

LIFE TIME FITNESS INC  
Form DEF 14A  
March 09, 2009

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Life Time Fitness, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**LIFE TIME FITNESS, INC.**

Life Time Fitness, Inc.  
2902 Corporate Place  
Chanhassen, Minnesota 55317  
(952) 947-0000

March 9, 2009

Dear Shareholder:

You are cordially invited to attend the annual meeting of shareholders to be held at the Life Time Fitness, Inc. Corporate Office, 2902 Corporate Place, Chanhassen, Minnesota 55317, commencing at 1:00 p.m., central time, on Thursday, April 23, 2009.

The Secretary's notice of annual meeting and the proxy statement that follow describe the matters to come before the meeting. During the meeting, we also will review the activities of the past year and items of general interest about our company.

We hope that you will be able to attend the meeting in person and we look forward to seeing you. Please vote your shares, as instructed in your proxy card or the Notice of Internet Availability of Proxy Materials, over the Internet or by telephone, as promptly as possible. If you received a Notice of Internet Availability, you may also request a paper proxy card, which will include a reply envelope, to submit your vote by mail, as described in the Notice of Internet Availability of Proxy Materials. Please vote as quickly as possible, even if you plan to attend the annual meeting. You may revoke the proxy and vote in person at that time if you so desire.

Sincerely,

Bahram Akradi  
*Chairman of the Board of Directors and  
Chief Executive Officer*

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## VOTING METHODS

**If your shares are registered directly in your name:** If you are a shareholder of record, you may vote your shares through the Internet, by telephone or by mail as described below. Please help us save time and postage costs by voting through the Internet or by telephone. Each method is generally available 24 hours a day and will ensure that your vote is confirmed and posted immediately. To vote:

### 1. BY TELEPHONE

- a. On a touch-tone telephone, call toll-free 1-800-560-1965, 24 hours a day, seven days a week, until 12:00 p.m. (CT) on April 22, 2009.
- b. Please have your Notice of Internet Availability of Proxy Materials or, if you have requested one, your proxy card, and the last four digits of your Social Security Number or Tax Identification Number available to verify your identity.
- c. Follow the simple instructions provided.

### 2. BY INTERNET

- a. Go to the Web site at <http://www.eproxy.com/ltm>, 24 hours a day, seven days a week, until 12:00 p.m. (CT) on April 22, 2009.
- b. Please have your Notice of Internet Availability of Proxy Materials or, if you have requested one, your proxy card, and the last four digits of your Social Security Number or Tax Identification Number available to verify your identity and create an electronic ballot.
- c. Follow the simple instructions provided.

### 3. BY MAIL

- a. Request a proxy card by following the instructions in your Notice of Internet Availability of Proxy Materials.
- b. Mark, sign and date your proxy card.
- c. Return it in the postage-paid envelope that will be provided.

**If your shares are held in a brokerage, bank or similar account:** You will receive voting instructions from the organization holding your account and you must follow those instructions to vote your shares. You will receive a Notice of Internet Availability of Proxy Material that will tell you how to access our proxy materials and vote your shares via the Internet. It also will tell you how to request a paper or e-mail copy of our proxy material.

### **Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be Held April 23, 2009.**

**The following materials, also included with this Notice, are available for view on the Internet:**

**Proxy Statement for the 2009 Annual Meeting of Shareholders**

**Annual Report on Form 10-K for the year ended December 31, 2008**

**2008 Annual Report to Shareholders**

To view the Proxy Statement, Annual Report on Form 10-K and 2008 Annual Report to Shareholders, visit <http://materials.proxyvote.com/53217R>.

**Your vote is important. Thank you for voting.**

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**LIFE TIME FITNESS, INC.**

**Notice of Annual Meeting of Shareholders  
To Be Held on April 23, 2009**

The annual meeting of shareholders of Life Time Fitness, Inc. will be held at the Life Time Fitness, Inc. Corporate Office, 2902 Corporate Place, Chanhassen, Minnesota 55317, commencing at 1:00 p.m., central time, on Thursday, April 23, 2009 for the following purposes:

1. To elect a board of directors of six directors, to serve until the next annual meeting of shareholders or until their successors have been duly elected and qualified;
2. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2009;
3. To approve the amendment to our Amended and Restated Articles of Incorporation to increase the authorized shares of common stock from 50,000,000 shares to 75,000,000 shares;
4. To approve the amendment to our Amended and Restated 2004 Long-Term Incentive Plan to increase the number of shares available for issuance under the plan from 3,500,000 to 5,250,000 shares; and
5. To transact other business that may properly be brought before the meeting.

Our board of directors has fixed February 26, 2009 as the record date for the meeting, and only shareholders of record at the close of business on that date are entitled to receive notice of and vote at the meeting.

**Your proxy is important to ensure a quorum at the meeting. Even if you own only a few shares, and whether or not you expect to be present, you are urgently requested to vote by telephone or the Internet in accordance with the voting instructions set forth on your proxy card or the Notice of Internet Availability. If you received a Notice of Internet Availability, you may also request a paper proxy card, which will include a reply envelope, to submit your vote by mail, as described in the Notice of Internet Availability of Proxy Materials. The proxy may be revoked by you at any time prior to being exercised, and voting your proxy by telephone or through the Internet or returning your proxy will not affect your right to vote in person if you attend the meeting and revoke the proxy.**

By Order of the Board of Directors,

Eric J. Buss  
*Secretary*

Chanhassen, Minnesota  
March 9, 2009

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## **PROXY STATEMENT**

### **GENERAL INFORMATION**

Your proxy is being solicited by our board of directors for use in connection with the annual meeting of shareholders to be held on Thursday, April 23, 2009 at the Life Time Fitness, Inc. Corporate Office, 2902 Corporate Place, Chanhassen, Minnesota 55317, commencing at 1:00 p.m., central time, and at any adjournments thereof. Our telephone number is (952) 947-0000. The mailing of the Notice of Internet Availability of Proxy Materials to shareholders will commence on or about March 9, 2009.

#### **Notice of Internet Availability of Proxy Materials**

Under rules of the Securities and Exchange Commission, we are furnishing proxy materials to certain of our shareholders on the Internet, rather than mailing printed copies to our shareholders. If you received a Notice of Internet Availability of Proxy Materials by mail, you will not receive a printed copy of the proxy materials unless you request one as instructed in that notice. Instead, the Notice of Internet Availability of Proxy Materials will instruct you as to how you may access and review the proxy materials on the Internet. If you received a Notice of Internet Availability of Proxy Materials by mail and would like to receive a printed copy of our proxy materials, please follow the instructions included in the Notice of Internet Availability of Proxy Materials.

#### **Record Date**

Only shareholders of record at the close of business on February 26, 2009 will be entitled to vote at the annual meeting or adjournment. At the close of business on the record date, we had 39,612,775 shares of our common stock outstanding, each entitled to one vote.

#### **Voting of Proxies**

Proxies voted by telephone, Internet or mail in accordance with the voting instructions set forth in your proxy card or Notice of Internet Availability of Proxy Materials, and not revoked, will be voted in the manner specified. A shareholder executing a proxy retains the right to revoke it at any time before it is exercised by notice in writing to one of our officers of termination of the proxy's authority or a properly signed and duly returned proxy bearing a later date.

#### **Shareholder Proposals**

As stated in last year's proxy statement dated March 6, 2008, shareholder proposals to be presented at this year's annual meeting of shareholders were due at our principal executive office by November 6, 2008. No such proposals were received. We must receive shareholder proposals intended to be presented at the annual meeting of shareholders in the year 2010 that are requested to be included in the proxy statement for that meeting at our principal executive office no later than November 9, 2009. We must receive any other shareholder proposals intended to be presented at the annual meeting of shareholders in the year 2010 at our principal executive office no later than January 23, 2010.

#### **Quorum**

The presence at the meeting, in person or by proxy, of the holders of a majority of the shares of common stock outstanding on the record date will constitute a quorum for the transaction of business at the meeting. Abstentions and

broker non-votes will be counted as present for purposes of determining the existence of a quorum.

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## **Vote Required**

*Election of Directors.* The affirmative vote of a plurality of the shares of common stock present in person or by proxy at the meeting and entitled to vote is required for the election to the board of directors of each of the nominees for director. Shareholders do not have the right to cumulate their votes in the election of directors.

