company and may be partially accelerated in the event that his employment is terminated without cause or he terminates for good reason. If Mr. Gerend s employment is terminated without cause or if he terminates his employment for good reason, as defined in the agreement, Mr. Gerend is entitled to receive a lump sum payment equal to the annual amount of the guaranteed component of his salary plus an additional payment equal to two-thirds of such annual guaranteed component to be paid over 24 months commencing one year after termination so long as his non-competition obligations remain in effect.

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

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

401(k) Plan

In March 1997, we implemented a 401(k) plan covering qualified full-time employees. Under our 401(k) plan, participants may defer compensation, subject to the limits established by the Internal Revenue Service, and we may make a discretionary matching contribution at the option of our board of directors. We made a matching contribution for 2003 and 2002 but not for 2001, and we may make matching contributions in the future. The trustee under the 401(k) plan holds and invests the 401(k) plan contributions at the participant s written direction. Participants in our 401(k) plan are immediately vested in their contributions; however, the vesting of our matching contribution is based upon the participant s years of continuous service. The 401(k) plan qualifies under Section 401(a) of the Internal Revenue Code of 1986, as amended, or the Code, and, as a result, the related trust is not subject to tax under current tax law. Although we have not expressed any intent to do so, we do have the right to discontinue our matching contributions to the 401(k) plan at any time and to terminate or amend the 401(k) plan, subject to the provisions of the Employee Retirement Income Security Act of 1974.

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Stock Option Plans and Other Employee Incentive Plans

During 1996, we adopted the FCA, Ltd. 1996 Stock Option Plan, referred to as the 1996 Plan, which reserved up to 2,000,000 shares of our common stock for issuance thereunder. Under the 1996 Plan, our board of directors may grant options to purchase shares of our common stock to eligible employees, directors and contractors. Incentive stock options are granted at a price determined by our board of directors but not less than 100% of the fair market value at the time of the grant, and nonqualified stock options are granted at prices determined by our board of directors. Incentive stock options expire no later than 10 years from the date of grant, and nonqualified stock options expire no later than 15 years from the date of grant. As of December 31, 2003, we had granted options to purchase a total of 1,700,000 shares of our common stock at exercises prices of $1.25 to $3.00 per share under the 1996 Plan, of which options to purchase 1,358,000 shares are outstanding. Of those options, incentive stock options to purchase 640,000 shares of our common stock at an exercise price of $1.66 per share were granted under the 1996 Plan to seven employees that included two executive officers, Messrs. Akradi and Zaebst. These options vest upon the public market price of our common stock remaining above $10.00 for 30 consecutive days, or approximately 10 years from the date of grant, whichever occurs first.

During 1998, we adopted the LIFE TIME FITNESS, Inc. 1998 Stock Option Plan, referred to as the 1998 Plan, which reserved up to 1,600,000 shares of our common stock for issuance thereunder. In December 2003, our board of directors and shareholders approved an amendment to the 1998 Plan providing that an additional 1,500,000 shares of our common stock could be issued under this Plan. Under the 1998 Plan, the compensation committee of our board of directors may grant options to purchase shares of our common stock to eligible employees, directors and contractors. Incentive stock options are granted at a price determined by our compensation committee but not less than 100% of the fair market value at the time of the grant, and nonqualified stock options are granted at prices determined by the compensation committee. Incentive stock options expire no later than 10 years from the date of grant, and nonqualified stock options expire no later than 15 years from the date of grant. As of December 31, 2003, we had granted options to purchase a total of 1,957,500 shares of our common stock at exercise prices of $4.00 to $12.00 per share under the 1998 Plan, of which options to purchase 1,673,475 shares are outstanding.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

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

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

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

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

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

In May 2001, we completed a transaction to sell and simultaneously lease back one of our large format centers. This center was developed at a cost of $6.6 million and we sold it at a price of $7.2 million. The purchaser and landlord in such transaction is a limited liability company, of which Mr. Rowland owns 61% of the membership interests. We paid $550,000, $880,000 and $880,000 in 2001, 2002 and 2003, respectively, in rent pursuant to the lease of the center. We expect to pay $880,000 in rent annually in the future. This lease expires in May 2026. In connection with the sale in 2001, we received a note in the amount of approximately $264,000, which was repaid in December 2003.

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

The following table summarizes sales of our preferred stock to certain of our directors, executive officers and holders of more than 5% of our voting securities, and their affiliated entities, in private placement financing transactions:

Investor(1)	Series A Preferred Stock(2)	Series B Preferred Stock(3)	Series C Preferred Stock(4)	Series D Preferred Stock(5)
Directors and executive officers:				
Bahram Akradi				187,500
W. John Driscoll(6)				200,000
Entities affiliated with directors and executive officers:				
Apax Managers, Inc.(7)			4,374,999	624,999
Minnesota Private Equity Fund(8)		146,285		125,000
Norwest Equity Partners(9)	4,799,998	4,109,713	1,250,000	624,999
Windsor Aviation, Inc.(10)				12,500
Five percent shareholders:				
Bahram Akradi				187,500
W. John Driscoll(6)				200,000
Norwest Equity Partners(9)	4,799,998	4,109,713	1,250,000	624,999
Apax Managers, Inc.(7)			4,374,999	624,999

(1) See Principal and Selling Shareholders for additional information about ownership of shares held by these shareholders. All shares are reported on an as-converted basis based on the assumption that all possible conversion ratio adjustments that could cause the number of shares of common stock to be issued upon conversion to increase will have occurred.

(2) The Series A preferred stock was sold in May 1996 at $6.625 per share. All shares of Series A preferred stock converted into shares of common stock. Each share of Series A preferred stock converted into five and three-tenths shares of our common stock. As a result, there are no shares of Series A preferred stock currently outstanding.

(3) The Series B preferred stock was sold in December 1998 at $20.00 per share. Each share of Series B preferred stock is currently convertible into 4.571428 shares of common stock. The Series B preferred stock will automatically convert into shares of common stock upon the closing of this offering.

(4) The Series C preferred stock was sold in August 2000 at $10.00 per share. Each share of Series C preferred stock is currently convertible into one share of common stock. The Series C preferred stock will convert into shares of common stock upon the closing of this offering. If the initial public offering price of our common stock is less than $30.00 per share and does not yield a 30% internal rate of return, each share of Series C preferred stock will convert into 1.25 shares of common stock. For purposes of disclosing these shares on an as-converted basis, we have assumed these targets will not be met and the conversion price adjustment will occur.

(5) The Series D preferred stock was sold in July 2001 at $10.00 per share. Each share of Series D preferred stock is currently convertible into one share of common stock. The Series D preferred stock will convert into shares of common stock upon the closing of this offering. If the initial public offering price of our common stock is less than $30.00 per share and does not yield a 30% internal rate of return, each share of Series D preferred stock will convert into 1.25 shares of common stock. For purposes of disclosing these shares on an as-converted basis, we have assumed these targets will not be met and the conversion price adjustment will occur.

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

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

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

(9) Mr. Sefton is a general partner of the general partner of Norwest Equity Partners V, L.P. Mr. DeVries is a general partner of the general partner of Norwest Equity Partners VI, L.P. and one of three managing partners of the general partner of Norwest Equity Partners, VII, L.P.

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

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

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth information with respect to the beneficial ownership of our common stock as of April 15, 2004, and after the sale of shares in this offering, by:

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

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Beneficial ownership is determined in accordance with the SEC s rules. In computing percentage ownership of each person, shares of common stock subject to options held by that person that are currently exercisable or convertible, or exercisable or convertible within 60 days of April 15, 2004, are deemed to be beneficially owned by that person. These shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

Except as indicated in this table and pursuant to applicable community property laws, each shareholder named in the table has sole voting and investment power with respect to the shares set forth opposite such shareholder s name. Percentage of ownership is based on 28,825,566 shares of our common stock outstanding on April 15, 2004, which assumes the conversion of all preferred stock into common stock at the respective conversion ratios based on the assumption that all possible conversion ratio adjustments that could cause the number of shares of common stock to be issued upon conversion to increase will have occurred. All shares in the following table and notes are reported on an as-converted basis. The address for each executive officer is 6442 City West Parkway, Eden Prairie, MN 55344.

	Beneficial Ownership Prior to Offering			Beneficial Ownership After Offering	
Name and Address of Beneficial Owner	**Shares**	**Percent**	**Shares Being Offered**	**Shares**	**Percent**
Principal Shareholders(1):					
Norwest Equity Partners(2)	10,851,184	37.6%			
Apax Managers, Inc.(3)	4,999,998	17.3%			
Non-Employee Directors:					
Timothy C. DeVries(4)	2,507,258	8.7%			
W. John Driscoll(5)	1,892,000	6.6%			
Guy C. Jackson					
David A. Landau(6)	4,999,998	17.3%			
Stephen R. Sefton(7)	8,615,211	29.9%			
Named Executive Officers:					
Bahram Akradi(8)	3,987,201	13.6%			
Michael J. Gerend(9)	40,000	*			
Michael R. Robinson(10)	43,500	*			
Stephen F. Rowland, Jr.(11)	571,254	2.0%			
Mark L. Zaebst(12)	67,000	*			
All directors and executive officers as a group (11 persons)(13)	22,776,422	76.9%			
Selling Shareholders:					

* Less than 1%

(1) Mr. Akradi and Mr. Driscoll are listed below and also own beneficially more than 5% of our voting securities. The address for Mr. Akradi is the address for our principal executive offices and the address for Mr. Driscoll appears in footnote 5 below.

(2) Includes 4,835,998 shares of common stock and 3,507,928 shares of common stock issuable upon conversion of preferred stock owned by Norwest Equity Partners V, L.P., 30,473 shares of common stock and 914,285 shares of common stock issuable upon conversion of preferred stock owned by Norwest Equity Partners VI, L.P. and 1,562,500 shares of common stock issuable upon conversion of preferred stock owned by Norwest Equity Partners VII, L.P. The address for Norwest Equity Partners is 3600 IDS Center, 80 South Seventh Street, Minneapolis, MN 55402.

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(3) Includes 4,273,586 shares of common stock issuable upon conversion of preferred stock owned by APAX Excelsior VI, L.P., 144,249 shares of common stock issuable upon conversion of preferred stock owned by Patricof Private Investment Club III, L.P., 349,310 shares of common stock issuable upon conversion of preferred stock owned by APAX Excelsior VI-A C.V. and 232,853 shares owned by APAX Excelsior VI-B C.V. The address for Apax Managers, Inc. is 445 Park Ave., New York, NY 10022.

(4) Includes 30,473 shares of common stock and 914,285 shares of common stock issuable upon conversion of preferred stock owned by Norwest Equity Partners VI, L.P. Mr. DeVries is a general partner of Itasca LBO Partners VI, LLP, the general partner of Norwest Equity Partners VI, L.P. Mr. DeVries disclaims beneficial ownership of such shares except to the extent of his indirect pecuniary interest therein. Also includes 1,562,500 shares of common stock issuable upon conversion of preferred stock owned by Norwest Equity Partners VII, L.P. Mr. DeVries is a managing partner of Itasca LBO Partners VII, LLP, the general partner of Norwest Equity Partners VII, L.P. The address for Mr. DeVries is 3600 IDS Center, 80 South Seventh Street, Minneapolis, MN 55402.

(5) Includes 1,680,000 shares of common stock held in trusts of which Mr. Driscoll has sole voting and investment power. Includes 12,000 shares of common stock underlying options that are exercisable within 60 days of April 15, 2004. Also includes 12,500 shares of common stock issuable upon conversion of preferred stock held in a trust for which his spouse has sole voting and investment power. Mr. Driscoll disclaims beneficial ownership of such shares. The address for Mr. Driscoll is 2000 Wells Fargo Center, 30 East Seventh Street, St. Paul, MN 55101.

(6) Includes 4,273,586 shares of common stock issuable upon conversion of preferred stock owned by Apax Excelsior VI, L.P., 144,249 shares of common stock issuable upon conversion of preferred stock owned by Apax Excelsior VI-A, C.V., 232,853 shares of common stock issuable upon conversion of preferred stock owned by Apax Excelsior VI-B, C.V. and 144,249 shares of common stock issuable upon conversion of preferred stock owned by Patricof Private Investment Club III, L.P. Mr. Landau is an officer and shareholder of Apax Managers, Inc., the general partner of Apax Excelsior VI Partners, L.P., which is the general partner of each of the affiliated limited partnerships that hold shares of our stock. Mr. Landau disclaims beneficial ownership of all such shares except to the extent of his indirect pecuniary interest therein. The address for Mr. Landau is 445 Park Avenue, New York, NY 10022.

(7) Includes 4,835,998 shares of common stock and 3,507,928 shares of common stock issuable upon conversion of preferred stock owned by Norwest Equity Partners V, L.P. Mr. Sefton is a general partner of Itasca Partners V, LLP, the general partner of Norwest Equity Partners V, L.P. Mr. Sefton disclaims beneficial ownership of such shares except to the extent of his indirect pecuniary interest therein. Also includes 271,285 shares of common stock issuable upon conversion of preferred stock owned by Minnesota Private Equity Fund, L.P. Mr. Sefton is the general partner of Minnesota Private Equity Fund, L.P. The address for Mr. Sefton is 3001 Hennepin Avenue, Suite D-210, Minneapolis, MN 55408.

(8) Includes 450,000 shares of common stock underlying options that are exercisable within 60 days of April 15, 2004. Also includes 201,554 shares of common stock and 12,500 shares of common stock issuable upon conversion of preferred stock owned by Windsor Aviation, Inc. Mr. Akradi owns 50% of the voting stock of Windsor Aviation. Also includes 38,000 shares of common stock owned by William J. Garlick, 10,000 shares of common stock owned by Abdollah J. Javidan and 5,000 shares of common stock owned by Scott Tracy Carlston. Mr. Akradi has a contractual right to vote such shares held by Messrs. Garlick, Javidan and Carlston pursuant to agreements that will terminate upon the completion of this offering.

(9) Includes 40,000 shares of common stock underlying options that are exercisable within 60 days of April 15, 2004.

(10) Includes 41,000 shares of common stock underlying options that are exercisable within 60 days of April 15, 2004.

(11) Includes 140,700 shares of common stock underlying options that are exercisable within 60 days of April 15, 2004. Also includes 201,554 shares of common stock and 12,500 shares of common stock issuable upon conversion of preferred stock owned by Windsor Aviation, Inc. Mr. Rowland owns 50% of the voting stock of Windsor Aviation.

(12) Includes 61,000 shares of common stock underlying options that are exercisable within 60 days of April 15, 2004.

(13) Includes 12,000 shares of common stock underlying options issued to one non-employee director and 780,700 shares of common stock underlying options issued to six executive officers that are exercisable within 60 days of April 15, 2004.

DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 50,000,000 shares of common stock, par value $0.02 per share, and 10,000,000 shares of preferred stock, par value $0.02 per share. As of April 15, 2004, the following shares of stock, and rights to purchase stock, were outstanding:

- 16,196,332 shares of common stock held of record by 128 shareholders;
- 1,000,000 shares of Series B preferred stock held by nine shareholders;
- 4,500,000 shares of Series C preferred stock held by five shareholders;
- 1,946,250 shares of Series D preferred stock held by 23 shareholders; and
- options to purchase 2,968,950 shares of common stock.

As of April 15, 2004, each share of Series B preferred stock was convertible into 4.571428 shares of common stock, each share of Series C preferred stock was convertible into one share of common stock and each share of Series D preferred stock was convertible into one share of common stock. The conversion ratio of each of the Series C preferred stock and Series D preferred stock will be adjusted to 1.25 shares of common stock for each share of Series C preferred stock and Series D preferred stock if the initial public offering price of our common stock is less than $30.00 per share and does not yield a 30% internal rate of return with respect to such series based on the date of purchase.

Common Stock

The holders of our common stock:

- have the right to receive ratably any dividends from funds legally available therefor, when, as and if declared by our board of directors,
- are entitled to share ratably in all of our assets available for distribution to holders of our common stock upon liquidation, dissolution or winding up of the affairs of our company, and
- are entitled to one vote per share on all matters which shareholders may vote on at all meetings of shareholders.

All shares of our common stock now outstanding are fully paid and nonassessable and the shares of common stock to be issued upon completion of this offering will be fully paid and nonassessable. There are no redemption, sinking fund, conversion or preemptive rights with respect to the shares of our common stock.

The holders of our common stock do not have cumulative voting rights. Subject to the rights of any future series of preferred stock, the holders of more than 50% of such outstanding shares voting for the election of our directors can elect all of the directors to be elected, if they so choose. In such event, the holders of the remaining shares will not be able to elect any of our directors.

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Preferred Stock

Upon completion of this offering, all of our issued and outstanding Series B preferred stock, Series C preferred stock and Series D preferred stock will be converted into an aggregate of shares of common stock. The conversion will occur at the applicable conversion price of each series of preferred stock, as provided in our articles of incorporation.

Undesignated Preferred Stock

Under governing Minnesota law and our amended and restated articles of incorporation, no action by our shareholders is necessary, and only action of our board of directors is required, to authorize the issuance of shares of undesignated preferred stock. Our board of directors is empowered to establish, and to designate the name of, each class or series of the undesignated preferred shares and to set the terms of such shares, including terms with respect to redemption, sinking fund, dividend, liquidation, preemptive, conversion and voting rights and preferences. Accordingly, our board of directors, without shareholder approval, may issue preferred stock having rights, preferences, privileges or restrictions, including voting rights, that may be greater than the rights of holders of common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of our common stock until our board of directors determines the specific rights of the holders of such preferred stock. However, the effects might include, among other things, restricting dividends on our common stock, diluting the voting power of our common stock, impairing the liquidation rights of our common stock and delaying or preventing a change in control of our company without further action by our shareholders. Our board of directors has no present plans to issue any shares of preferred stock.

Registration Rights

The purchasers of our preferred stock have demand registration and piggyback registration rights under the terms of our preferred stock purchase agreements.

The demand registration rights as to shares of common stock issued, or issuable upon conversion of preferred stock, to holders of each series of our preferred stock may be exercised at any time after the expiration of the lock-up period in connection with the initial public offering of our common stock. Each series of preferred stock may demand registration of the shares of common stock issued or issuable upon conversion of that series upon a request by holders of a majority of such shares. For purposes of these demand registration rights, holders of Series C preferred stock and Series D preferred stock vote together as one series. There is no limit on the number of demand registrations on Form S-3 that such holders may request.

Each of these holders also has certain piggyback registration rights. If we propose to register any securities under the Securities Act of 1933, as amended, or the Securities Act, for our own account or for the account of our shareholders, holders of piggyback rights may require that we include all of their registrable securities in such registration. In connection with any such offering, the managing underwriter thereof can limit the number of shares held by persons with piggyback registration rights to be included in such registration.

We will be responsible for all expenses incurred in connection with the registration rights described above.

Anti-Takeover Provisions

Certain provisions of Minnesota law and our articles of incorporation and bylaws described below could have an anti-takeover effect. These provisions are intended to provide management with flexibility in responding to an unsolicited takeover offer and to discourage certain types of unsolicited takeover offers for our company. However, these provisions could have the effect of discouraging attempts to acquire us, which could deprive our shareholders of opportunities to sell their shares at prices higher than prevailing market prices.

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Section 302A.671 of the Minnesota Business Corporation Act applies, with certain exceptions, to any acquisition of our voting stock from a person, other than us and other than in connection with certain mergers and exchanges to which we are a party, that results in the acquiring person owning 20% or more of our voting stock then outstanding. Similar triggering events occur at the one-third and majority ownership levels. Section 302A.671 requires approval of any such acquisition by a majority vote of our disinterested shareholders and a majority vote of all of our shareholders. In general, shares acquired in excess of the applicable percentage threshold in the absence of such approval are denied voting rights and are redeemable at their then fair market value by us during a specified time period.

Section 302A.673 of the Minnesota Business Corporation Act generally prohibits us or any of our subsidiaries from entering into any business combination transaction with a shareholder for a period of four years after the shareholder acquires 10% or more of our voting stock then outstanding. An exception is provided for circumstances in which, before the 10% share-ownership threshold is reached, either the transaction or the share acquisition is approved by a committee of our board of directors composed of one or more disinterested directors.

The Minnesota Business Corporation Act contains a fair price provision in Section 302A.675. This provision provides that no person may acquire any of our shares within two years following the person s last purchase of our shares in a takeover offer unless all shareholders are given the opportunity to dispose of their shares to the person on terms that are substantially equivalent to those in the earlier takeover offer. This provision does not apply if the acquisition is approved by a committee of disinterested directors before any shares are acquired in the takeover offer.

Section 302A.553, subdivision 3, of the Minnesota Business Corporation Act prohibits us from purchasing any voting shares owned for less than two years from a holder of more than 5% of our outstanding voting stock for more than the market value of the shares. Exceptions to this provision are provided if the share purchase is approved by a majority of our shareholders or if we make a repurchase offer of equal or greater value to all shareholders.

Our articles of incorporation provide that the holders of our common stock do not have cumulative voting rights. For the shareholders to call a special meeting, our bylaws require that at least 10% of the voting power must join in the request, except that a special meeting to take action concerning a business combination requires that at least 25% of the voting power join in the request. Our articles of incorporation give our board of directors the power to issue any or all of the shares of undesignated preferred stock, including the authority to establish one or more series and to fix the powers, preferences, rights and limitations of such class or series, without seeking shareholder approval. Our board of directors also has the right to fill vacancies of the board, including a vacancy created by an increase in the board of directors.

Our bylaws provide for an advance notice procedure for the nomination, other than by or at the direction of the board of directors, of candidates for election as directors, as well as for other shareholder proposals to be considered at annual meetings of shareholders. In general, notice of intent to nominate a director or raise matters at such meetings will have to be received by us not less than 90 days prior to the date fixed for the annual meeting, and must contain certain information concerning the persons to be nominated or the matters to be brought before the meeting and concerning the shareholders submitting the proposal.

Transfer Agent and Registrar

The Transfer Agent and Registrar with respect to our common stock will be Wells Fargo Bank, N.A.

Listing

We will apply to list our shares of common stock on the New York Stock Exchange under the symbol LTM.

SHARES ELIGIBLE FOR FUTURE SALE

Upon the completion of this offering, based upon the number of shares of our common stock outstanding as of December 31, 2003, and assuming the automatic conversion of all outstanding shares of our preferred stock into shares of our common stock upon the completion of this offering, we will have shares of our common stock outstanding. Of these shares, the shares of our common stock sold in this offering will be freely tradable without restriction under the Securities Act, except that any shares of our common stock purchased by our affiliates, as that term is defined in Rule 144 under the Securities Act, may generally only be sold in compliance with the limitations of Rule 144 described below.

The remaining shares of our common stock outstanding upon completion of this offering are deemed restricted shares under Rule 144 or Rule 701 under the Securities Act. Of these restricted shares of our common stock, shares will be eligible for sale in the public market on the date of this prospectus. Ninety days from the date of this prospectus shares of our common stock will be eligible for sale in the public market pursuant to Rule 701 and Rule 144. Upon expiration of the lock-up agreements described below, 180 days after the date of this prospectus, an additional shares of our common stock will be eligible for sale in the public market pursuant to Rule 144 or 701.

Rule 144. In general, under Rule 144 under the Securities Act, a person, or persons whose shares are aggregated, who owns shares that were acquired from the issuer or an affiliate at least one year ago would be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

one percent of the number of shares of common stock then outstanding, which will equal approximately shares immediately after this offering, or

the average weekly trading volume of our common stock on the New York Stock Exchange during the four calendar weeks preceding the date of filing of a notice on Form 144 with respect to the sale.

Sales under Rule 144 are also generally subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 144(k). Under Rule 144(k), a person, or persons whose shares are aggregated, who is not deemed to have been one of our affiliates at any time during the 90 days preceding a sale and who owns shares that were acquired from the issuer or an affiliate at least two years ago is entitled to sell the shares without complying with the manner of sale, public information, volume limitations or notice of sale provisions of Rule 144. Therefore, unless otherwise restricted, the shares eligible for sale under Rule 144(k) may be sold immediately upon the completion of this offering.

Rule 701. Rule 701 generally allows a shareholder who purchased shares of our common stock pursuant to a written compensatory plan or contract and who is not deemed to have been an affiliate of our company to sell these shares in reliance upon Rule 144, but without being required to comply with the public information, holding period, volume limitation or notice provisions of Rule 144. Rule 701 also permits affiliates of our company to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. As a result, most of our employees, officers, directors or consultants who purchased shares under a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701, but all holders of Rule 701 shares are required to wait until 90 days after the date of this prospectus before selling their shares pursuant to the Rule.

Lock-Up Agreements. We, the selling shareholders, our officers and directors and certain other shareholders have agreed that, during the period beginning on the date of this prospectus and continuing to and including the date 180 days after the date of this prospectus, none of us will, directly or indirectly:

offer, sell, offer to sell, contract to sell or otherwise dispose of any shares of our common stock or any of our securities which are substantially similar to the common stock, including but not limited

to any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or any such substantially similar securities, or

enter into any swap, option, future, forward or other agreement that transfers, in whole or in part, the economic consequence of ownership of common stock or any securities substantially similar to the common stock,

without the prior written consent of Credit Suisse First Boston LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated. The lock-up agreements permit transfers of shares of common stock purchased in the open market and, subject to certain restrictions, transfers of shares as a gift, to trusts or immediate family members, or to certain entities or persons affiliated with the shareholder.

Registration Rights. Following this offering, under specified circumstances and subject to customary conditions, holders of approximately shares of our common stock will be entitled to rights with respect to the registration of their shares under the Securities Act. Sales of these shares pursuant to such registration would result in the shares becoming freely tradable without restriction under the Securities Act, except for shares purchased by affiliates. See Description of Capital Stock Registration Rights.

Stock Options. Following this offering, we intend to file with the Securities and Exchange Commission registration statements under the Securities Act covering the shares of common stock reserved for issuance under our stock option plans. The registration statements are expected to become effective as soon as practicable after the closing of this offering. Accordingly, shares registered under these registration statements will, subject to Rule 144 volume limitations applicable to affiliates and the lock-up agreements described above, be available for sale in the open market.