*Other Proposals.* The affirmative vote of the holders of the greater of (1) a majority of the shares of common stock present in person or by proxy at the meeting and entitled to vote and (2) a majority of the minimum number of shares entitled to vote that would constitute a quorum for the transaction of business at the meeting is required for approval of each other proposal presented in this proxy statement. A shareholder who abstains with respect to a proposal will have the effect of casting a negative vote on that proposal. Generally, a shareholder who does not vote in person or by proxy on a proposal (including a broker non-vote) is not deemed to be present in person or by proxy for the purpose of determining whether a proposal has been approved. In addition, the total shares cast on the proposal to approve the amendment to our Amended and Restated 2004 Long-Term Incentive Plan must exceed fifty percent of all shares entitled to vote. Accordingly, a broker non-vote on this proposal will have the effect of casting a negative vote on the proposal. Brokers cannot vote on their customers' behalf on non-routine proposals such as the approval of the amendment to our Amended and Restated Articles of Incorporation and the approval of the amendment to our Amended and Restated 2004 Long-Term Incentive Plan. Because brokers may not vote unvoted shares on behalf of their customers for such non-routine matters, it is critical that shareholders vote their shares.

## **Adjournment of Meeting**

If a quorum is not present to transact business at the meeting or if we do not receive sufficient votes in favor of the proposals by the date of the meeting, the persons named as proxies may propose one or more adjournments of the meeting to permit solicitation of proxies. Any adjournment would require the affirmative vote of a majority of the shares present in person or represented by proxy at the meeting.

## **Expenses of Soliciting Proxies**

We will pay the cost of soliciting proxies for the annual meeting. We have retained Morrow & Co., LLC, to act as a proxy solicitor for a fee estimated to be \$7,000, plus reimbursement of out-of-pocket expenses. In addition, certain of our directors, officers and regular employees may solicit proxies by telephone or personal interview. We may request brokerage firms and custodians, nominees and other record holders to forward soliciting materials to the beneficial owners of our stock and will reimburse them for their reasonable out-of-pocket expenses in forwarding these materials.

## **PROPOSAL NO. 1 ELECTION OF DIRECTORS**

### **Composition of our Board of Directors**

Our bylaws provide that our business will be managed by or under the direction of a board of directors. The number of directors constituting our board of directors is determined from time to time by our board of directors and currently consists of seven members. Each director will be elected at the annual meeting to hold office until the next annual shareholders meeting or the director's resignation or removal. Our governance and nominating committee has nominated the six persons named below for election as directors. Proxies solicited by our board of directors will, unless otherwise directed, be voted to elect the six nominees named below to constitute the entire board of directors.

### **Directors and Director Nominees**

All of the nominees named below are current directors of our company. Each nominee has indicated a willingness to serve as a director for the ensuing year, but in case any nominee is not a candidate at the

meeting for any reason, the proxies named in the enclosed proxy form may vote for a substitute nominee selected by the governance and nominating committee.

The following table sets forth certain information regarding each director nominee:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Bahram Akradi	47	Chairman of the Board of Directors and Chief Executive Officer
Giles H. Bateman	64	Director
Guy C. Jackson	66	Director
Martha A. Morfitt	51	Director
John B. Richards	60	Director
Joseph S. Vassalluzzo	61	Director

*Bahram Akradi* founded our company in 1992 and has been a director since our inception. Mr. Akradi was elected Chief Executive Officer and Chairman of the Board of Directors in May 1996. Mr. Akradi also served as the President of our company from 1992 until December 2007. Mr. Akradi has over 25 years of experience in healthy way of life initiatives. From 1984 to 1989, he led U.S. Swim & Fitness Corporation as its co-founder and Executive Vice President. Mr. Akradi was a founder of the health and fitness Industry Leadership Council.

*Giles H. Bateman* was elected a director of our company in March 2006. Mr. Bateman was one of four co-founders of Price Club in 1976 and served as Chief Financial Officer and Vice Chairman there until 1991. Mr. Bateman served as non-executive chairman of CompUSA Inc., a publicly traded retailer of computer hardware, software, accessories and related products, from 1993 until he retired in 2000. Mr. Bateman serves as a director, and the chair of the audit committees of WD-40 Company and United Pan Am Financial Corporation. He also serves as a director of three private companies.

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

*Martha (Marti) A. Morfitt* was elected as a director of our company in August 2008. Ms. Morfitt is a principal of River Rock Partners, Inc., a business and cultural transformation consulting firm. She assumed this position in 2008. Ms. Morfitt is the former President and Chief Executive Officer of CNS, Inc., a manufacturer and marketer of consumer healthcare products, including the Breathe Right® nasal strip and FiberChoice® daily fiber supplements. She held this position from 2001 through March 2007. From 1998 to 2001, she was Chief Operating Officer of CNS, Inc. Ms. Morfitt left her position at CNS, Inc. effective March 2007 as a result of the acquisition of CNS, Inc. by GlaxoSmithKline plc in December 2006. Ms. Morfitt is also a director of Graco, Inc., lululemon athletica inc. and Solta Medical, Inc.

*John B. Richards* was elected a director of our company in October 2006. Mr. Richards is a Managing Partner and Principal in the New England Consulting Group, a firm specializing in creative marketing and growth strategies for a wide range of branded consumer businesses. Previously, he served as the president and chief executive officer of Elizabeth Arden Red Door Spa Holdings from October 2001 until May 2006. Elizabeth Arden Red Door Spa Holdings is a developer and operator of prestige day and resort spas that operate under the Red Door Spas Elizabeth

Arden and Mario Tricoli brand names. Mr. Richards has also held senior leadership and management positions at Four Seasons Hotels Inc., Starbucks Coffee Company, Royal Viking Line, McKinsey & Company and The Procter & Gamble Company.

*Joseph S. Vassalluzzo* was elected a director of our company in October 2006 and our lead director in October 2008. Mr. Vassalluzzo has been an independent advisor to retail organizations, with a primary emphasis on real estate, since August 2005. From 1989 until August 2005, Mr. Vassalluzzo held executive and

senior leadership positions with Staples, Inc., an office products retailer. Previously, Mr. Vassalluzzo held management, sales, operations and real estate positions with Mobile Corp., Amerada Hess Corp. and American Stores Company. Mr. Vassalluzzo is the Non-Executive Chairman of the Board of Trustees of Federal Realty Investment Trust, a publicly held real estate investment trust. He also is a director of iParty Corporation.

None of the above nominees is related to each other or to any of our executive officers.

### **Board of Directors Meetings and Attendance**

Our board of directors held nine meetings during fiscal year 2008. During fiscal year 2008, each director attended at least 75% of the aggregate number of the meetings of our board of directors and of the board committees on which she/he serves, except that James F. Halpin, who resigned from the board on August 6, 2008, attended 60% of meetings of our board and meetings of the board committees on which he served that were held prior to the date on which he resigned.

### **Director Independence**

Our board of directors reviews at least annually the independence of each director. During these reviews, our board of directors considers transactions and relationships between each director (and his immediate family and affiliates) and our company and its management to determine whether any such transactions or relationships are inconsistent with a determination that the director was independent. In February 2009, our board of directors conducted its annual review of director independence and determined that no transactions or relationships existed that would disqualify any of our directors under New York Stock Exchange rules or require disclosure under Securities and Exchange Commission rules, with the exception of Mr. Akradi, who is also our Chief Executive Officer. Based on a review of information provided by the directors and other information we reviewed, our board of directors concluded that none of our non-employee directors have any relationship with our company other than as a director or shareholder of our company. Based upon that finding, our board of directors determined that Messrs. Bateman, Jackson, Richards and Vassalluzzo, and Ms. Morfitt are independent.

Mr. Vassalluzzo, our lead director, chairs the executive sessions of the non-management members of our board of directors. During 2008, our board of directors held an executive session of the non-management members of our board of directors after four of the nine meetings.

Interested parties may communicate directly with Mr. Vassalluzzo, the independent director who chairs the executive sessions individually, or the non-management members of our board of directors as a group, by mail addressed to the attention of Mr. Vassalluzzo as executive session chair or the non-management members of our board of directors as a group c/o General Counsel, Life Time Fitness, Inc., 2902 Corporate Place, Chanhassen, MN 55317. Our General Counsel will review all communications and then forward them to the appropriate director or directors on a periodic basis. The board of directors has instructed our General Counsel to review such correspondence and, with discretion, not to forward items that he deems to be of a commercial or frivolous nature, or otherwise inappropriate for the board's consideration.

### **Committees of Our Board of Directors**

Our board of directors has an audit committee, a compensation committee, a governance and nominating committee and a finance committee. The charters for our audit committee, compensation committee, governance and nominating committee and finance committee are available on the Corporate Governance section of the Investor Relations page on our Web site at [lifetimefitness.com](http://lifetimefitness.com).