U.S. FEDERAL TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

The following is a discussion of the material U.S. federal income and estate tax considerations of the acquisition, ownership, and disposition of our common stock acquired pursuant to this prospectus by a beneficial owner that, for U.S. federal income tax purposes, is a non-U.S. holder as we define that term below. We assume in this discussion that non-U.S. holders will hold our common stock as a capital asset, which generally is property held for investment. As used in this discussion, the term non-U.S. holder means a beneficial owner of our common stock that is not, for U.S. federal income tax purposes:

an individual who is a citizen or resident of the U.S.;

a corporation, including any entity treated as a corporation for U.S. tax purposes, organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate, the income of which is includible in gross income for U.S. tax purposes regardless of its source; or

a trust, in general, if (i) a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust or (ii) the trust was in existence on August 20, 1996, was treated as a U.S. person prior to such date, and validly elected to continue to be so treated.

An individual may be treated as resident of the United States in any calendar year for U.S. federal income tax purposes, instead of a nonresident, by, among other ways, being present in the United States on at least 31 days in that calendar year and for an aggregate of at least 183 days during a 3-year period ending in the current calendar year. For purposes of this calculation, you would count all of the days present in the current year, one-third of the days present in the immediately preceding year and one-sixth of the days present in the second preceding year. Residents are taxed for U.S. federal income tax purposes in the same manner as U.S. citizens.

This discussion does not consider U.S. state or local or non-U.S. tax consequences, and it does not consider all aspects of U.S. federal taxation that may be important to particular non-U.S. holders in light of their individual investment circumstances, such as special tax rules that may apply to a non-U.S. holder

that is a dealer in securities or foreign currencies, financial institution, bank, insurance company, tax-exempt organization, former citizen or former long-term resident of the United States, or that holds our common stock as part of a straddle, hedge, conversion transaction, synthetic security, or other integrated investment. We also do not discuss the federal tax treatment of beneficial owners that are partnerships or other entities treated as partnerships or flow-through entities for U.S. federal income tax purposes.

If a partnership is a beneficial owner of our common stock, the treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A beneficial owner of our common stock that is a partnership and partners in such a partnership should consult their tax advisors about the U.S. federal income tax consequences of acquiring, owning, and disposing of our common stock.

The following discussion is based on provisions of the Internal Revenue Code, applicable U.S. Treasury regulations and administrative and judicial interpretations, all as in effect and generally available on the date of this prospectus. All of these authorities are subject to change, retroactively or prospectively. **We advise each prospective investor to consult its own tax advisor regarding the personal federal, state, local and non-U.S. tax consequences with respect to acquiring, owning, and disposing of our common stock.**

Distributions on Common Stock

As described under Dividend Policy above, we do not anticipate paying dividends on our common stock in the foreseeable future. However, if we make cash distributions on our common stock, such distributions will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of earnings and profits will constitute a return of capital that is applied against and reduces the non-U.S. holder s adjusted tax basis in our common stock. Any remaining excess will be treated as gain realized on the sale or other disposition of the common stock and will be treated as described under Gain on Disposition of Common Stock below.

Dividends paid to a non-U.S. holder that are not effectively connected with the non-U.S. holder s conduct of a trade or business in the United States will generally be subject to withholding of U.S. federal income tax at the rate of 30 percent, or if a tax treaty applies, a lower rate specified by the treaty. Non-U.S. holders should consult their tax advisers regarding their entitlement to benefits under a relevant income tax treaty.

Under applicable U.S. Treasury regulations, for purposes of the withholding discussed above and for purposes of determining the applicability of a tax treaty rate:

a non-U.S. holder who claims the benefit of an applicable income tax treaty rate generally will be required to satisfy certain certification and other requirements;

in the case of common stock held by a foreign trust, the certification requirement will generally be applied to the trust or the beneficial owners of the trust depending on whether the trust is a foreign complex trust, foreign simple trust, or foreign grantor trust as defined in the U.S. Treasury regulations; and

look-through rules will apply for foreign simple trusts and foreign grantor trusts.

Dividends that are effectively connected with a non-U.S. holder s conduct of a trade or business in the United States and, if an income tax treaty applies, attributable to a permanent establishment in the United States are taxed on a net income basis at the regular graduated U.S. federal income tax rates in much the same manner as if the non-U.S. holder were a resident of the United States. In such cases, we will not have to withhold U.S. federal income tax if the non-U.S. holder complies with applicable certification and disclosure requirements. In addition, a branch profits tax may be imposed at a 30 percent rate, or a

lower rate under an applicable income tax treaty, on dividends received by a foreign corporation that are effectively connected with the conduct of a trade or business in the United States.

To claim the benefit of a tax treaty or an exemption from withholding because the income is effectively connected with the conduct of a trade or business in the United States, a non-U.S. holder must provide a properly executed Internal Revenue Service, or IRS, Form W-8BEN for treaty benefits or W-8ECI for effectively connected income, before the payment of dividends. These forms must be periodically updated. Non-U.S. holders may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund.

Gain on Disposition of Common Stock

A non-U.S. holder generally will not be subject to U.S. federal income tax or any withholding thereof with respect to gain realized on a sale or other disposition of our common stock unless one of the following applies:

the gain is effectively connected with the non-U.S. holder s conduct of a trade or business in the United States and, if an income tax treaty applies, is attributable to a permanent establishment maintained by the non-U.S. holder in the United States; in these cases, the non-U.S. holder will generally be taxed on its net gain derived from the disposition at the regular graduated U.S. federal income tax rates and in much the same manner applicable to U.S. persons and, if the non-U.S. holder is a foreign corporation, the branch profits tax described above may also apply;

the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and meets certain other requirements; in this case, the non-U.S. holder will be subject to a 30% tax on the gain derived from the disposition; or

our common stock constitutes a United States real property interest by reason of our status as a United States real property holding corporation, or a USRPHC, for U.S. federal income tax purposes at any time during the shorter of the 5-year period ending on the date you dispose of our common stock or the period you held our common stock. The determination of whether we are a USRPHC depends on the fair market value of our United States real property interests relative to the fair market value of our other business assets. We believe that we currently may be, or in the future may become, a USRPHC. However, as long as our common stock is regularly traded on an established securities market within the meaning of Section 897(c)(3) of the Code, such common stock will be treated as a United States real property interest only if you owned directly or indirectly more than 5% of such regularly traded common stock at any time during the shorter of the 5-year period ending on the date you dispose of our common stock or the period you held our common stock and we were a USRPHC at any time during such period. We believe that our common stock will be regularly traded on an established securities market. If we are or were to become a USRPHC and a non-U.S. holder owned directly or indirectly more than 5% of our common stock at any time during the periods described above or our common stock is not regularly traded on an established securities market, then any gain recognized by a non-U.S. holder on the sale or other disposition of our common stock would be treated as effectively connected with a U.S. trade or business and would be subject to U.S. federal income tax at regular graduated U.S. federal income tax rates and in much the same manner as applicable to U.S. persons. In such a case, the non-U.S. holder could also be subject to certain withholding taxes imposed on the gross proceeds realized with respect to the sale or other disposition of our common stock.

Information Reporting and Backup Withholding

We must report annually to the IRS and to each non-U.S. holder the amount of dividends paid to that holder and the tax withheld from those dividends. These reporting requirements apply regardless of whether withholding was reduced or eliminated by an applicable tax treaty. Copies of the information returns reporting those dividends and withholding may also be made available to the tax authorities in the

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country in which the non-U.S. holder is a resident under the provisions of an applicable income tax treaty or agreement.

Under some circumstances, U.S. Treasury regulations require additional information reporting and backup withholding on reportable payments on common stock. The gross amount of dividends paid to a non-U.S. holder that fails to certify its non-U.S. holder status in accordance with applicable U.S. Treasury regulations generally will be reduced by backup withholding at the applicable rate, currently 28%.

The payment of the proceeds of the sale or other disposition of common stock by a non-U.S. holder or through the U.S. office of any broker, U.S. or foreign, generally will be reported to the IRS and reduced by backup withholding, unless the non-U.S. holder either certifies its status as a non-U.S. holder under penalties of perjury or otherwise establishes an exemption and the broker has no actual knowledge to the contrary. The payment of the proceeds of the disposition of common stock by a non-U.S. holder to or through a non-U.S. office of a non-U.S. broker will not be reduced by backup withholding or reported to the IRS, unless the non-U.S. broker has certain enumerated connections with the United States. In general, the payment of proceeds from the disposition of common stock by or through a non-U.S. office of a broker that is a U.S. person or has certain enumerated connections with the United States will be reported to the IRS and may be reduced by backup withholding at the applicable rate, currently 28%, unless the broker receives a statement from the non-U.S. holder that certifies its status as a non-U.S. holder under penalties of perjury or the broker has documentary evidence in its files that the holder is a non-U.S. holder and the broker has no actual knowledge to the contrary.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a non-U.S. holder can be refunded or credited against the non-U.S. holder s U.S. federal income tax liability, if any, provided that the required information is furnished to the IRS in a timely manner. These backup withholding and information reporting rules are complex and non-U.S. holders are urged to consult their own advisors regarding the application of these rules to them.

Estate Tax

Common stock owned or treated as owned by an individual who is not a citizen or resident of the Untied States, as specifically defined for U.S. federal estate tax purposes, at the time of death will be included in the individual s gross estate for U.S. federal estate tax purposes unless an applicable estate tax or other treaty provides otherwise and, therefore, may be subject to U.S. federal estate tax. Estates of non-resident aliens are generally allowed a statutory credit that has the effect of offsetting the U.S. federal estate tax imposed on the first $60,000 of the taxable estate.

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UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated , we and the selling shareholders have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated are acting as representatives, the following respective numbers of shares of common stock:

Underwriter	Number of Shares
Credit Suisse First Boston LLC	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Banc of America Securities LLC	
UBS Investment Bank	
Piper Jaffray & Co.	
William Blair & Company, L.L.C.	
	—
Total	

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in this offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that, if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or this offering may be terminated.

We and the selling shareholders have granted to the underwriters a 30-day option to purchase on a pro rata basis up to additional shares from us and an aggregate of additional outstanding shares from the selling shareholders at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of $ per share. The underwriters and selling group members may allow a discount of $ per share on sales to other broker/dealers. After the initial public offering, the representatives may change the public offering price and concession and discount to broker/dealers.

The following table summarizes the compensation and estimated expenses that we and the selling shareholders will pay:

	Per Share		Total	
	Without Over-allotment	With Over-allotment	Without Over-allotment	With Over-allotment
Underwriting discounts and commissions paid by us	$	$	$	$
Expenses payable by us	$	$	$	$
Underwriting discounts and commissions paid by the selling shareholders	$	$	$	$
Expenses payable by the selling shareholders	$	$	$	$

The representatives have informed us that the underwriters do not expect discretionary sales to exceed 5% of the shares of common stock being offered.

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the

Securities Act relating to, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of Credit Suisse First Boston LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated for a period of 180 days after the date of this prospectus.

Our officers, directors, the selling shareholders and certain other shareholders have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse First Boston LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated for a period of 180 days after the date of this prospectus.

We and the selling shareholders have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

We will apply to list the shares of common stock on The New York Stock Exchange. In connection with the listing of the common stock on the New York Stock Exchange, the underwriters will undertake to sell round lots of 100 shares or more to a minimum of 2,000 beneficial owners.

Some of the underwriters or their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions. In particular, an affiliate of Merrill Lynch is a lender under one of our current credit facilities and a former affiliate of Piper Jaffray & Co. is a lender under another credit facility. In connection with our application of the net proceeds of this offering, less than 10% of such proceeds to us will be used to repay indebtedness to the affiliate of Merrill Lynch.

Through various private placements from 1996 through 2001, Piper Jaffray & Co. owns, directly or through its affiliates, 239,999 shares of our common stock, 15,000 shares of our Series B preferred stock and 106,250 shares of our Series D preferred stock. Upon the conversion of all of our outstanding preferred stock in connection with this offering, it will, directly or indirectly, own shares of our common stock.

There has been no public market for our common stock prior to this offering. We and the underwriters will negotiate the initial offering price. In determining the price, we and the underwriters expect to consider a number of factors in addition to prevailing market conditions, including:

- the information set forth in this prospectus and otherwise available to the representatives;
- the history and the prospects for the industry in which we compete;
- the ability of our management;
- our prospects for future earnings;
- our current financial position;
- the general condition of the securities markets at the time of this offering; and
- the recent market prices of, and the demand for, publicly traded common stock of generally comparable companies.

We and the underwriters will consider these and other relevant factors in relation to the price of similar securities of generally comparable companies. Neither we nor the underwriters can assure investors that an active trading market will develop for our common stock, or that our common stock will trade in the public market at or above the initial offering price.

In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934, or the Exchange Act.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by exercising their over-allotment option and/or by purchasing shares in the open market.

Syndicate covering transactions involve purchases of our common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over- allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in this offering.

Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when our common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

A prospectus in electronic format will be made available on the web sites maintained by certain of the underwriters, or selling group members, if any, participating in this offering. The representatives will agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations. Other than the prospectus in electronic format, the information on the web sites is not part of this prospectus.