*Audit Committee.*

Our audit committee consists of Messrs. Jackson (Chair) and Bateman and Ms. Morfitt. The functions of the audit committee include oversight of the integrity of our consolidated financial statements, our internal controls, our compliance with legal and regulatory requirements and the performance, qualifications and independence of our independent auditors. Our audit committee is directly responsible (subject to shareholder

ratification) for the appointment of any independent auditor engaged for the purpose of preparing or issuing an audit report or related work. Our audit committee is also responsible for the retention, compensation, evaluation, termination and oversight of our independent auditors. The purpose and responsibilities of our audit committee are set forth in the Audit Committee Charter approved by our board of directors and most recently amended on December 11, 2008. Our audit committee held eight meetings in fiscal year 2008.

Our board of directors has determined that all members of our audit committee are independent, as defined in Section 10A of the Securities Exchange Act of 1934 and pursuant to the rules of the New York Stock Exchange, and that each member of our audit committee also qualifies as an audit committee financial expert, as defined by applicable regulations of the SEC. Our board of directors has also determined that Mr. Jackson's service on the audit committees of four other public companies does not impair his ability to effectively serve on our audit committee.

#### ***Compensation Committee.***

For the fiscal year ended December 31, 2008, our compensation committee consisted of Messrs. Vassalluzzo (Chair), Bateman and Richards. The functions of the compensation committee include reviewing and approving the goals and objectives relevant to compensation of our Chief Executive Officer, evaluating the Chief Executive Officer's performance in light of those goals and objectives and determining and approving the Chief Executive Officer's compensation level based on this evaluation. Our compensation committee also approves and makes recommendations to our board with respect to compensation of other executive officers, incentive-compensation plans and equity-based plans. Our compensation committee also makes recommendations to the board with respect to changes in director compensation, if any. The purpose and responsibilities of our compensation committee are set forth in the Compensation Committee Charter approved by our board of directors and most recently amended on December 13, 2006. Our compensation committee held seven meetings in fiscal year 2008.

#### ***Governance and Nominating Committee.***

For the fiscal year ended December 31, 2008, our governance and nominating committee consisted of Messrs. Richards (Chair) and Jackson and Ms. Morfitt. The functions of the governance and nominating committee include identifying individuals qualified to become members of our board and overseeing our corporate governance principles. Our governance and nominating committee also performs the evaluation of the Chief Executive Officer and reviews his process for the evaluation of the members of the senior management team. The purpose and responsibilities of our governance and nominating committee are set forth in the Governance and Nominating Committee Charter approved by our board of directors and most recently amended on December 11, 2008. Our governance and nominating committee held three meetings in fiscal year 2008.

#### ***Finance Committee.***

Our finance committee consists of Messrs. Bateman (Chair), Akradi and Vassalluzzo. The functions of the finance committee include reviewing and providing guidance to our board of directors and our company's management about all major financial policies of our company, including capital structure, investor relations, capital planning and modeling of our company's long-term plans, annual budgets, treasury management, and insurance and risk management, unless otherwise reviewed by our board of directors or audit committee. In addition, the finance committee reviews and approves proposed investments in excess of \$5 million, including all sites for center development, ventures, mergers, acquisitions and divestitures, as well as any borrowings and indebtedness of our company or guarantees of indebtedness by our company in excess of \$5 million. The purpose and responsibilities of our finance committee are set forth in the Finance Committee Charter approved by our board of directors and most recently amended on December 11, 2008. Our finance committee held eleven meetings in fiscal year 2008.





## **Corporate Governance Guidelines**

In December 2004, our board of directors adopted Corporate Governance Guidelines. These guidelines were most recently amended and approved by the board on December 11, 2008. The guidelines are available on the Corporate Governance section of the Investor Relations page on our Web site at *lifetimefitness.com*.

## **Code of Business Conduct and Ethics**

We have adopted the Life Time Fitness, Inc. Code of Business Conduct and Ethics, which applies to all of our employees, directors, agents, consultants and other representatives. The Code of Business Conduct and Ethics includes particular provisions applicable to our senior financial management, which includes our chief executive officer, chief financial officer, controller and other employees performing similar functions. A copy of our Code of Business Conduct and Ethics is available on the Corporate Governance section of the Investor Relations page on our Web site at *lifetimefitness.com*. We intend to post on our Web site any amendment to, or waiver from, a provision of our Code of Business Conduct and Ethics that applies to any director or officer, including our principal executive officer, principal financial officer, principal accounting officer, controller and other persons performing similar functions, promptly following the date of such amendment or waiver.

## **Corporate Governance Documents Available on Our Web site**

Copies of our key corporate governance documents are available on the Investor Relations page of our Web site at *lifetimefitness.com*. The charters for our audit committee, compensation committee, governance and nominating committee and finance committee, as well as copies of our Corporate Governance Guidelines and our Code of Business Conduct and Ethics, are available on our Web site. In addition, any shareholder that wishes to obtain a hard copy of any of these corporate governance documents may do so without charge by writing to Investor Relations, Life Time Fitness, Inc., 2902 Corporate Place, Chanhassen, MN 55317.

## **Director Qualifications**

Candidates for director nominees are reviewed in the context of the current composition of our board of directors, our operating requirements and the long-term interests of our shareholders. The governance and nominating committee will consider, at a minimum, the following factors in recommending to our board of directors potential new members, or the continued service of existing members, in addition to other factors it deems appropriate based on the current needs and desires of our board of directors:

demonstrated character and integrity; an inquiring mind; experience at a strategy/policy setting level; sufficient time to devote to our affairs; high-level managerial experience; and financial literacy;

whether the member/potential member is subject to a disqualifying factor, such as, relationships with our competitors, customers, suppliers, contractors, counselors or consultants, or recent previous employment with us;

the member s/potential member s independence and ability to serve on our committees;

whether the member/potential member assists in achieving a mix of members that represents a diversity of background and experience;

whether the member/potential member, by virtue of particular experience, technical expertise or specialized skills, will add specific value as a member;

any factors related to the ability and willingness of a new member to serve, or an existing member to continue his/her service;

experience in one or more fields of business, professional, governmental, communal, scientific or educational endeavor; and

whether the member/potential member has a general appreciation regarding major issues facing publicly traded companies of a size and scope similar to us.

## **Director Nomination Process**

Our governance and nominating committee selects nominees for directors pursuant to the following process:

the identification of director candidates by our governance and nominating committee based upon suggestions from current directors and senior management, recommendations by shareholders and/or use of a director search firm;

a review of the candidates' qualifications by our governance and nominating committee to determine which candidates best meet our board of directors' required and desired criteria;

interviews of interested candidates among those who best meet these criteria by the chair of the governance and nominating committee, the chair of our board of directors and certain other directors;

a report to our board of directors by our governance and nominating committee on the selection process; and

formal nomination by our governance and nominating committee for inclusion as a director nominee at the annual meeting of shareholders or appointment by our board of directors to fill a vacancy during the intervals between shareholder meetings.

Our governance and nominating committee will reassess the qualifications of a director, including the director's past contributions to our board of directors and the director's attendance and contributions at board of directors and board committee meetings, prior to recommending a director for reelection to another term.

In August 2008, our board of directors, upon recommendation of our governance and nominating committee, elected Ms. Morfitt to serve on our board of directors after the above-described process was completed. Ms. Morfitt was identified as a candidate by a non-employee director and an executive officer of our company, other than our chief executive officer.

Shareholders who wish to recommend individuals for consideration by our governance and nominating committee to become nominees for election to our board of directors may do so by submitting a written recommendation to our governance and nominating committee, c/o General Counsel, 2902 Corporate Place, Chanhassen, MN 55317. Submissions must include a written recommendation and the reason for the recommendation, biographical information concerning the recommended individual, including age, a description of the recommended individual's past five years of employment history and any past and current board memberships. The submission must be accompanied by a written consent of the individual to stand for election if nominated by our governance and nominating committee and to serve if elected by our board of directors or our shareholders, as applicable. Alternatively, shareholders may directly nominate a person for election to our board of directors by complying with the procedures set forth in our bylaws, any applicable rules and regulations of the Securities and Exchange Commission and any applicable laws.

## **Compensation Committee Interlocks and Insider Participation**

During 2008, Messrs. Bateman, Halpin and Vassalluzzo, and James F. Halpin, a former director, served as the members of our compensation committee. No executive officer serves, or in the past has served, as a member of the board of directors or compensation committee of any entity that has any of its executive officers serving as a member of our board of directors or compensation committee.

**Attendance at Annual Meeting**

Our board of directors encourages each of its members to attend all annual meetings of shareholders that occur during a member's service on our board of directors. Two members of our board of directors attended our 2008 annual meeting of shareholders.