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NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

The distribution of our common stock in Canada is being made only on a private placement basis exempt from the requirement that we and the selling shareholders prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are made. Any resale of our common stock in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of our common stock.

Representations of Purchasers

By purchasing common stock in Canada and accepting a purchase confirmation, a purchaser is representing to us, the selling shareholders and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase our common stock without the benefit of a prospectus qualified under those securities laws,

- where required by law, the purchaser is purchasing as principal and not as agent, and

- the purchaser has reviewed the text above under Resale Restrictions.

Rights of Action Ontario Purchasers Only

Under Ontario securities legislation, a purchaser who purchases a security offered by this prospectus during the period of distribution will have a statutory right of action for damages or, while still the owner of the shares, for rescission against us and the selling shareholders in the event that this prospectus contains a misrepresentation. A purchaser will be deemed to have relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the shares. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the shares. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us or the selling shareholders. In no case will the amount recoverable in any action exceed the price at which the shares were offered to the purchaser and, if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we and the selling shareholders will have no liability. In the case of an action for damages, we and the selling shareholders will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the shares as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein and the selling shareholders may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

Taxation and Eligibility for Investment

Canadian purchasers of common stock should consult their own legal and tax advisors with respect to the tax consequences of an investment in our common stock in their particular circumstances and about the eligibility of our common stock for investment by the purchaser under relevant Canadian legislation.

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LEGAL MATTERS

The validity of the shares of common stock offered by this prospectus and other legal matters will be passed upon for us by Faegre & Benson LLP, Minneapolis, Minnesota. Certain legal matters in connection with this offering will be passed upon for the underwriters by Morgan, Lewis & Bockius LLP, New York, New York.

EXPERTS

The consolidated financial statements of LIFE TIME FITNESS, Inc. and its consolidated subsidiaries as of December 31, 2002 and December 31, 2003 and for the years ended December 31, 2001, December 31, 2002 and December 31, 2003 included in this prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form S-1 with the Securities and Exchange Commission for the stock we are offering by this prospectus. This prospectus does not include all of the information contained in the registration statement. You should refer to the registration statement and its exhibits for additional information. Statements in this prospectus as to the contents of any contract, agreement or other document referred to are materially complete. As a result of this offering, we will also be required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission.

You may read and copy all or any portion of the registration statement or any reports, statements or other information that we file at the Securities and Exchange Commission s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the Securities and Exchange Commission. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our Securities and Exchange Commission filings, including the registration statement, are also available to you on the Securities and Exchange Commission s web site http://www.sec.gov.

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INDEPENDENT AUDITORS REPORT

Shareholders

LIFE TIME FITNESS, Inc.

We have audited the accompanying consolidated balance sheets of LIFE TIME FITNESS, Inc. (a Minnesota corporation) and Subsidiaries (the Company) as of December 31, 2002 and 2003, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of the Company as of December 31, 2002 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Minneapolis, Minnesota
March 5, 2004

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LIFE TIME FITNESS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,		Pro Forma for Effect of Conversion of Redeemable Preferred Stock December 31,
	2002	2003	2003
			(unaudited)(Note 2)
	(In thousands, except share and per share data)		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 8,860	$ 18,446	
Accounts receivable, net	1,209	1,217	
Inventories	3,775	4,654	
Prepaid expenses and other current assets	1,736	6,977	
Deferred membership origination costs	6,851	7,363	
Deferred tax asset	4,862	5,368	
Income tax receivable	508	2,547	
Total current assets	27,801	46,572	
PROPERTY AND EQUIPMENT, net	369,387	379,193	
RESTRICTED CASH	9,400	10,972	
DEFERRED MEMBERSHIP ORIGINATION COSTS	5,807	5,942	
OTHER ASSETS	6,629	10,667	
TOTAL ASSETS	$419,024	$453,346	
LIABILITIES AND SHAREHOLDERS EQUITY			
CURRENT LIABILITIES:			
Current maturities of long-term debt	$ 15,362	$ 18,278	
Accounts payable	4,576	6,171	
Construction accounts payable	9,356	6,522	
Accrued expenses	11,131	13,105	
Deferred revenue	17,195	17,836	
Total current liabilities	57,620	61,912	
LONG-TERM DEBT, net of current portion	215,958	214,954	
DEFERRED RENT LIABILITY	2,044	2,660	
DEFERRED INCOME TAXES	12,968	23,196	
DEFERRED REVENUE	12,708	11,667	
Total liabilities	301,298	314,389	
COMMITMENTS AND CONTINGENCIES (Note 8)			
REDEEMABLE PREFERRED STOCK:			
Series B redeemable preferred stock, $.02 par value; 1,000,000 shares authorized, issued and outstanding each period	25,604	27,003	
Series C redeemable preferred stock, $.02 par value; 4,500,000 shares authorized, issued and outstanding each period	51,999	56,029	
Series D redeemable preferred stock, $.02 par value; 2,000,000 shares authorized, 1,946,250 shares issued and outstanding each	21,576	23,133	

period			
Total redeemable preferred stock	99,179	106,165	
SHAREHOLDERS EQUITY:			
Undesignated preferred stock, 2,500,000 shares authorized; none issued or outstanding			
Common stock, $.02 par value, 50,000,000 shares authorized; 15,953,857 and 16,146,607 shares issued and outstanding, respectively	319	323	543
Additional paid-in capital	17,091	17,714	123,659
Retained earnings	1,137	14,755	14,755
Total shareholders equity	18,547	32,792	138,957
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$419,024	$453,346	$453,346

See notes to consolidated financial statements.

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LIFE TIME FITNESS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31,			Pro Forma for Effect of Conversion of Redeemable Preferred Stock December 31,
	2001	2002	2003	2003
				(unaudited)(Note 2)
	(In thousands, except per share data)			
REVENUE:				
Membership dues	$ 94,652	$ 132,124	$ 171,596	
Enrollment fees	13,584	18,564	20,594	
In-center revenue	25,191	38,270	54,237	
Total center revenue	133,427	188,958	246,427	
Other revenue	3,240	6,208	10,515	
Total revenue	136,667	195,166	256,942	
OPERATING EXPENSES:				
Sports, fitness and family recreation center operations	74,025	102,343	131,825	
Advertising and marketing	6,350	11,722	11,045	
General and administrative	12,305	14,981	18,554	
Other operating	4,458	10,358	16,273	
Depreciation and amortization	17,280	20,801	25,264	
Impairment charge		6,952		
Total operating expenses	114,418	167,157	202,961	
Income from operations	22,249	28,009	53,981	
OTHER INCOME (EXPENSE):				
Interest expense, net	(12,035)	(14,950)	(19,132)	
Loss from extinguishment of debt	(2,911)			
Equity in earnings (loss) of affiliate	(301)	333	762	
Total other income (expense)	(15,247)	(14,617)	(18,370)	
INCOME BEFORE INCOME TAXES	7,002	13,392	35,611	
PROVISION FOR INCOME TAXES	3,019	5,971	15,006	
NET INCOME	3,983	7,421	20,605	20,605
ACCRETION ON REDEEMABLE PREFERRED STOCK	6,447	7,085	6,987	
NET INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	$ (2,464)	$ 336	$ 13,618	$ 20,605
BASIC EARNINGS (LOSS) PER COMMON SHARE	$ (0.20)	$ 0.02	$ 0.85	$ 0.72

DILUTED EARNINGS (LOSS) PER COMMON SHARE	$ (0.20)	$ 0.02	$ 0.72	$ 0.68

See notes to consolidated financial statements.

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LIFE TIME FITNESS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Common Stock		Additional Paid-in	Retained	
	Shares	Amount	Capital	Earnings	Total
	(In thousands, except share data)				
BALANCE December 31, 2000	10,648,000	$213	$ 7,348	$ 3,265	$10,826
Common stock issued upon exercise of stock options	74,500	1	69		70
Common stock issued in connection with Series A redeemable preferred stock conversion	2,539,991	51	4,531		4,582
Accretion on redeemable preferred stock				(6,447)	(6,447)
Net income				3,983	3,983
BALANCE December 31, 2001	13,262,491	265	11,948	801	13,014
Common stock issued upon exercise of stock options	151,380	3	319		322
Common stock issued in connection with Series A redeemable preferred stock conversion	2,539,986	51	4,824		4,875
Accretion on redeemable preferred stock				(7,085)	(7,085)
Net income				7,421	7,421
BALANCE December 31, 2002	15,953,857	319	17,091	1,137	18,547
Common stock issued upon exercise of stock options	192,750	4	407		411
Tax benefit upon exercise of stock options			216		216
Accretion on redeemable preferred stock				(6,987)	(6,987)
Net income				20,605	20,605
BALANCE December 31, 2003	16,146,607	$323	$17,714	$14,755	$32,792

See notes to consolidated financial statements.

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LIFE TIME FITNESS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,		
	2001	**2002**	**2003**
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 3,983	$ 7,421	$ 20,605
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,280	20,801	25,264
Deferred income taxes	6,968	819	9,722
Impairment charge		6,952	
Loss on disposal of property, net	39	162	745
Amortization of deferred financing costs	1,476	529	1,053
Tax benefit from exercise of stock options			216
Changes in operating assets and liabilities	2,863	6,874	(5,029)
Net cash provided by operating activities	32,609	43,558	52,576
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(54,276)	(27,508)	(41,315)
Decrease in construction accounts payable	(2,394)	(1,632)	(2,834)
Proceeds from sale of property	138	133	23,740
Decrease (increase) in other assets	451	(859)	(2,495)
Increase in restricted cash	(7,847)	(1,484)	(1,572)
Net cash used in investing activities	(63,928)	(31,350)	(24,476)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from (costs related to) sale of preferred stock, net	19,389	(4)	
Proceeds from long-term borrowings	128,220	21,919	1,925
Repayments on long-term borrowings	(117,632)	(27,249)	(18,119)
Increase in deferred financing costs	(1,802)	(544)	(2,731)
Proceeds from exercise of stock options	70	322	411
Net cash provided by (used in) financing activities	28,245	(5,556)	(18,514)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,074)	6,652	9,586
CASH AND CASH EQUIVALENTS Beginning of period	5,282	2,208	8,860
CASH AND CASH EQUIVALENTS End of period	$ 2,208	$ 8,860	$ 18,446
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash payments for interest, net of capitalized interest of $1,860, $1,647 and $1,315, respectively	$ 12,653	$ 14,201	$ 17,821
Cash payments for income taxes	$ 245	$ 3,900	$ 7,107

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Property and equipment purchases financed through notes payable	$ 25,051	$ 47,224	$ 28,668
Property and equipment purchases financed through capital lease obligations	$ 15,596	$ 12,700	$ 11,863
Property and equipment debt paid directly from sale proceeds	$	$	$ 22,309

See notes to consolidated financial statements.

LIFE TIME FITNESS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2003, 2002 and 2001
(In thousands, except share and per share data)

1. Nature of Business

LIFE TIME FITNESS, Inc. and the Subsidiaries (collectively, the Company) are primarily engaged in designing, building and operating sports, fitness and family recreation centers, principally in suburban locations of major metropolitan areas. As of December 31, 2003, the Company operated 33 centers, including 14 in Minnesota, seven in Illinois, five in Michigan, two in Virginia, two in Arizona, and one each in Ohio, Indiana and Texas.

2. Significant Accounting Policies

Principles of Consolidation The consolidated financial statements include the accounts of LIFE TIME FITNESS, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Pro Forma Presentation (unaudited) The consolidated balance sheet as of December 31, 2003 reflects the pro forma effect of the conversion of all the redeemable preferred stock into common stock. The consolidated statement of operations for the year ended December 31, 2003 reflects the pro forma effect of the conversion of all the redeemable preferred stock into common stock as of January 1, 2003. The conversion ratio assumes the maximum number of shares to be issued upon the conversion of the redeemable preferred stock.

Revenue Recognition The Company receives a one-time enrollment fee at the time a member joins and monthly membership dues for usage from its members. The enrollment fees are nonrefundable 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 s opening are deferred until the center opens. The Company offers members month-to-month memberships and recognizes as revenue the monthly membership dues in the month to which they pertain.

The Company provides services at each of its sports, fitness and family recreation centers, including personal training, spa, café 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 the Company s nutritional products, media, athletic events and a 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.

Preopening Operations The Company generally operates 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 until the center opens; however, the related advertising, office and rent expenses incurred during this period are expensed as incurred.

Cash and Cash Equivalents The Company considers all unrestricted cash accounts and highly liquid debt instruments purchased with original maturities of three months or less to be cash and cash equivalents.

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LIFE TIME FITNESS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted Cash The Company is required to keep funds on deposit at certain financial institutions related to certain of its credit facilities. The Company s lender or lenders, as the case may be, may access the restricted cash after the occurrence of an event of default, as defined under their respective credit facilities.

Accounts Receivable Accounts receivable is presented net of allowance for doubtful accounts and sales returns and allowances of $446 and $677 as of December 31, 2002 and 2003, respectively.

The rollforward of these allowances are as follows:

	2001	2002	2003
Allowance for Doubtful Accounts:			
Balance, beginning of period	$	$ 28	$ 446
Provisions	28	485	202
Write-offs against allowance		(67)	(107)
Balance, end of period	$ 28	$446	$ 541
Sales Returns and Allowances:			
Balance, beginning of period	$	$	$
Provisions			136
Write-offs against allowance			
Balance, end of period	$	$	$ 136

Inventories Inventories consisted primarily of nutritional products, operational supplies and uniforms. These inventories are stated at the lower of cost or market value.

Prepaid Expenses and Other Current Assets Prepaid expenses and other current assets consisted primarily of prepaid insurance, other prepaid operating expenses and deposits.

Property and Equipment Property, equipment and leasehold improvements are recorded at cost. Improvements are capitalized, while repair and maintenance costs are charged to operations when incurred. Depreciation is computed primarily using the straight-line method over estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the original lease term or the estimated useful life of the improvement.

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LIFE TIME FITNESS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property and equipment consist of the following:

	Useful Lives	December 31, 2002	December 31, 2003
Land		$ 59,993	$ 65,223
Buildings	3-40 years	250,380	262,557
Leasehold improvements	1-20 years	24,159	25,092
Construction in progress		15,209	13,999
		349,741	366,871
Equipment:			
Fitness	7 years	32,246	37,125
Computer and telephone	3-5 years	14,402	17,696
Web-based systems	5 years	6,507	8,101
Décor and signage	5 years	2,931	3,222
Audio/visual	3-5 years	4,262	4,937
Office	7 years	5,302	5,511
Other center equipment	7 years	11,062	14,516
		76,712	91,108
Property and equipment, gross		426,453	457,979
Less accumulated depreciation		57,066	78,786
Property and equipment, net		$369,387	$379,193

At December 31, 2003, the Company had five sports, fitness and family recreation centers under construction in Texas.

The Company has developed web-based systems to facilitate member enrollment and management. Costs related to these projects have been capitalized in accordance with Statement of Position No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*.

Other center equipment consists primarily of furniture, playground equipment and laundry facilities.

Impairment of Long-lived Assets The carrying value of long-lived assets is reviewed annually and whenever events or changes in circumstances indicate that such carrying values may not be recoverable. The Company considers a history of consistent and significant operating losses to be its 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 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 these assets. If an impairment has occurred, the amount of impairment recognized is determined by estimating the fair value of these assets and recording a loss if the carrying value is greater than the fair value. For the year ended December 31, 2002, an impairment charge of $6,952 was recorded related to one of the centers designed as an urban executive facility located in downtown Minneapolis, Minnesota and a restaurant the Company operates in the same building. The urban executive facility and restaurant differ significantly from the Company s standard operating model and initial cash flow results have not been as high as projected. Additionally, these facilities are located in a more costly geographic area of downtown Minneapolis. The Company opened this center and accompanying restaurant in 2000, but did not recognize an impairment

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LIFE TIME FITNESS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

prior to December 31, 2002, as the Company determined it was too early to assess the viability of their operations.

Other Assets The Company records its intangible assets at cost. Amortization of financing costs is computed over the periods of the related debt financing. Other assets consist of the following:

	December 31,	
	2002	**2003**
Financing costs	$3,155	$ 4,833
Investment in unconsolidated affiliate (see Note 3)	1,404	1,553
Pre-development costs	264	512
Lease deposits	402	2,471
Earnest money deposits	483	534
Other	921	764
	$6,629	$10,667

Pre-development costs consist of legal, travel, architectural, feasibility and other direct expenditures incurred for certain prospective new center projects. Capitalization commences when acquisition of a particular property is deemed probable by management. Should a specific project be deemed not viable for construction, any capitalized costs related to that project are charged to operations at the time of that determination. Costs incurred prior to the point at which the acquisition is deemed probable are expensed as incurred. Pre-development costs capitalized in the years ended December 31, 2002 and 2003 were approximately $452 and $2,094, respectively. Upon completion of a project, the pre-development costs are classified as property and equipment and depreciated over the useful life of the asset.

Accrued Expenses The Company records accrued expenses to properly match costs to its respective revenue. Accrued expenses consist of the following:

	December 31,	
	2002	**2003**
Payroll related	$ 3,658	$ 4,308
Real estate taxes	2,485	2,555
Facility operating costs	1,858	1,652
Interest	311	284
Insurance		1,283
Other	2,819	3,023
	$11,131	$13,105

Income Taxes The Company files consolidated federal and state income tax returns. Deferred income taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases at currently enacted tax rates. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Earnings (Loss) per Common Share Basic earnings (loss) per common share (EPS) is computed by dividing net income (loss) applicable to common shareholders by the weighted average number of shares of common stock outstanding during each year. Diluted EPS is computed similarly to basic EPS, except that the numerator is adjusted to add back any redeemable preferred stock accretion and the

LIFE TIME FITNESS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

denominator is increased for the conversion of any dilutive common stock equivalents, such as redeemable preferred stock, and the assumed exercise of dilutive stock options using the treasury stock method.

Accretion on redeemable preferred stock is computed based on the per share annual return on the respective series of redeemable preferred stock plus any accumulated but unpaid dividends. The discount on redeemable preferred stock attributable to offering expenses is also being accreted over the period to the mandatory redemption date. Accretion on redeemable preferred stock was as follows:

Redeemable Preferred Stock	December 31, 2001	2002	2003
Series A	$ 384	$ 98	$
Series B	1,400	1,400	1,400
Series C	4,030	4,030	4,030
Series D	633	1,557	1,557
Total	$6,447	$7,085	$6,987

The following table summarizes the weighted average common shares for basic and diluted EPS computations:

	December 31, 2001	2002	2003
Weighted average number of common shares outstanding basic	12,360,000	15,053,800	16,071,700
Effect of dilutive stock options		1,375,900	1,522,700
Effect of dilutive redeemable preferred shares outstanding			11,017,700
Weighted average number of common shares outstanding dilutive	12,360,000	16,429,700	28,612,100

The effect of the shares issuable upon the conversion of redeemable preferred stock was not included in the calculation of diluted EPS for the year ended December 31, 2002 and the effect of the shares issuable upon both the conversion of redeemable preferred stock and the effect of stock options were not included in the calculation of diluted EPS for the year ended December 31, 2001 as they were antidilutive. The number of equivalent shares excluded from the computation of diluted EPS was 14,247,600, 11,731,000 and 0 for the years ended December 31, 2001, 2002 and 2003, respectively.

Stock-Based Compensation The Company has stock option plans for employees and accounts for these option plans in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. For more information on the Company s stock-based compensation plans, see Note 6.

LIFE TIME FITNESS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Had compensation cost for these plans been determined consistent with Statement of Financial Accounting Standards (SFAS) No. 123, the Company s net income (loss) applicable to common shareholders, basic EPS and diluted EPS would have been reduced to the following pro forma amounts:

	December 31,		
	2001	**2002**	**2003**
Net income (loss) applicable to common shareholders basic:			
As reported	$(2,464)	$ 336	$13,618
Pro forma	$(3,043)	$ (598)	$12,702
Basic earnings (loss) per common share:			
As reported	$ (0.20)	$ 0.02	$ 0.85
Pro forma	$ (0.25)	$(0.04)	$ 0.79
Net income (loss) applicable to common shareholders diluted:			
As reported	$(2,464)	$ 336	$20,605
Pro forma	$(3,043)	$ (598)	$19,689
Diluted earnings (loss) per common share:			
As reported	$ (0.20)	$ 0.02	$ 0.72
Pro forma	$ (0.25)	$(0.04)	$ 0.69

The weighted-average fair value of options granted was $4.64, $4.42 and $4.15 for the years ended December 31, 2001, 2002 and 2003, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used:

	December 31,		
	2001	**2002**	**2003**
Risk-free interest rate	4.4%	4.0%	3.0%
Expected dividend yield			
Expected life in years	6	6	6
Volatility	57.5%	54.2%	38.3%

Fair Value of Financial Instruments The carrying amounts related to cash and cash equivalents approximate fair value due to the relatively short maturities of such instruments. The fair value of long-term debt approximates the carrying value and is based on interest rates for the same or similar debt offered to the Company having the same or similar remaining maturities and collateral requirements.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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, the Company uses estimates based on the best information available. The Company uses estimates for such items as depreciable lives, volatility factors in determining fair value of option grants, tax provisions, provisions for uncollectible receivables and for calculating the amortization period for deferred enrollment fee revenue and associated direct costs (based on the weighted

LIFE TIME FITNESS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

average expected life of center memberships). The Company revises the recorded estimates when better information is available, facts change, or the Company can determine actual amounts. Those revisions can affect operating results.

Interest Income Interest income included in interest expense, net, for the years ended December 31, 2001, 2002 and 2003 was $185, $196 and $337, respectively.

Supplemental Cash Flow Information Changes in operating assets and liabilities, reflecting increases (decreases) in cash, are as follows:

	December 31		
	2001	2002	2003
Accounts receivable	$ (409)	$ 204	$ (8)
Income tax receivable	(1,502)	1,862	(2,039)
Inventories	(651)	(2,444)	(879)
Prepaid expenses and other current assets	3,005	(433)	(5,241)
Deferred membership origination costs	(2,407)	(1,494)	(647)
Accounts payable	(1,831)	2,123	1,595
Accrued expenses	976	3,054	1,974
Deferred revenue	5,152	3,358	(400)
Deferred rent liability	530	644	616
	$ 2,863	$ 6,874	$ (5,029)

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

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

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections* (SFAS No. 145). FASB No. 4 required all gains or losses from extinguishment of debt to be classified as extraordinary items net of

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LIFE TIME FITNESS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

income taxes. SFAS No. 145 requires that gains and losses from extinguishment of debt be evaluated under the provisions of APB Opinion No. 30, and be classified as ordinary items unless they are unusual or infrequent or meet the specific criteria for treatment as an extraordinary item. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. As a result of SFAS No. 145, the loss from early extinguishment of debt of $2,911 has been reclassified from an extraordinary item to a component of continuing operations in the Company s 2001 statement of operations.

3. Investment in Unconsolidated Affiliate

In December 1999, the Company, together with two unrelated organizations, formed an Illinois limited liability company named LIFE TIME Fitness Bloomingdale L.L.C. (Bloomingdale LLC) for the purpose of constructing and operating a sports, fitness and family recreation center in Bloomingdale, Illinois. The center opened for business in February 2001. Each of the three members maintains an equal interest in Bloomingdale LLC. Pursuant to the terms of the agreement that governs the formation and operation of Bloomingdale LLC (the Operating Agreement), each of the three members contributed $2,000 to Bloomingdale LLC. The Operating Agreement expires on the earlier of December 1, 2039 or the liquidation of Bloomingdale LLC. The Company accounts for its interest in Bloomingdale LLC on the equity method.

On December 1, 1999, Bloomingdale LLC entered into a management agreement with the Company, pursuant to which the Company agreed to manage the day-to-day operations of the center. The management agreement expires on December 31, 2039 unless it terminates earlier pursuant to its terms. The Company does not receive a management fee in connection with its duties under the management agreement, but does receive an overhead cost recovery charge equal to the lesser of (i) the lowest rate charged to any of the Company s other sports, fitness and family recreation centers, or (ii) 9.0% of the net revenue of the Bloomingdale LLC sports, fitness and family recreation center, provided, however, that in no event would Bloomingdale LLC be charged overhead cost recovery at a rate in excess of the ratio of the Company s total overhead expense to its total net center revenue. Overhead cost recovery charges to Bloomingdale LLC were $517, $799 and $988 for the years ended December 31, 2001, 2002 and 2003, respectively.

Bloomingdale LLC issued indebtedness in June 2000 in a taxable bond financing that is secured by a letter of credit in an amount not to exceed $14,700. All of the members separately guaranteed one-third of these obligations to the bank for the letter of credit and pledged their membership interest to the bank as security for the guarantee.

Pursuant to the terms of the Operating Agreement, beginning in March 2002 and continuing throughout the term of such agreement, the members are entitled to receive monthly cash distributions from Bloomingdale LLC. The amount of this monthly distribution is, and will continue to be throughout the term of the agreement, $56 per member. In the event that Bloomingdale LLC does not generate sufficient cash flow through its own operations to make the required monthly distributions, the Company is obligated to make such payments to each of the other two members. To date, Bloomingdale LLC has generated cash flows sufficient to make all such payments. Each of the three members received distributions from Bloomingdale LLC in the amount of $281 and $614 in 2002 and 2003, respectively.