### Communication with our Board of Directors

All interested parties, including our shareholders, may contact our board of directors by mail addressed to the attention of our board of directors, all independent directors or a specific director identified by name or title c/o General Counsel, Life Time Fitness, Inc., 2902 Corporate Place, Chanhassen, MN 55317. Our General Counsel will review all communications and then forward them to the appropriate director or directors on a periodic basis. The board of directors has instructed our General Counsel to review such correspondence and, with discretion, not to forward items that he deems to be of a commercial or frivolous nature or otherwise inappropriate for the board's consideration.

**Our board of directors recommends that the shareholders vote for the election of each of the six nominees listed above to constitute our board of directors.**

### PROPOSAL NO. 2 RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The firm of Deloitte & Touche LLP and its affiliates ( Deloitte & Touche ) has been our independent registered public accounting firm since 2002. Our audit committee has selected Deloitte & Touche to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2009, subject to ratification by our shareholders. While it is not required to do so, our audit committee is submitting the selection of that firm for ratification in order to ascertain the view of our shareholders. If the selection is not ratified, our audit committee will reconsider its selection. Proxies solicited by our board of directors will, unless otherwise directed, be voted to ratify the appointment of Deloitte & Touche as our independent registered public accounting firm for the fiscal year ending December 31, 2009.

A representative of Deloitte & Touche will be present at the meeting and will be afforded an opportunity to make a statement if the representative so desires and will be available to respond to appropriate questions during the meeting.

#### Fees

The following table presents the aggregate fees for professional services provided by Deloitte & Touche in fiscal year 2008 and 2007:

Description of Fees	Fiscal Year 2008 Amount	Fiscal Year 2007 Amount
Audit Fees	\$ 742,016	\$ 700,400
Audit-Related Fees	62,647	129,510
Total Audit and Audit-Related Fees	804,663	829,910
Tax Fees	284,494	157,500
Total	\$ 1,089,157	\$ 987,410

#### *Audit Fees.*

The audit fees set forth above consist of fees for audit services in connection with Deloitte & Touche's review of our interim consolidated financial statements for the first three quarters of each fiscal year. The audit fees also include fees

for the audit of our annual consolidated financial statements and our internal control over financial reporting.

***Audit-Related Fees.***

The audit-related fees set forth above consist of fees for the audits of our employee benefit plan as well as fees related to accounting consultations and certain agreed-upon procedures. The audit-related fees for 2007 included fees incurred for the filing of a registration statement in connection with a public offering of common stock in August 2007.

***Tax Fees.***

The tax fees set forth above consist of fees for the preparation of original and amended tax returns, tax planning and analysis services and assistance with tax audits. Of the fees set forth above, Deloitte & Touche billed \$184,500 and \$123,000 for tax preparation and compliance services and \$99,994 and \$34,500 for other tax-related items during 2008 and 2007, respectively.

**Approval of Independent Registered Public Accounting Firm Services and Fees**

The Audit Committee Charter requires that our audit committee approve the retention of our independent registered public accounting firm for any non-audit service and consider whether the provision of these non-audit services by our independent registered public accounting firm is compatible with maintaining our independent registered public accounting firm's independence, prior to engagement for these services. Our audit committee also actively monitors the relationship between fees for audit and audit-related services and fees for other non-audit services. All of the services listed under the heading Tax Fees were pre-approved by our audit committee. Our audit committee has delegated to the chair the authority to pre-approve additional services by our independent registered public accounting firm of up to \$50,000, in the aggregate, without prior approval of the audit committee.

**Our board of directors recommends that the shareholders vote for the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2009.**

**AUDIT COMMITTEE REPORT**

The role of our audit committee, which is composed of three independent non-employee directors, includes oversight of the integrity of our company's consolidated financial statements, our internal controls, our company's compliance with legal and regulatory requirements and the performance, qualifications and independence of our independent auditors. In performing our oversight function, we rely upon advice and information received in our discussions with management and the independent registered public accounting firm.

We have (a) reviewed and discussed our company's audited consolidated financial statements for the fiscal year ended December 31, 2008 with management; (b) discussed with Deloitte & Touche, our company's independent registered public accounting firm, the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (PCAOB Interim Auditing Standard AU Section 380, *Communication with Audit Committees*), regarding communication with audit committees; and (c) received the written disclosures and the letter from Deloitte & Touche required by applicable requirements of the Public Company Accounting Oversight Board regarding Deloitte & Touche's communications with the audit committee concerning their independence, and discussed with Deloitte & Touche their independence.

Based on the review and discussions with management and our company's independent registered public accounting firm referred to above, we recommended to our company's board of directors that our audited consolidated financial statements be included in our company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 for filing with the Securities and Exchange Commission.

Audit Committee:

*Guy C. Jackson, Chair*  
*Giles H. Bateman*  
*Martha A. Morfitt*





## **EXECUTIVE COMPENSATION**

### **Compensation Discussion and Analysis**

#### **Overview**

We operate distinctive and large, multi-use sports and athletic, professional fitness, family recreation and spa centers in a resort-like environment. We participate in the large and growing U.S. health and wellness industry, which we define to include health and fitness centers, fitness equipment, athletics, physical therapy, wellness education, nutritional products, athletic apparel, spa services and other wellness-related activities. For compensation purposes, we currently compare our company against the hotel, restaurant and leisure global industry as well as the larger consumer services global industry.

Our compensation committee, which is composed of three independent, non-employee directors, discharges our board of directors' responsibilities with respect to all forms of compensation of our company's executive officers and oversight of our company's compensation plans. The purpose of this discussion and analysis is to summarize the philosophical principles, compensation decision-making process, specific program elements and other factors we considered in making decisions about executive compensation during fiscal year 2008.

Our compensation committee has the authority to retain outside counsel, experts and other advisors as it determines appropriate to assist it in the performance of its functions.

#### **Compensation Philosophy**

We believe that the quality, ability and commitment of our executive officers are significant factors contributing to the proper leadership of our company and driving shareholder value for our company. Our executive compensation goals are to:

attract, retain and motivate qualified talent;

motivate executives to improve the overall performance of our company and reward executives when our company achieves specific measurable results;

encourage accountability by determining salaries and incentive awards based on the company's collective performance and contribution;

ensure compensation levels are externally competitive and create internal pay equity among executives; and

align our executives' long-term interests with those of our shareholders.

#### **Compensation Determination Process**

Our company uses a variety of compensation elements to achieve our compensation philosophy, including primarily base salary, annual bonuses and long-term incentive equity awards. Our compensation committee does not use a specific formula to set compensation elements under each component, but instead attempts to achieve the appropriate balance between short-term cash compensation and long-term equity compensation and to reflect the level of responsibility of the executive officer. The factors our compensation committee considers when determining each

compensation element and when considering a material increase or decrease in a compensation element include, but are not limited to, the following:

the executive's current total compensation and the appropriate portion of the total compensation that should be performance-based;

the executive's performance as it impacts the overall performance of our company;

validation that compensation levels are externally competitive and create internal pay equity among executives that have similar levels of overall contribution to our company;

the qualifications of the executive and his potential for development and performance in the future;

whether the total compensation is generally equivalent to the executive pay level for comparable jobs at similar companies and the financial performance of those companies relative to ours;

the application of our philosophy of retention and motivation, accountability and alignment with shareholder interests;

the strategic goals and responsibilities for which the executive has responsibility; and

the recommendations of the Chief Executive Officer (except with respect to his own compensation).

Annually, our compensation committee reviews the executive compensation program in connection with our company's merit review and compensation plan process, which typically concludes on or about March 1 for a fiscal year. In general, our compensation committee begins this review process by determining the total cash compensation to be paid to an executive based on a review of the executive pay level for comparable jobs at similar companies, as described below, and the financial performance of those companies relative to ours, in addition to considering the other factors listed above. After the total cash compensation has been determined, our compensation committee allocates a portion of that amount to performance-based compensation to reflect the committee's belief that a certain portion of total compensation should be incentive compensation. The difference between the total cash compensation and potential annual bonus portion, or the performance-based cash portion, of total cash compensation is the executive's base salary, which is also established by considering the other factors listed above. Our compensation committee then uses total cash compensation as a basis to establish long-term incentive equity awards, as well as the long-term incentive equity awards being granted by similar companies, while also considering the other factors listed above.

Our compensation committee engaged the services of Pearl Meyer & Partners in late 2006 and instructed them to provide a competitive assessment of our total cash compensation and long-term incentive elements and review our company's long-term incentive compensation element in order to assist in the development of a forward-looking strategy. As part of this study, Pearl Meyer & Partners compared our base salary, annual bonuses and long-term incentive award elements primarily against two updated peer groups. The first peer group was composed of 13 publicly traded companies within the hotels, restaurant and leisure global industry classification that each had similar size, revenues and market capitalization as compared to our company. The companies selected to be a part of this peer group were Bally Total Fitness Holding Corporation, CEC Entertainment Inc., Cedar Fair, L.P., Chipotle Mexican Grill, Inc., Dine Equity, Inc., International Speedway Corporation, Panera Bread Company, Pinnacle Entertainment, Inc., Sonic Corporation, Speedway Motorsports, Inc., Texas Roadhouse, Inc., Town Sports International Holdings, Inc. and Vail Resorts, Inc. The second peer group was composed of 11 publicly traded companies from the consumer services global industry classification, each with similar size or market capitalization to revenue ratios as compared to our company. The companies selected to be a part of this peer group were Bally Total Fitness Holding Corporation, Cedar Fair, L.P., International Speedway Corporation, ITT Educational Services, Inc., Jackson Hewitt Tax Service, Inc., Panera Bread Company, Pinnacle Entertainment, Inc., Sotheby's, Speedway Motorsports, Inc., Town Sports International Holdings, Inc. and Vail Resorts Inc. Our compensation committee considered this information, in addition to the factors described above, when determining the long-term incentives payable to our executives in fiscal 2006.

In connection with the compensation applicable to our 2007 fiscal year for executives, our compensation committee reviewed the base salary, annual bonuses and long-term incentive equity award elements and levels for our executives. Our compensation committee compared the general level of our company's executive base salary, annual bonus and

long-term incentive equity award compensation elements against the group of other publicly held companies, previously identified in 2006 by Pearl Meyer & Partners and listed above, that were generally similar to ours in growth-rate, market capitalization and financial performance. Our compensation committee considered this information in addition to the other factors described above when determining the base salary, annual bonus and long-term incentive equity award levels to be paid to our executives for fiscal 2007.

In connection with the compensation applicable to our 2008 fiscal year for executives, our compensation committee reviewed the base salary, annual bonuses and long-term incentive equity award elements and levels for our executives. Mr. Akradi requested that his total compensation be paid in the form of restricted stock as an expression of his confidence in the value of our company. Mr. Akradi also recommended that the 2008 cash compensation packages for each of the other members of the executive team remain unchanged from the previous year, as a result of the decline of our stock price in late 2007 and early 2008. Our compensation committee engaged Pearl Meyer & Partners to assess the competitiveness of our executive compensation programs and to consider the merits of an all equity compensation program for Mr. Akradi in 2008. As part of this study, Pearl Meyer & Partners compared our base salary, annual bonuses and long-term incentive award elements primarily against the peer groups that they had previously created, with the exception that Bally Total Fitness was removed from both peer groups. Pearl Meyer & Partners described several positive attributes of an all equity pay program for Mr. Akradi in 2008, including the message to the market, the deferral of expenses over the vesting period and the use of a performance-vesting feature for a portion of the award, and provided various scenarios for our compensation committee to consider. Our compensation committee considered this information in addition to the other factors described above when determining the compensation package to offer Mr. Akradi as well as the base salary, annual bonus and long-term incentive equity award levels to be paid to our executives other than Mr. Akradi for fiscal 2008.

For fiscal 2009, our compensation committee engaged the services of Mercer to assess our total cash compensation and long-term incentive elements. In light of the current challenging economic times, our company has determined that it will not, for the most part, increase the compensation packages offered to our employees. In the spirit of maintaining internal pay consistency across all employees, Mr. Akradi informed our compensation committee that the members of the executive management team requested that their total compensation plans not be increased from 2008 levels. Mercer provided an analysis of the base salary, total cash compensation and long-term incentive equity awards of the highest paid executives of our peer group companies identified above for the purpose of providing an assessment to our compensation committee of a compensation package to offer Mr. Akradi. Our compensation committee considered this information in addition to other factors described above when it elected to offer a cash compensation package for Mr. Akradi for our 2009 fiscal year, which consisted of a \$750,000 base salary and a \$750,000 target annual bonus. Mr. Akradi's compensation was approved in January 2009 since he had not been receiving cash compensation from us for over a year. Any long-term incentive equity award for Mr. Akradi in 2009 will be considered at the time the compensation plans are finalized for our other executives, in mid-March.

*Management Participation.* Members of executive management participate in our compensation committee's meetings at the committee's request. Management's role is to contribute input and analysis to the committee's discussions. Management does not participate in the final determination or recommendation of the amount or form of executive compensation, except that our Chief Executive Officer does participate in the final recommendation, but not determination, of the amount and form of compensation to be paid to all other members of executive management. Our Executive Vice President and General Counsel, who oversees our compensation and human resources department, provides information to the compensation consultants engaged by the committee and assists in the design of our compensation programs.

*Use of Consultants.* From time to time and as noted above, our compensation committee uses outside compensation consultants to assist it in analyzing our company's compensation programs and determining appropriate levels of compensation and benefits. The decision to retain consultants and, if so, which consultants to retain, is made solely by our compensation committee.

### **Executive Compensation Elements**

Our company's executive compensation package ordinarily consists of base salaries, annual bonuses, long-term incentive awards, other compensation, a deferred compensation plan and severance, and change in control benefits.



### **Base Salary**

*Purpose.* Our base salaries are designed to provide regular recurring compensation for the fulfillment of the regular duties and responsibilities associated with job roles. We also use base salaries as an important part of attracting and retaining talented executives.

*Structure; Determination Process; Factors Considered.* Our compensation committee generally establishes base salaries for executives after first determining the executive's total cash compensation amount and the portion of the total cash compensation amount that will be an annual bonus opportunity, with the difference being the executive's base salary. Our compensation committee then may adjust the executive's base salary based on a consideration of the factors outlined under "Compensation Determination Process" in making its decisions. Our compensation committee reviews base salaries annually.

*2008 Results.* For fiscal year 2008, our compensation committee determined that Mr. Akradi's total compensation would be paid in the form of restricted stock, as he requested.

For fiscal year 2008, our compensation committee determined that the base salaries for Mr. Gerend, our President and Chief Operating Officer, Mr. Robinson, our Chief Financial Officer, Mr. Buss, our Executive Vice President and General Counsel, and Mr. Zaebst, our Executive Vice President should remain unchanged from the base salaries that were provided to each of these executives in 2007.

Our compensation committee considered Mr. Akradi's recommendation that base salaries remain unchanged for these members of the executive team as a result of the decline in the price of our stock in late 2007 and early 2008.

### **Annual Bonuses**

*Purpose.* All executive officers, as well as certain other senior and management-level employees, ordinarily participate in our annual bonus program. We believe that this program provides an incentive to the participants to deliver upon the financial performance goals of our company. The financial performance goals are derived from our annual financial budget and our site business plans and based on our actual performance during the current fiscal year.

*Structure.* Our compensation committee generally establishes annual bonus opportunities for executives after first determining the executive's total cash compensation amount and then determining the proportion of the total cash compensation amount that will be an annual bonus opportunity. Our compensation committee feels that individual executive performances should not be highlighted in the area of annual bonuses given the executive team's focus on collaborative decision making and its intent to use this compensation element to link the interests of executives with our company's bottom line. Our compensation committee reviews the program annually, however, and may adjust the executive's annual bonus opportunity based on a consideration of the factors outlined under "Compensation Determination Process" in making its decisions.

Under our annual bonus program, we provide for the payment of cash bonuses to each participant, on a monthly basis throughout the year, based upon our year-to-date performance in relation to predetermined year-to-date financial objectives. In addition, we provide for the payment of an additional cash bonus to our executives annually based upon our annual performance in relation to certain other predetermined annual financial objectives. We may withhold payout on the monthly portion of the year-to-date bonus component to offset a negative variance in the annual bonus component. Our compensation committee approves the financial objectives that are utilized for purposes of determining all bonuses and assigns "Target Bonuses" for each executive participant to create a Target Bonus which

typically approximates 33% of an executive's total target cash compensation. The Target Bonus amount is prorated on a year-to-date basis to determine the monthly portion of the year-to-date cash bonus payout and the full-year Target Bonus amount is used to determine the annual cash bonus opportunity at the end of a fiscal year.



Actual bonuses paid to participants are calculated based upon the relationship of our actual financial performance to budgeted financial performance on a monthly year-to-date basis. Accordingly, if actual financial performance is less than budgeted financial performance, the actual bonus paid to the participant would be proportionately less than the participant's Target Bonus. At the same time, if actual financial performance exceeds budgeted financial performance, the actual bonus paid to the participant would proportionately exceed the participant's Target Bonus. At all participation levels, the actual bonuses paid are based upon the relationship of actual financial performance to budgeted financial performance, on a monthly year-to-date or annual basis, as applicable. Accordingly, the total actual bonus paid to each participant could exceed the participant's Target Bonus if actual financial performance exceeded budgeted financial performance for such participant.