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LIFE TIME FITNESS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Long-Term Debt

Long-term debt consists of the following:

	December 31,	
	2002	2003
Term notes payable to insurance company, monthly interest and principal payments totaling $1,273 including interest at 8.25% to June 30, 2011, collateralized by certain related real estate and buildings	$140,045	$136,183
Construction credit facility, monthly interest payments at the reference rate plus one-half of 1% maturing through April 2006, collateralized by certain related real estate and buildings	19,807	25,865
Revolving credit facility, interest only due monthly at interest rates ranging from LIBOR plus 4.0% to base plus 2.5%, facility expires June 30, 2005, collateralized by certain related personal property	15,000	15,000
Mortgage notes payable to bank, due in monthly installments of $51 through August 2007, including interest at 6%, collateralized by certain interests in related two centers	5,666	5,585
Mortgage note payable to bank, due in monthly installments of $37 through February 28, 2007, including interest at reference rate plus one-half of 1%, collateralized by a certain interest in one related center	5,302	3,531
Special assessments payable, due in variable semiannual installments through September 2028, including interest at 6.50% to 8.50%, secured by the related real estate and buildings	1,694	1,627
Total debt (excluding obligations under capital leases)	187,514	187,791
Obligations under capital leases (see below)	43,806	45,441
Total debt	231,320	233,232
Less current maturities	15,362	18,278
Total long-term debt	$215,958	$214,954

In June and October 2001, the Company, through certain of its wholly owned subsidiaries, refinanced 10 of its centers pursuant to the terms of individual notes issued to an insurance company. Outstanding obligations under the notes bear interest at 8.25%. In 2001, the Company began making monthly payments of principal and interest on these obligations, based upon a 20-year amortization period. The Company s obligations to the insurance company mature in June 2011. In connection with this refinancing, the Company incurred expenses of $2,344 in early extinguishment fees and $567 to write off loan costs related to the original debt.

In November 2002, the Company, through certain of its wholly owned subsidiaries, refinanced three additional centers pursuant to the terms of individual notes issued to an insurance company. Outstanding obligations under the notes bear interest at 8.25%. In December 2002, the Company began making monthly payments of principal and interest on these obligations, based upon a 15-year amortization period. The Company s obligations to the insurance company mature in June 2011. In connection with this refinancing, the Company incurred expenses of $382 to write off loan costs, which are included in interest expense.

The Company is a party to a $75,000 construction credit facility. Pursuant to the terms of the construction credit facility, the lending group has committed to make up to seven separate series loans, the purpose of which is to fund the construction costs related to completing the construction of certain centers. The commitment to continue to make loans available to the Company under this facility has been renewed

LIFE TIME FITNESS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

by the lenders annually. The current commitment to lend expires on June 30, 2004. Borrowings under this facility are limited to the lesser of 55.0% of the total land and construction costs, or 75% of the appraised value, of the specific centers currently under construction and are due and payable no later than three years from the date of the series supplement for each series loan. As security for the obligations owing under the construction credit facility, the Company has granted mortgages on each of the specific centers that are financed by means of the construction credit facility. Interest accrues at the reference rate plus 0.5%. At December 31, 2003, $25,865 was outstanding related to three specific centers and $49,135 was available for additional borrowings under this facility. In January 2004, the Company retired all of the debt on two of the centers, totaling $17,950.

The Company is a party to a revolving credit facility with a group of financial institutions. The revolving credit facility, as amended and restated, allows for borrowings and letters of credit of up to $55,000 (of which $15,000 is a term loan). Availability under the facility is determined based upon a multiple of operating cash flow adjusted for outstanding indebtedness, as defined therein. As of December 31, 2003, $5,000 of letters of credit were outstanding and the Company had approximately $35,000 available for additional borrowings under this facility. Interest accrues at the rate of either a base rate plus 2.5% or LIBOR plus 4.0%, as the Company may elect from time to time. The revolving credit facility requires payment of commitment fees of 0.5% on unused credit availability. As of December 31, 2003, the Company is required to maintain a senior leverage ratio not in excess of 2.75 to 1.00, a total leverage ratio not in excess of 4.5 to 1.0, a fixed charge coverage ratio not in excess of 1.15 to 1.00, an interest coverage ratio not in excess of 3.0 to 1.0, an adjusted total leverage ratio not in excess of 4.0 to 1.0 and a loan to value ratio not in excess of 0.5 to 1.0. The revolving credit facility also contains covenants that, among other things, restrict the ability to incur certain additional debt, pay dividends, create certain liens and engage in certain transactions.

In May 2001, the Company entered into a sale/leaseback transaction with respect to one of its centers. Pursuant to the terms of this transaction, the Company sold the center for $7,200. The Company did not recognize any material gain or loss on the sale of the center. The Company retired $2,900 of indebtedness related to this center. At the time of the sale, the Company simultaneously entered into a lease of the center. Pursuant to the lease, the Company has agreed to lease the center for a period of 20 years. As of December 31, 2003, the present value of the future minimum lease payments due under the lease amounted to $7,008 and is included in obligations under capital lease.

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

The Company was in compliance in all material respects with all restrictive and financial covenants under its various credit facilities as of December 31, 2003.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Aggregate annual future maturities of long-term debt (excluding capital leases) at December 31, 2003 are as follows:

2004	$ 5,552
2005	30,557
2006	20,472
2007	12,974
2008	5,901
Thereafter	112,335
	$187,791

The Company is a party to capital equipment leases with third parties which provide for monthly rental payments of approximately $1,489 as of December 31, 2003. The following is a summary of property and equipment recorded under capital leases:

	December 31,	
	2002	2003
Land and buildings	$ 6,754	$ 6,754
Leasehold improvements	1,905	1,909
Equipment	57,973	68,596
	66,632	77,259
Less accumulated depreciation	24,668	33,776
	$41,964	$43,483

Future minimum lease payments and the present value of net minimum lease payments on capital leases at December 31, 2003 are as follows:

2004	$16,354
2005	14,088
2006	10,094
2007	5,952
2008	2,114
Thereafter	12,216
	60,818
Less amounts representing interest	15,377
Present value of net minimum lease payments	45,441
Current portion	12,726
	$32,715

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LIFE TIME FITNESS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Income Taxes

The components of the provision for income taxes are as follows:

	December 31,		
	2001	**2002**	**2003**
Current	$(3,949)	$5,152	$ 5,284
Deferred	6,968	819	9,722
Provision for income taxes	$ 3,019	$5,971	$15,006

The provision for income taxes differs from the federal statutory rate as follows:

	December 31,		
	2001	**2002**	**2003**
Income taxes computed at federal statutory rate	$2,381	$4,553	$12,464
State taxes, net of federal benefit	490	848	2,095
Other, net	148	570	447
	$3,019	$5,971	$15,006

Deferred income taxes are the result of provisions of the tax laws that either require or permit certain items of income or expense to be reported for tax purposes in different periods than they are reported for financial reporting. The tax effect of temporary differences that gives rise to the deferred tax asset (liability) are as follows:

	December 31,	
	2002	**2003**
Current deferred income tax assets:		
Deferred revenue, net of related deferred costs	$ 3,980	$ 4,206
Other, net	882	1,162
	$ 4,862	$ 5,368
Noncurrent deferred income tax liabilities:		
Deferred revenue, net of related deferred costs	$ 2,795	$ 1,728
Property and equipment	(14,315)	(22,711)
Other, net	(1,448)	(2,213)

	$(12,968)	$(23,196)

6. Capital Stock

Authorized Shares The Company s Articles of Incorporation, as amended, authorize the aggregate issuance of 60,000,000 shares of stock consisting of 10,000,000 shares of preferred stock, $0.02 par value per share, of which 1,000,000 shares have been designated as Series B redeemable preferred stock, 4,500,000 shares have been designated as Series C redeemable preferred stock, 2,000,000 shares have been designated as Series D redeemable preferred stock, and 2,500,000 shares are undesignated, and 50,000,000 shares of common stock, par value $0.02 per share.

Redeemable Preferred Stock On May 7, 2001, the holders of the Series A redeemable preferred stock elected to convert certain of the Series A redeemable preferred stock into common stock. At a conversion ratio of 1 to 5.3, the Company issued 2,539,991 shares of its common stock in exchange for the

LIFE TIME FITNESS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

retirement of 479,244 shares of the Series A redeemable preferred stock. On May 7, 2002, the holders of the Series A redeemable preferred stock elected to convert the remaining 479,243 shares of Series A redeemable preferred stock. Under the same conversion ratio the Company issued 2,539,986 shares of its common stock in exchange for the retirement of the remaining 479,243 shares of Series A redeemable preferred stock.

In connection with a stock purchase agreement dated December 8, 1998, the Company sold 1,000,000 shares of Series B redeemable preferred stock for $20.00 per share (less offering expenses of $84). The Series B redeemable preferred stock is subject to mandatory conversion upon the consummation of a qualified initial public offering, as defined by the Series B certificate of designation, as amended, and is convertible into common stock, unless previously redeemed, at a 1:4.571428 conversion ratio, subject to adjustment in certain events. This conversion ratio, which was previously 1:4, was adjusted on December 31, 2003 pursuant to the Series B certificate of designation, as amended, to reflect the reduction of the conversion price to 87.5% of the original conversion ratio as the Company did not achieve certain per share net income targets for the 12-month period ended December 31, 2003. In addition, the Series B redeemable preferred stock is subject to mandatory redemption in equal amounts on December 31, 2004 and 2005. The per share redemption price is $20.00, plus an amount representing a per share annual return of 7%, plus any accumulated but unpaid dividends, if declared. An amount equal to the cumulative return is accreted to the preferred stock balance to reflect the redemption amount, if not previously converted into common shares.

In connection with a stock purchase agreement dated August 16, 2000, the Company sold 4,500,000 shares of Series C redeemable preferred stock for $10.00 per share (less offering expenses of $2,578). The Series C redeemable preferred stock is convertible into common stock, unless previously redeemed, at a 1:1 conversion ratio, and is subject to mandatory conversion upon the consummation of a qualified initial public offering, as defined by the Series C certificate of designation, as amended. In addition, the Series C redeemable preferred stock is subject to mandatory redemption on August 16, 2006. The per share redemption price is $10.00, plus an amount representing a per share annual return of 8%, plus any accumulated but unpaid dividends, if declared. An amount equal to the cumulative return is accreted to the preferred stock balance to reflect the redemption amount, if not previously converted into common shares. The discount on the preferred stock attributable to offering expenses is being accreted to the preferred stock balance over a six-year period.

In connection with a stock purchase agreement dated July 19, 2001, the Company sold 1,946,250 shares of Series D redeemable preferred stock for $10.00 per share (less offering expenses of $72). The Series D redeemable preferred stock is convertible into common stock, unless previously redeemed, at a 1:1 conversion ratio, and is subject to mandatory conversion upon the consummation of a qualified initial public offering, as defined by the Series D certificate of designation, as amended. In addition, the Series D redeemable preferred stock is subject to mandatory redemption on August 16, 2006. The per share redemption price is $10.00, plus an amount representing a per share annual return of 8%, plus any accumulated but unpaid dividends, if declared. An amount equal to the cumulative return is accreted to the redeemable preferred stock balance to reflect the redemption amount, if not previously converted into common shares.

In connection with the sale of its Series D redeemable preferred stock, the Company agreed that the conversion ratio for each of the Series C and the Series D redeemable preferred stock would be adjusted from 1:1 to 1:1.25, in the event that a change of ownership of the Company occurs, including a qualifying initial public offering, and the return on investment for the holders of the Series C and the Series D redeemable preferred stock realized in connection with the change of ownership does not achieve a certain rate of return with respect to such series, as defined in the Series C and Series D certificates of designation, based on the date of purchase.

LIFE TIME FITNESS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

No dividends were declared on any of the redeemable preferred stocks for the years ended December 31, 2001, 2002 and 2003.

Stock Options During 1994, the Company granted options to acquire an aggregate of 320,000 shares of common stock with an exercise price of $0.75 per share to members of the Board of Directors. As of December 31, 2003, no options remained outstanding related to the 1994 grant.

During 1996, the Company adopted the FCA, Ltd. 1996 Stock Option Plan (the 1996 Plan), which reserved up to 2,000,000 shares of the Company s common stock for issuance under the 1996 Plan. Under the 1996 Plan, the Board of Directors have the authority to grant incentive and nonqualified options to purchase shares of the Company s common stock to eligible employees, directors, and contractors at a price of not less than 100% of the fair market value at the time of the grant. Incentive stock options expire no later than 10 years from the date of grant, and nonqualified stock options expire no later than 15 years from the date of grant. As of December 31, 2003, the Company had granted a total of 1,700,000 options to purchase common stock under the 1996 Plan, of which 1,358,000 were outstanding.

During 1998, the Company adopted the LIFE TIME FITNESS, Inc. 1998 Stock Option Plan (the 1998 Plan), which reserved up to 1,600,000 shares of the Company s common stock for issuance. Under the 1998 Plan, the Board of Directors have the authority to grant incentive and nonqualified options to purchase shares of the Company s common stock to eligible employees, directors and contractors at a price of not less than 100% of the fair market value at the time of the grant. Incentive stock options expire no later than 10 years from the date of grant, and nonqualified stock options expire no later than 15 years from the date of grant. The 1998 Plan was amended in December 2003 by the Company s Board of Directors and shareholders to reserve an additional 1,500,000 shares of the Company s common stock for issuance. As of December 31, 2003, the Company had granted a total of 1,957,500 options to purchase common stock at exercise prices of $4.00 to $12.00 under the 1998 Plan, of which 1,673,475 were outstanding.