*Target Bonus and Measurement Determination Process.* For fiscal year 2008, the financial objectives selected under our bonus components for all of our executives receiving bonuses were earnings before taxes (EBT) for the year-to-date period (YTD) as compared against our 2008 financial plan. Payouts pursuant to EBT were made monthly. Additionally, return on invested capital (ROIC) was measured on an annual basis and was compared to our 2008 financial plan. The impact of the ROIC measurement is capped at no more than a 10% increase, or decrease, as the case may be, of the total Target Bonus at the end of the fiscal year. Our compensation committee feels that applying these specific financial metrics to the executive team is appropriate given the requirement that they work collectively in order to achieve top-level growth while reducing operating expenses and expenses in areas of interest, depreciation and amortization.

*EBT.* EBT consists of net income plus provision for income taxes. Our company uses EBT as a measure of operating performance. The targeted EBT objective of \$139 million set for fiscal 2008 was the same as for our company's internal plan for EBT in fiscal 2008. We feel that the EBT objective represented an achievable but challenging goal.

*ROIC.* The ROIC formula consisted of a numerator, which was defined as: EBITDA minus Maintenance Capital Expenditures plus Rent Expense minus Taxes. The denominator was defined as: Average Working Capital plus Average Fixed Assets, plus Rent Expense multiplied by 7. The targeted ROIC objective for fiscal 2008 was 9.2%. We feel that the ROIC objective represented an achievable but challenging goal.

For fiscal 2008, our compensation committee determined that the Target Bonus for all executives other than Mr. Akradi, should remain at approximately 33% of their total target cash compensation based on the committee's belief that approximately one-third of total cash compensation should be performance-based. Our compensation committee made this determination in order to create Target Bonus percentage equity among all executives receiving Target Bonuses. Given that the base salaries of each of the executives, other than Mr. Akradi, remained unchanged from 2007 to 2008, the Target Bonus for each executive, other than Mr. Akradi, remained unchanged from 2007 to 2008 as well.

*2008 Results.* Our company achieved EBT of \$124 million for fiscal 2008, as adjusted for \$5 million of charges that we incurred in the fourth quarter of 2008 in connection with our plans to slow our rate of new center expansion, which was below the target and resulted in a payout equal to 89% of target total cash compensation. Our company achieved ROIC of 8.7%, which was below the target and resulted in a forfeiture equal to 10% of each executive's annual target bonus. As a result of our 2008 operating results, actual total cash compensation for our executives amounted to approximately 86% of targeted total cash compensation.

### ***Long-Term Incentive Awards***

*Purpose.* We believe that equity-based incentives are an important part of total compensation for our executives as well as for certain other senior and management-level employees. We believe that this type of

compensation creates the proper incentive for management and aligns the interests of our management with the interests of our shareholders. Our compensation committee views the grant of

equity-based compensation and other like awards to be a key component of our overall compensation program.

*Structure; Determination Process; Factors Considered.* The Amended and Restated Life Time Fitness, Inc. 2004 Long-Term Incentive Plan, referred to as the 2004 Plan, allows us to issue incentive or non-qualified stock options, restricted stock, stock units, performance stock units and/or other cash or equity-based incentive awards. The terms of our 2004 Plan dictate that award re-pricing cannot occur without shareholder approval and that awards cannot be granted with exercise prices below fair market value. To date, our compensation committee, as administrator of our 2004 Plan, has granted time-based vesting and performance-based vesting stock options as well as time-based vesting and performance-based vesting restricted stock.

In general, we grant awards that as of the grant date are proportional to the executive's total potential cash compensation for the current fiscal year, which our compensation committee believes, based on the review and analysis provided by Pearl Meyer & Partners, is the best measure to use in order to remain competitive with the equity awards granted to executives of the companies in the peer groups identified in the Compensation Determination Process section. The proportion of equity to total cash compensation to be granted, as well as the actual number of shares awarded to each executive officer, is determined and approved by our compensation committee after considering the expected expense to our company in addition to the factors outlined under the Compensation Determination Process. Our compensation committee annually reviews the long-term incentive program and information relevant to approving annual awards for executive officers.

*2008 Results.* For fiscal 2008, our compensation committee determined that the executive team in place at that time should each be granted restricted shares that vest as to 25% of the total number of shares on March 1 of each of 2009, 2010, 2011 and 2012, subject to accelerated vesting in certain circumstances.

Our compensation committee provided, however, that the number of restricted shares vesting on each regular vesting date will be reduced pursuant to the sliding scale described below in the event that our company does not achieve budgeted EBT for fiscal 2008. If the EBT hurdle is not achieved: (i) five percent (5%) of the restricted shares shall be forfeited; and (ii) an additional five percent (5%) of the restricted shares shall be forfeited for each range by which our company's actual EBT for 2008 is less than 98.5% of the budgeted EBT for 2008, as follows: (i) 97.5% to 98.49%; (ii) 96.5% to 97.49%; (iii) 95.5% to 96.49%; (iv) 94.5% to 95.49%; and (v) so on; however, in no event will the number of forfeited shares exceed 25% of the original number of restricted shares granted to Mr. Akradi or 50% of the original number of restricted shares granted to Messrs. Gerend, Robinson, Buss and Zaebst.

On March 14, 2008, our compensation committee issued Mr. Akradi 188,960 restricted shares, Messrs. Gerend and Robinson each 22,680 restricted shares, and Messrs. Buss and Zaebst 18,140 restricted shares, with the provisions described above. The value of the restricted shares granted to Messrs. Gerend, Robinson, Buss and Zaebst represented a 20% increase in the value of the restricted shares that were granted to each of them in connection with their fiscal 2007 total compensation plans. Our compensation committee elected to increase the value of the long-term incentive awards to reward the efforts of the executive team with an incentive that was designed to drive long-term shareholder value. Because the EBT hurdle for 2008 was not achieved, 25% of Mr. Akradi's restricted shares were forfeited and 50% of Messrs. Gerend's, Robinson's, Buss' and Zaebst's restricted shares were forfeited.

#### ***Other Compensation***

We provide our executive officers with perquisites and benefits that we believe are reasonable, competitive and consistent with the company's overall executive compensation program in order to attract and retain talented executives. Our executives are entitled to few benefits that are not otherwise available to all of our employees. The compensation committee periodically reviews the levels of perquisites and other personal benefits provided to executive officers.



### ***Deferred Compensation***

We offer the Executive Nonqualified Excess Plan of Life Time Fitness, a non-qualified deferred compensation plan, for the benefit of our highly compensated employees, which our plan defines as our employees whose projected compensation for the upcoming plan year would meet or exceed the IRS limit for determining highly compensated employees. This unfunded, non-qualified deferred compensation plan allows participants the ability to defer and grow income for retirement and significant expenses in addition to contributions made to our 401(k) plan.

### ***Employment Agreements and Change in Control Provisions***

In July and August 2004, we entered into employment agreements for certain of our executive officers and other members of senior management. We amended and restated these employment agreements in December 2008 in response to requirements under Section 409A of the Internal Revenue Code. We believe that our company has achieved growth through innovative, confidential and proprietary management and marketing methods and plans. Therefore, it was necessary to enter into employment agreements to assure protection of our goodwill and confidential and proprietary information, management and marketing plans.

In addition, we also wanted to assure that certain of our executive officers and other members of senior management would continue to serve us under circumstances in which there was possible threatened or actual change of control at our company. We believe it is imperative to diminish the inevitable distraction of certain of our executive officers and other members of senior management by virtue of the personal uncertainties and risks created by a potential severance of employment and to encourage their full attention and dedication to our company currently and in the event of any threatened or impending change of control, and to provide these persons with compensation and benefits arrangements upon a severance of employment which ensure that their compensation and benefits expectations will be satisfied and which are competitive with those of other companies. For these reasons, our company also included accelerated vesting of equity awards upon a change in control under our 2004 Plan and the LIFE TIME FITNESS, Inc. 1998 Stock Option Plan, referred to as our 1998 Plan.

We do not currently have an employment agreement with Mr. Akradi. Our compensation committee feels that because Mr. Akradi is a principal shareholder of our company, our company's goodwill and confidential and proprietary information and management and marketing plans are adequately protected and that Mr. Akradi will continue to serve us with our best interests in mind under circumstances in the event of a possible threatened or actual change of control at our company.

### ***Accounting and Tax Impacts of Executive Compensation***

Section 162(m) of the Internal Revenue Code generally precludes a public corporation from taking a federal income tax deduction for compensation paid in excess of one million dollars per year to certain covered officers. Under this section, compensation that qualifies as performance-based is excludable in determining what compensation amount shall qualify for tax deductibility. Covered employees include each of our named executive officers.

Our compensation committee considers our ability to fully deduct compensation in accordance with the one million dollar limitations of Section 162(m) in structuring our compensation programs. However, our compensation committee retains the authority to authorize the payment of compensation that may not be deductible if it believes such payments would be in the best interests of the company and its shareholders. In 2008, Section 162(m) did not limit the deductibility of expenses that we recognized in connection with the compensation plans for all of our named executive officers.

At our 2008 annual meeting of shareholders, we submitted for approval, and our shareholders approved, our Life Time Fitness, Inc. Executive Cash Bonus Plan. Certain performance-based payments qualify for an exemption from the one million dollar limitation of Section 162(m) described above; however, in order to qualify, the material terms of the performance targets must be approved by our shareholders every five years. As a result of our shareholders approval of the plan, amounts paid under the objective performance targets

will, under current tax law, qualify as performance-based compensation. Mr. Akradi's 2009 annual bonus has been granted and will be administered under this cash bonus plan.

### Compensation Committee Report

The compensation committee has discussed and reviewed the Compensation Discussion and Analysis with management. Based upon this review and discussion, the compensation committee recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement.

Compensation Committee:

*Joseph S. Vassalluzzo, Chair*

*Giles H. Bateman*

*John B. Richards*

### Summary Compensation Table

The following table shows, for our Chief Executive Officer, our Chief Financial Officer and our three other most highly compensated executive officers, together referred to as our named executive officers, information concerning compensation earned for services in all capacities during the fiscal years ended December 31, 2008, 2007 and 2006:

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(1)	Option Awards (\$)(1)	Non-Equity Incentive		Total (\$)
						Plan Compensation (\$)	All Other Compensation (\$)(2)	
Mr. Akradi	2008			2,163,619	460,379		225,859	2,849,857
Chairman of the Board	2007	926,667		2,234,159	459,304	480,083	76,197	4,176,307
Member of the Board of Directors and Chief Executive Officer	2006	870,000		1,274,203	1,594,309	371,095	60,261	4,169,868
Mr. Michael J. Gerend	2008	335,000(3)		361,816	83,317	93,500	35,224	908,857
President and Chief Operating Officer	2007	329,167(3)		256,665	192,601	172,333	36,014	986,776
	2006	300,000(3)		29,222	388,640	137,221	33,454	888,547
Mr. Michael R. Robinson	2008	335,000		361,035	61,393	93,500	25,360	876,288
Executive Vice President	2007	325,833		256,665	121,215	170,567	24,866	899,126
Chief Financial Officer	2006	280,000		29,222	474,062	127,667	30,095	941,046
Mr. Mark L. Zaebst	2008	268,000(4)		322,983	38,374	74,800	26,432	730,589
Executive Vice President	2007	266,667		170,514	41,778	139,633	29,563	648,152
	2006	240,000	21,365	21,599	248,622	105,377	26,080	663,045
Mr. J. Buss	2008	268,000		278,735	38,374	74,800	22,101	682,010
Executive Vice President, General Counsel and Secretary	2007	256,667		195,930	54,680	134,333	21,057	662,667
	2006	200,000	30,000	21,599	269,657	85,212	21,618	628,086

(1) Values expressed represent the actual compensation cost recognized by us during fiscal 2006, 2007 and 2008 for equity awards granted in those years and prior years as determined pursuant to Statement of Financial

Accounting Standards No. 123, Share-Based Payment ( SFAS 123(R) ) utilizing the assumptions discussed in note 2 to our consolidated financial statements for the fiscal year ended December 31, 2007 (as it related to option awards granted in 2005) and utilizing the assumptions discussed in note 2 to our consolidated financial statements for the fiscal year ended December 31, 2008 (as it relates to all other awards), but disregarding the estimate of forfeitures related to service-based vesting.



(2) The following table sets forth all other compensation amounts for 2008 by type:

Name	Home Connectivity (\$)	Use of Company	Car Allowance (\$)	Executive Matching		Long-term Disability and Life Insurance Premiums (\$)	Personal Use of Company Aircraft (\$)	Private Club Dues (\$)	Other Compensation (\$)(c)	Total All Other Compensation (\$)
		Car and Related Expenses (\$)		Medical Benefits (\$)	401(k) Contributions (\$)					
Muhammad Akradi	50,231(a)	11,176		1,612	6,750	1,062	28,600(b)		126,428	225,859
Michael J. Gerend	4,529		9,600	4,129	6,750	1,062		9,154		35,224
Michael R. Robinson	4,541		9,000	4,129	6,750	940				25,360
Mark L. Zaebst	900	10,750		7,310	6,750	722				26,432
Eric J. Buss	900		9,600	4,129	6,750	722				22,101

- (a) Home connectivity includes a high-speed network providing seamless integration of the computing and telephony environments at Mr. Akradi's home office with those of our corporate headquarters, including the ability to use his home as a full-service remote meeting location. We directly paid a vendor for Mr. Akradi's home connectivity along with his cell phone plan and wireless card.
- (b) Mr. Akradi used the company aircraft for four personal flights during the 2008 fiscal year. To calculate the aggregate incremental cost to the company for the aircraft's additional use, the total operating hours for each of Mr. Akradi's personal flights was multiplied by the actual operating cost per hour during the month the flight was taken. The aggregate incremental cost to the company for each flight was then added together for the sum total of \$28,600 for the 2008 fiscal year.
- (c) We paid for Mr. Akradi's costs associated with a regulatory filing that was required by the Hart-Scott-Rodino Act in connection with our issuance of restricted stock to him in March 2008, for his 2008 compensation package.

In addition to the amounts set forth above, our named executive officers received perquisites for which there was no incremental cost to us. These perquisites include use of company tickets to certain entertainment events, minor personal travel associated with travel and lodging for which the purpose of the trip was primarily business-related, and use of our company's support staff for assistance with personal matters. In addition, certain personal guests accompanied each of Mr. Akradi, Mr. Robinson and Mr. Zaebst while each was utilizing our plane for business-related purposes.

- (3) For the fiscal year ended December 31, 2008, \$110,022 of Mr. Gerend's base salary shown on the Summary Compensation Table above was deferred under the Executive Nonqualified Excess Plan. For the fiscal year ended December 31, 2007, \$120,000 of Mr. Gerend's base salary shown on the Summary Compensation Table above was deferred under the Executive Nonqualified Excess Plan. For the fiscal year ended December 31, 2006, \$30,000 of Mr. Gerend's base salary shown on the Summary Compensation Table above was deferred under the Executive Nonqualified Excess Plan.

- (4) For the fiscal year ended December 31, 2008, \$24,750 of Mr. Zaebst's base salary shown on the Summary Compensation Table above was deferred under the Executive Nonqualified Excess Plan.

**Grants of Plan-Based Awards in 2008**

The following table sets forth certain information concerning plan-based awards granted to the named executive officers during the 2008 fiscal year. No options were re-priced or materially modified during the fiscal year.

Name	Grant Date	Estimated Future Payouts Under Non- Equity Incentive	Estimated Future		Grant Date Fair Value of Stock and Option Awards (\$)(3)
		Plan Awards Target \$(1)	Payouts Under Equity Incentive Plan Awards Threshold #(2)	Payouts Under Equity Target #(2)	
Bahram Akradi	3/14/2008	0	141,720	188,960	4,999,882
Michael J. Gerend	3/14/2008	165,000	11,340	22,680	600,113
Michael R. Robinson	3/14/2008	165,000	11,340	22,680	600,113
Mark L. Zaebst	3/14/2008	132,000	9,070	18,140	479,984
Eric J. Buss	3/14/2008	132,000	9,070	18,140	479,984

- (1) These amounts represent the potential target bonus amounts available to our executives for fiscal 2008 as described in the Annual Bonuses section beginning on page 13. Actual target bonuses paid are calculated based upon the relationship of our actual financial performance to budgeted financial performance and are not limited by any minimum or maximum thresholds. Accordingly, if actual financial performance is less than budgeted financial performance, the actual target bonus paid to the executive would be proportionately less than the executive's potential target bonus. At the same time, if actual financial performance exceeds budgeted financial performance, the actual target bonus paid to the executive would proportionately exceed the executive's potential target bonus. The actual amounts of the target bonuses earned by our executives during fiscal 2008 are listed in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table on page 17.
- (2) The restricted stock was granted under our 2004 plan and the shares granted vest as to 25% of the total number of shares on March 1 of each of 2009, 2010, 2011 and 2012, subject to accelerated vesting in certain circumstances. The number of restricted shares vesting on each regular vesting date will be reduced pursuant to the sliding scale described below in the event that we do not achieve budgeted EBT for fiscal 2008. If the EBT hurdle is not achieved: (i) five percent (5%) of the restricted shares shall be forfeited; and (ii) an additional five percent (5%) of the restricted shares shall be forfeited for each range by which our company's actual EBT for 2008 is less than 98.5% of the budgeted EBT for 2008, as follows: (i) 97.5% to 98.49%; (ii) 96.5% to 97.49%; (iii) 95.5% to 96.49%; (iv) 94.5% to 95.49%; and (v) so on; however, in no event will the number of forfeited shares exceed 25% for Mr. Akradi and 50% for Messrs. Gerend, Robinson, Zaebst and Buss of the original number of restricted shares.