A summary of option activity is as follows:

	Options Outstanding	Exercise Price per Share
Balance December 31, 2000	2,406,500	$ 0.75-8.00
Granted	322,000	8.00
Exercised	(74,500)	0.75-4.00
Canceled	(114,870)	1.66-8.00
Balance December 31, 2001	2,539,130	0.75-8.00
Granted	345,000	8.00
Exercised	(151,380)	1.25-8.00
Canceled	(40,750)	1.67-8.00
Balance December 31, 2002	2,692,000	0.75-8.00
Granted	636,500	8.00-12.00
Exercised	(192,750)	0.75-8.00
Canceled	(104,275)	8.00
Balance December 31, 2003	3,031,475	$ 1.25-12.00

LIFE TIME FITNESS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The options granted generally vest over a period of three to five years from the date of grant. At December 31, 2003, options to purchase 1,345,550 shares were exercisable. The following table summarizes information concerning options outstanding and exercisable as of December 31, 2003:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$1.25 to $1.67	1,294,000	2.73	$ 1.51	654,000	$ 1.37
$3.00 to $4.00	337,250	5.50	3.81	337,250	3.81
$8.00 to $12.00	1,400,225	8.66	8.87	354,300	8.00
$1.25 to $12.00	3,031,475	7.66	$ 5.16	1,345,550	$ 3.73

In December 2003, the Company granted 303,500 options to purchase common stock under the 1998 Plan at $12.00 per share. The fair value per share was determined to be $16.00, resulting in intrinsic value of $4.00 per share which is being recorded as compensation expense over the applicable vesting period. The fair value of the common stock was determined on a contemporaneous basis by management. Management did not obtain an independent contemporaneous valuation at the time of the grant due to an independent valuation that was performed as of June 30, 2003. Events occurring since June 30, 2003 were considered by management in determining the value of the Company s common stock for the December 2003 grant of stock options.

7. Operating Segments

The Company determined its operations are conducted mainly through one reportable operating segment sports, fitness and family recreation centers. The Company s chief operating decision maker uses EBITDA as the primary measure of segment performance. For purposes of segment financial reporting and discussion of results of operations, sports, fitness and family recreation centers represent the revenue and associated costs (including general and administrative expenses) from membership dues and enrollment fees, all in-center activities including personal training, spa, café and other activities offered to members and non-member participants and rental income. Included in the All Other category in the table below is operating information related to nutritional products, media, athletic events, and a restaurant, and expenses, including interest expense, and corporate assets (including depreciation and amortization) not directly attributable to sports, fitness and family recreation centers. The accounting policies of the sports, fitness and family recreation centers and operations classified as All Other are the same as those described in the summary of significant accounting policies.

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LIFE TIME FITNESS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial data and reconciling information for the Company s reporting segment to the consolidated amounts in the financial statements are as follows:

	Sports, Fitness and Family Recreation Centers	All Other	Eliminations(a)	Consolidated
Year ended December 31, 2003:				
Revenues	$246,427	$ 13,002	$(2,487)	$256,942
Income before tax	$ 46,803	$(11,192)	$	$ 35,611
Interest expense, net	17,501	1,631		19,132
Depreciation and amortization	20,682	4,582		25,264
EBITDA	$ 84,986	$ (4,979)	$	$ 80,007
Total assets	$368,330	$ 85,016	$	$453,346
Year ended December 31, 2002:				
Revenues	$188,958	$ 8,728	$(2,520)	$195,166
Income before tax	$ 22,647	$ (9,255)	$	$ 13,392
Interest expense, net	14,250	700		14,950
Depreciation and amortization	16,872	3,929		20,801
EBITDA	$ 53,769	$ (4,626)	$	$ 49,143
Total assets	$358,207	$ 60,817	$	$419,024
Year ended December 31, 2001:				
Revenues	$133,427	$ 4,862	$(1,622)	$136,667
Income before tax	$ 18,894	$(11,892)	$	$ 7,002
Interest expense, net	10,730	1,305		12,035
Depreciation and amortization	12,769	4,511		17,280
EBITDA	$ 42,393	$ (6,076)	$	$ 36,317

(a) Eliminations relate to the sale of the Company s nutritional products to the Company s owned cafes.

LIFE TIME FITNESS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Commitments and Contingencies

Lease Commitments The Company leases certain property and equipment under operating leases. The minimum annual payments under all noncancelable operating leases at December 31, 2003 are as follows:

2004	$ 7,347
2005	7,291
2006	7,390
2007	7,166
2008	6,552
Thereafter	99,609
	$ 135,355

Rent expense under these operating leases was $4,138, $4,890 and $6,135 for the years ended December 31, 2001, 2002 and 2003. Certain lease agreements call for escalating lease payments over the term of the lease, resulting in a deferred rent liability due to the expense being recognized on the straight-line basis over the life of the lease.

In September 2003, the Company entered into a sale/leaseback transaction with respect to two of its Michigan centers. Pursuant to the terms of this transaction, the Company sold the centers for $42,900. The Company retired $22,390 of indebtedness related to these centers. At the time of the sale, the Company simultaneously entered into a 20-year operating lease for the centers. The gain on the sale/leaseback transaction of $504 has been deferred and is being recognized as a reduction of lease expense over the term of the lease.

Litigation The Company is engaged in legal proceedings incidental to the normal course of business. Although the ultimate outcome of these matters cannot be determined, management believes that the final disposition of these proceedings will not have a material adverse effect on the consolidated financial position or results of operations of the Company.

401(k) Savings and Investment Plan The Company offers a 401(k) savings and investment plan (the 401(k) Plan) to substantially all full-time employees who have at least one year of service and 1,000 hours worked during the year and are at least 21 years of age. The Company made discretionary contributions to the 401(k) Plan in the amount of $634 and $753 for the years ended December 31, 2002 and 2003. The Company did not make a discretionary matching contribution in 2001.

Related-Party Transactions Certain of the Company s refurbishing and remodeling construction projects at its centers in Minnesota were managed by a general contractor, which is primarily owned by the president of one of the Company s wholly owned subsidiaries. The Company paid such general contractor $418 and $49 for the years ended December 31, 2001 and 2002, respectively. No such payments were made in 2003.

The Company leased one jet until June 2003 (two jets in 2001 and 2002) from an aviation company that is wholly owned by the Company s chief executive officer and the president of a wholly owned subsidiary of the Company. Each month the Company was charged the equivalent of the debt service for the exclusive use of the jets. The Company also paid an hourly fee for the periodic use of other aircraft owned by the aviation company. Beginning in July 2003, the Company paid an hourly rate for the periodic use of the one jet owned by the aviation company. The Company was charged in total $1,053, $857 and $892 for the use of this aircraft or aircrafts, as the case may be, for the years ended December 31, 2001,

LIFE TIME FITNESS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2002 and 2003. All aircraft use with the aviation company terminated at December 31, 2003. The Company purchased one jet from the aviation company for fair market value of $3,950 in January 2004.

The Company s chief executive officer was the landlord under a lease involving a center leased by the Company. Consequently, the Company made payments for monthly rent to its chief executive officer under such lease in the amounts of $349, $355 and $234 for the years ended December 31, 2001, 2002 and 2003, respectively. In August 2003, the Company s chief executive officer sold his position as landlord under the lease to an entity unrelated to the Company.

The Company leases various fitness and office equipment for use at the center in Bloomingdale, Illinois. The Company then subleases this equipment to Bloomingdale LLC. The terms of the sublease are such that Bloomingdale LLC is charged the equivalent of the debt service for the use of the equipment. The Company charged $340, $426 and $425 for the years ended December 31, 2001, 2002 and 2003.

As noted in Note 4, in May 2001, the Company completed a transaction to sell and simultaneously lease back one of its Minnesota centers. The Company did not recognize any material gain or loss on the sale of the center. The purchaser and landlord in such transaction is an entity composed of four individuals, one of whom is the president of a wholly owned subsidiary of the Company. The Company paid rent pursuant to the lease of $880 for the years ended December 31, 2001, 2002 and 2003. In connection with the sale, the Company received a note in the amount of approximately $264 which was repaid in December 2003.

In October 2003, the Company leased a center located within a shopping center that is owned by a general partnership in which the Company s chief executive officer has a 50% interest. In December 2003, the Company and the general partnership executed an addendum to this lease whereby the Company leased an additional 5,000 square feet of office space on a month-to-month basis within the shopping center. The Company paid rent pursuant to this lease of $125 for the year ended December 31, 2003.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. ***Other Expenses of Issuance and Distribution***

Expenses in connection with the issuance and distribution of the shares of common stock being registered hereunder, other than underwriting commissions and expenses, are set forth below. These expenses, other than the SEC registration fee, the NASD filing fee and the New York Stock Exchange listing fee, are estimated.

SEC registration fee	$25,340
NASD filing fee	20,500
New York Stock Exchange listing fee	*
Legal fees and expenses	*
Accounting fees and expenses	*
Blue sky qualification fees and expenses	*
Printing and engraving expenses	*
Transfer agent and registrar fees and expenses	*
Miscellaneous expenses	*
Total	$ *

* To be completed by Amendment.

Item 14. ***Indemnification of Directors and Officers***

Section 302A.521, subd. 2, of the Minnesota Statutes requires that we indemnify a person made or threatened to be made a party to a proceeding by reason of the former or present official capacity of the person with respect to the company, against judgments, penalties, fines, including, without limitation, excise taxes assessed against the person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorneys fees and disbursements, incurred by the person in connection with the proceeding with respect to the same acts or omissions if such person (i) has not been indemnified by another organization or employee benefit plan for the same judgments, penalties or fines, (ii) acted in good faith, (iii) received no improper personal benefit, and statutory procedure has been followed in the case of any conflict of interest by a director, (iv) in the case of a criminal proceeding, had no reasonable cause to believe the conduct was unlawful, and (v) in the case of acts or omissions occurring in the person s performance in the official capacity of director or, for a person not a director, in the official capacity of officer, board committee member or employee, reasonably believed that the conduct was in the best interests of the company, or, in the case of performance by a director, officer or employee of the company involving service as a director, officer, partner, trustee, employee or agent of another organization or employee benefit plan, reasonably believed that the conduct was not opposed to the best interests of the company. In addition, Section 302A.521, subd. 3, requires payment by us, upon written request, of reasonable expenses in advance of final disposition of the proceeding in certain instances. A decision as to required indemnification is made by a disinterested majority of our board of directors present at a meeting at which a disinterested quorum is present, or by a designated committee of the board, by special legal counsel, by the shareholders, or by a court.

Our articles of incorporation and by-laws provide that we shall indemnify each of our directors, officers and employees to the fullest extent permissible by Minnesota Statute, as detailed above. We also maintain a director and officer liability insurance policy.

In addition, the registration rights provisions of the stock purchase agreements we entered into with our preferred shareholders obligate us to indemnify such shareholders requesting or joining in a registration and each underwriter of the securities so registered, as well as the officers, directors and partners of such

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party, against any and all loss, damage, liability, cost and expense arising out of or based on any untrue statement, or alleged untrue statement, of any material fact contained in any registration statement, prospectus or other related document or any omission, or alleged omission, to state any material fact required to be stated or necessary to make the statements not misleading, or any violation by us of any rule or regulation promulgated under the Securities Act.

The Underwriting Agreement filed as Exhibit 1 to this Registration Statement provides for indemnification by the underwriters of us and our officers and directors for certain liabilities arising under the Securities Act, or otherwise.

Item 15. ***Recent Sales of Unregistered Securities***

Since January 1, 2001, we have issued and sold the following unregistered securities:

Option Grants and Option Exercises

Since January 1, 2001, we have granted options to purchase 1,303,500 shares of our common stock to employees, officers and consultants under our 1998 Stock Option Plan at exercise prices ranging from $8.00 to $12.00 per share. During the same period, we issued and sold 468,355 shares of our common stock pursuant to option exercises at prices ranging from $0.75 to $8.00 per share. All of these grants were made to our employees, officers, directors or consultants under written compensatory benefit plans within the limits on the amount of securities than can be issued under Rule 701. Accordingly, these grants and sales were made in reliance on Rule 701 of the Securities Act.

Preferred Stock

From July 20, 2001 to October 18, 2001, we issued an aggregate of 1,946,250 shares of our Series D Preferred Stock to 23 accredited investors at a purchase price of $10.00 per share for an aggregate consideration of $19,462,500. On July 20, 2001, we issued and sold 1,500,000 shares of our Series D Preferred Stock to 16 accredited investors for an aggregate consideration of $15,000,000. On August 24, 2001, we issued and sold 106,250 shares of our Series D Preferred Stock to two accredited investors for an aggregate consideration of $1,062,500. On October 11, 2001, we issued and sold 90,000 shares of our Series D Preferred Stock to four accredited investors for an aggregate consideration of $900,000. On October 18, 2001, we issued and sold 250,000 shares of our Series D Preferred Stock to one accredited investor for an aggregate consideration of $2,500,000. These sales were made in reliance on Rule 506 of Regulation D under the Securities Act and we filed a Form D for each transaction.

Item 16. ***Exhibits and Financial Statement Schedules***

(a) *Exhibits*

Exhibit No.	Description
1*	Form of Underwriting Agreement.
3.1	Articles of Incorporation of the Registrant, as amended to date and as currently in effect, including all Certificates of Designation.
3.2*	Form of Amended and Restated Articles of Incorporation of the Registrant to be effective upon completion of this offering.
3.3	Bylaws of the Registrant, as amended to date and as currently in effect.
3.4*	Form of Amended and Restated Bylaws of the Registrant to be effective upon completion of this offering.
4*	Specimen of common stock certificate.
5*	Opinion of Faegre & Benson LLP.
10.1	FCA, Ltd. 1996 Stock Option Plan.
10.2	LIFE TIME FITNESS, Inc. 1998 Stock Option Plan, as amended and restated.

Exhibit No.	Description
10.3	Employment Agreement dated as of January 23, 2003, by and between the Registrant and Michael Gerend.
10.4	Employment Agreement dated as of March 4, 2002, by and between the Registrant and Michael Robinson.
10.5	Second Amended and Restated Credit Agreement dated as of July 19, 2001, by and among the Registrant, as Borrower, Antares Capital Corporation, as a Lender and as Agent for all Lenders, BNP Paribas, as a Lender and as Documentation Agent, and the other financial institutions party thereto as Lenders.
10.6	First Amendment to Second Amended and Restated Credit Agreement dated as of July 12, 2002, by and among the Registrant, Antares Capital Corporation, BNP Paribas, and JP Morgan Chase Bank.
10.7	Second Amendment to Second Amended and Restated Credit Agreement dated as of August 29, 2003, by and among the Registrant, Antares Capital Corporation, JP Morgan Chase Bank, Mariner CDO 2002, Ltd., Merrill Lynch Capital, and M&I Marshall & Ilsley Bank.
10.8	Third Amendment to Second Amended and Restated Credit Agreement dated as of December 31, 2003, by and among the Registrant, Antares Capital Corporation, JP Morgan Chase Bank, Mariner CDO 2002, Ltd., Merrill Lynch Capital, and M&I Marshall & Ilsley Bank.
10.9	Amended and Restated Master Construction and Term Loan Agreement dated as of July 17, 2000, by and among FCA Real Estate Holdings, LLC, as Borrower, U.S. Bank National Association, as Agent and Administrative Bank for the Lenders, and U.S. Bank National Association, as Collateral Agent.
10.10	Amendment No. 1 to Amended and Restated Master Construction and Term Loan Agreement dated as of June 14, 2001, by and among FCA Real Estate Holdings, LLC, U.S. Bank National Association, and the Lenders party thereto.
10.11	Amendment No. 2 to Amended and Restated Master Construction and Term Loan Agreement dated as of July 19, 2001, by and among FCA Real Estate Holdings, LLC, U.S. Bank National Association, and the Lenders party thereto.
10.12	Amendment No. 3 to Amended and Restated Master Construction and Term Loan Agreement dated as of August 21, 2001, by and among FCA Real Estate Holdings, LLC, U.S. Bank National Association, and the Lenders party thereto.
10.13	Amendment No. 4 to Amended and Restated Master Construction and Term Loan Agreement dated as of February 28, 2002, by and among FCA Real Estate Holdings, LLC, U.S. Bank National Association, and the Lenders party thereto.
10.14	Amendment No. 5 to Amended and Restated Master Construction and Term Loan Agreement effective as of May 31, 2002, by and among FCA Real Estate Holdings, LLC, U.S. Bank National Association, and the Lenders party thereto.
10.15	Amendment No. 6 to Amended and Restated Master Construction and Term Loan Agreement; Amendment of Supplements for Series Loans N, O and P; and Amendment of Notes for Series Loans N, O and P, dated as of April 18, 2003, by and among FCA Real Estate Holdings, LLC, U.S. Bank National Association, and the Lenders party thereto.
10.16	Form of Promissory Note made in favor of Teachers Insurance and Annuity Association of America.
10.17	Schedule of terms to Form of Promissory Note made in favor of Teachers Insurance and Annuity Association of America.
10.18	Open-End Leasehold Mortgage, Assignment of Leases and Rents, Security Agreement and Fixtures Filing Statement made by LTF USA Real Estate, LLC for the benefit of Teachers Insurance and Annuity Association of America.
10.19	Form of Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing Statement made for the benefit of Teachers Insurance and Annuity Association of America.

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Exhibit No.	Description
10.20	Schedule of terms to Form of Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing Statement made for the benefit of Teachers Insurance and Annuity Association of America.
10.21	Form of Second Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing Statement made for the benefit of Teachers Insurance and Annuity Association of America.
10.22	Schedule of terms to Form of Second Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing Statement made for the benefit of Teachers Insurance and Annuity Association of America.
10.23	Lease Agreement dated as of September 30, 2003, by and between LT Fitness (DE) QRS 15-53, Inc., as landlord, and Life Time Fitness, Inc., as tenant.
10.24	Credit Agreement dated as of December 31, 2003, among LTFMF AZ Real Estate, LLC, as Borrower, LTFMF Real Estate Holdings, LLC, General Electric Capital Corporation, as a Lender and as Agent, and the other Lenders party thereto.
10.25	Series A Stock Purchase Agreement dated May 7, 1996, including amendments thereto.
10.26	Series B Stock Purchase Agreement dated December 8, 1998, including amendments thereto.
10.27	Series C Stock Purchase Agreement dated August 16, 2000, including amendments thereto.
10.28	Series D Stock Purchase Agreement dated July 19, 2001, including amendments thereto.
10.29	Operating Agreement of LifeTime, BSC Land, DuPage Health Services Fitness Center Bloomingdale L.L.C. dated December 1, 1999 by and between the Registrant, Bloomingdale Sports Center Land Company and Central DuPage Health.
21	Subsidiaries of the Registrant.
23.1	Consent of Deloitte & Touche LLP.
23.2*	Consent of Faegre & Benson LLP (to be included in Exhibit No. 5 to the Registration Statement).
24	Powers of Attorney.

Previously filed.

* To be filed by Amendment.

(b) *Financial Statement Schedules*

The information required by Schedule II Valuation and Qualifying Accounts is provided in Note 2 to the Consolidated Financial Statements.

Other schedules are omitted because they are not required.

Item 17. ***Undertakings***

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions summarized in Item 14 above, or otherwise, the Registrant has been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit, or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act, and will be governed by the final adjudication of such issue.

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The undersigned Registrant hereby undertakes to provide to the Underwriters, at the closing specified in the Underwriting Agreement, certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment No. 1 to Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Minneapolis, State of Minnesota, on April 23, 2004.

LIFE TIME FITNESS, INC.

By /s/ MICHAEL R. ROBINSON

Michael R. Robinson
Executive Vice President and
Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to Registration Statement has been signed on April 23, 2004 by the following persons in the capacities indicated.

Signature	Title
/s/ BAHRAM AKRADI* Bahram Akradi	Chairman of the Board of Directors, President and Chief Executive Officer (Principal Executive Officer and Director)
/s/ MICHAEL R. ROBINSON Michael R. Robinson	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ TIMOTHY C. DEVRIES* Timothy C. DeVries	Director
/s/ W. JOHN DRISCOLL* W. John Driscoll	Director
/s/ GUY C. JACKSON* Guy C. Jackson	Director
/s/ DAVID A. LANDAU* David A. Landau	Director
/s/ STEPHEN R. SEFTON* Stephen R. Sefton	Director

* Michael R. Robinson, by signing his name hereto, does hereby sign this document on behalf of each of the above-named officers and/or directors of the Registrant pursuant to powers of attorney duly executed by such persons.

By /s/ MICHAEL R. ROBINSON

Michael R. Robinson,

Attorney-in-Fact

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EXHIBIT INDEX

Exhibit No.	Description
1*	Form of Underwriting Agreement.
3.1	Articles of Incorporation of the Registrant, as amended to date and as currently in effect, including all Certificates of Designation.
3.2*	Form of Amended and Restated Articles of Incorporation of the Registrant to be effective upon completion of this offering.
3.3	Bylaws of the Registrant, as amended to date and as currently in effect.
3.4*	Form of Amended and Restated Bylaws of the Registrant to be effective upon completion of this offering.
4*	Specimen of common stock certificate.
5*	Opinion of Faegre & Benson LLP.
10.1	FCA, Ltd. 1996 Stock Option Plan.
10.2	LIFE TIME FITNESS, Inc. 1998 Stock Option Plan, as amended and restated.
10.3	Employment Agreement dated as of January 23, 2003, by and between the Registrant and Michael Gerend.
10.4	Employment Agreement dated as of March 4, 2002, by and between the Registrant and Michael Robinson.
10.5	Second Amended and Restated Credit Agreement dated as of July 19, 2001, by and among the Registrant, as Borrower, Antares Capital Corporation, as a Lender and as Agent for all Lenders, BNP Paribas, as a Lender and as Documentation Agent, and the other financial institutions party thereto as Lenders.
10.6	First Amendment to Second Amended and Restated Credit Agreement dated as of July 12, 2002, by and among the Registrant, Antares Capital Corporation, BNP Paribas, and JP Morgan Chase Bank.
10.7	Second Amendment to Second Amended and Restated Credit Agreement dated as of August 29, 2003, by and among the Registrant, Antares Capital Corporation, JP Morgan Chase Bank, Mariner CDO 2002, Ltd., Merrill Lynch Capital, and M&I Marshall & Ilsley Bank.
10.8	Third Amendment to Second Amended and Restated Credit Agreement dated as of December 31, 2003, by and among the Registrant, Antares Capital Corporation, JP Morgan Chase Bank, Mariner CDO 2002, Ltd., Merrill Lynch Capital, and M&I Marshall & Ilsley Bank.
10.9	Amended and Restated Master Construction and Term Loan Agreement dated as of July 17, 2000, by and among FCA Real Estate Holdings, LLC, as Borrower, U.S. Bank National Association, as Agent and Administrative Bank for the Lenders, and U.S. Bank National Association, as Collateral Agent.
10.10	Amendment No. 1 to Amended and Restated Master Construction and Term Loan Agreement dated as of June 14, 2001, by and among FCA Real Estate Holdings, LLC, U.S. Bank National Association, and the Lenders party thereto.
10.11	Amendment No. 2 to Amended and Restated Master Construction and Term Loan Agreement dated as of July 19, 2001, by and among FCA Real Estate Holdings, LLC, U.S. Bank National Association, and the Lenders party thereto.
10.12	Amendment No. 3 to Amended and Restated Master Construction and Term Loan Agreement dated as of August 21, 2001, by and among FCA Real Estate Holdings, LLC, U.S. Bank National Association, and the Lenders party thereto.
10.13	Amendment No. 4 to Amended and Restated Master Construction and Term Loan Agreement dated as of February 28, 2002, by and among FCA Real Estate Holdings, LLC, U.S. Bank National Association, and the Lenders party thereto.
10.14	Amendment No. 5 to Amended and Restated Master Construction and Term Loan Agreement effective as of May 31, 2002, by and among FCA Real Estate Holdings, LLC, U.S. Bank National Association, and the Lenders party thereto.

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Exhibit No.	Description
10.15	Amendment No. 6 to Amended and Restated Master Construction and Term Loan Agreement; Amendment of Supplements for Series Loans N, O and P; and Amendment of Notes for Series Loans N, O and P, dated as of April 18, 2003, by and among FCA Real Estate Holdings, LLC, U.S. Bank National Association, and the Lenders party thereto.
10.16	Form of Promissory Note made in favor of Teachers Insurance and Annuity Association of America.
10.17	Schedule of terms to Form of Promissory Note made in favor of Teachers Insurance and Annuity Association of America.
10.18	Open-End Leasehold Mortgage, Assignment of Leases and Rents, Security Agreement and Fixtures Filing Statement made by LTF USA Real Estate, LLC for the benefit of Teachers Insurance and Annuity Association of America.
10.19	Form of Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing Statement made for the benefit of Teachers Insurance and Annuity Association of America.
10.20	Schedule of terms to Form of Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing Statement made for the benefit of Teachers Insurance and Annuity Association of America.
10.21	Form of Second Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing Statement made for the benefit of Teachers Insurance and Annuity Association of America.
10.22	Schedule of terms to Form of Second Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing Statement made for the benefit of Teachers Insurance and Annuity Association of America.
10.23	Lease Agreement dated as of September 30, 2003, by and between LT Fitness (DE) QRS 15-53, Inc., as landlord, and Life Time Fitness, Inc., as tenant.
10.24	Credit Agreement dated as of December 31, 2003, among LTFMF AZ Real Estate, LLC, as Borrower, LTFMF Real Estate Holdings, LLC, General Electric Capital Corporation, as a Lender and as Agent, and the other Lenders party thereto.
10.25	Series A Stock Purchase Agreement dated May 7, 1996, including amendments thereto.
10.26	Series B Stock Purchase Agreement dated December 8, 1998, including amendments thereto.
10.27	Series C Stock Purchase Agreement dated August 16, 2000, including amendments thereto.
10.28	Series D Stock Purchase Agreement dated July 19, 2001, including amendments thereto.
10.29	Operating Agreement of LifeTime, BSC Land, DuPage Health Services Fitness Center Bloomingdale L.L.C. dated December 1, 1999 by and between the Registrant, Bloomingdale Sports Center Land Company and Central DuPage Health.
21	Subsidiaries of the Registrant.
23.1	Consent of Deloitte & Touche LLP.
23.2*	Consent of Faegre & Benson LLP (to be included in Exhibit No. 5 to the Registration Statement).
24	Powers of Attorney.

Previously filed.

* To be filed by Amendment.