Executives may vote and receive dividends, if any, on restricted shares that they hold. Restricted shares may not be transferred and are subject to possible forfeiture until they vest, which forfeiture occurs when an executive ceases to be employed by us for any reason other than death or total disability unless our board of directors determines

otherwise. In the event of the death or total disability of an executive prior to the granting of a restricted stock award in respect of the fiscal year in which such event occurred, the restricted stock award may, in the discretion of our board of directors, be granted in respect of such fiscal year to the disabled executive or his or her estate. In addition, in the case of an executive's death or total disability (see Employment Agreements and Change in Control Provisions on page 24), all restricted shares then outstanding that have not previously vested or been forfeited will vest in proportion to the term of the award during which the executive was employed. Finally, in the case of the occurrence of a change in control (see Employment Agreements and Change in Control Provisions on page 24), all restricted shares then outstanding that have not previously vested or been forfeited will vest immediately.

- (3) Valuation of awards based on the grant date fair value of those awards determined pursuant to SFAS 123(R) utilizing assumptions discussed in note 2 to our consolidated financial statements for the fiscal year ended December 31, 2008. The actual compensation cost recognized by our company during fiscal 2008 for these

awards in addition to the cost of equity awards granted in prior years are listed in the Stock Awards column of the Summary Compensation Table on page 17.

### Outstanding Equity Awards at 2008 Fiscal Year-End

The following table sets forth certain information concerning equity awards outstanding to the named executive officers at December 31, 2008.

Name	Number of Securities	Option Awards			Stock Awards	
		Number of Securities	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested
	Underlying Unexercised Options (#) Exercisable	Underlying Unexercised Options (#) Unexercisable	(\$)		(#)	(\$)(1)
Bahram Akradi		37,500(2)	25.47	3/1/2015	204,220(3)	2,644,649
Michael J. Gerend	40,000(4)		8.00	3/1/2013		
	54,000(5)		18.50	6/29/2014		
	15,000(6)	5,000(6)	25.47	3/1/2015	24,590(7)	318,441
Michael R. Robinson	20,000(8)		8.00	3/13/2012		
	2,000(9)		8.00	4/1/2013		
	43,000(10)		12.00	12/17/2013		
	67,500(5)		18.50	6/29/2014		
	15,000(6)	5,000(6)	25.47	3/1/2015	24,590(7)	318,441
Mark L. Zaebst	2,000(9)		8.00	4/1/2013		
	6,250(11)	3,125(11)	25.47	3/1/2015	20,070(12)	259,907
Eric J. Buss	7,500(13)		12.00	12/17/2013		
	21,600(5)		18.50	6/29/2014		
	9,375(11)	3,125(11)	25.47	3/1/2015	19,320(14)	250,194

(1) Value based on a share price of \$12.95, which was the closing price for a share of our common stock on the New York Stock Exchange on December 31, 2008.

(2) Stock option granted on March 1, 2005 for 150,000 shares vests and becomes exercisable in 25% increments on each annual anniversary of grant.

(3)

Includes a restricted stock award of 50,000 shares granted November 1, 2006, which vests 25% on each 10-month anniversary of the grant date. Also includes a restricted stock award of 50,000 shares granted on March 14, 2007, which vests 25% of the total number of shares on March 1 of each of 2008, 2009, 2010 and 2011, subject to accelerated vesting in certain circumstances. Also includes a restricted stock award of 188,960 shares granted on March 14, 2008, which vests 25% of the total number of shares on March 1 of each of 2009, 2010, 2011, 2012, subject to accelerated vesting in certain circumstances. However, 25% of Mr. Akradi's March 14, 2008 restricted stock award was forfeited because we did not achieve budgeted EBT for fiscal 2008 pursuant to the sliding scale described in footnote 2 to the Grants of Plan-Based Awards table.

- (4) Stock option granted on March 1, 2003 for 200,000 shares vested and became exercisable in 20% increments on each annual anniversary of grant.

- (5) The stock options granted to Mr. Robinson (67,500 shares) and Messrs. Gerend and Buss (54,000 shares each) on June 29, 2004 each vest as to 50% of the shares on each of June 29, 2010 and June 29, 2011, subject to accelerated market condition vesting. Under the market condition vesting provisions, 20% of the shares vested on May 25, 2005 because the public market price of our common stock closed at or above \$25.00 for 90 consecutive calendar days and 20% of the shares vested on September 7, 2005 because the public market price of our common stock closed at or above \$30.00 for 90 consecutive calendar days. In addition, under the original performance vesting terms of the option, 20% of the shares were to vest if the stock price closes at or above \$35.00 for 90 consecutive calendar days, 20% of the shares were to vest if the stock price closes at or above \$40.00 for 90 consecutive calendar days and 20% of the shares were to vest if the stock price closes at or above \$45.00 for 90 consecutive calendar days. On December 16, 2005, the compensation committee of our company's board of directors approved an amendment that reduced the number of consecutive days during which the price must close at or above \$35.00, \$40.00 and \$45.00 from 90 to 60 consecutive days in order for each of the last three tranches (each equal to 20% of the original number of shares granted) to vest. Under the market condition vesting provisions, 20% of the shares vested on December 26, 2005 because the public market price of our common stock closed at or above \$35.00 for 60 consecutive calendar days, 20% of the shares vested on April 10, 2006 because the public market price of our common stock closed at or above \$40.00 for 60 consecutive days and 20% of the shares vested on May 15, 2006 because the public market of our common stock closed at or above \$45.00 for 60 consecutive days.
- (6) Stock option granted March 1, 2005 for 20,000 shares vests and becomes exercisable in 25% increments on each annual anniversary of grant.
- (7) Restricted stock award of 11,500 shares granted November 1, 2006 vests 25% on each 10-month anniversary of the grant date. Also includes a restricted stock award of 10,000 shares granted on March 14, 2007, which vests 25% of the total number of shares on March 1 of each of 2008, 2009, 2010 and 2011, subject to accelerated vesting in certain circumstances. Also includes a restricted stock award of 22,680 shares granted on March 14, 2008, which vests 25% of the total number of shares on March 1 of each of 2009, 2010, 2011 and 2012, subject to accelerated vesting in certain circumstances. However, 50% of Mr. Gerend's and Mr. Robinson's March 14, 2008 restricted stock awards were forfeited because we did not achieve budgeted EBT for fiscal 2008 pursuant to the sliding scale described in footnote 2 to the Grants of Plan-Based Awards table.
- (8) Stock option granted on March 13, 2002 for 100,000 shares vested and became exercisable in 20% increments on each annual anniversary of grant.
- (9) Stock option granted on April 1, 2003 for 5,000 shares vested and became exercisable in 20% increments on each January 1 of 2004, 2005, 2006, 2007 and 2008.
- (10) Stock option granted December 17, 2003 for 45,000 shares vested and became exercisable in a 50% increment on August 15, 2005 and in 25% increments on August 15 of 2006 and 2007.
- (11) Stock option granted on March 1, 2005 for 12,500 shares vests and becomes exercisable in 25% increments on each annual anniversary of grant.
- (12) Restricted stock award of 8,500 shares granted November 1, 2006 vests 25% on each 10-month anniversary of the grant date. Also includes restricted award of 5,000 shares granted March 14, 2007, which vests 25% of the total number of shares on March 1 of each of 2008, 2009, 2010 and 2011, subject to accelerated vesting in certain circumstances. Also includes restricted stock award of 4,000 shares granted on December 12, 2007, which vests 25% of the total number of shares on March 1 of each of 2008, 2009, 2010 and 2011, subject to

accelerated vesting in certain circumstances. Also includes a restricted stock award of 18,140 shares granted on March 14, 2008, which vests 25% of the total number of shares on March 1 of each of 2009, 2010, 2011 and 2012, subject to accelerated vesting in certain circumstances. However, 50% of Mr. Zaebst's March 14, 2008 restricted stock award was forfeited because we did not achieve budgeted EBT for fiscal 2008 pursuant to the sliding scale described in footnote 2 to the Grants of Plan-Based Awards table.

- (13) Stock option granted December 17, 2003 for 15,000 shares vested and became exercisable in a 50% increment on August 15, 2005 and in 25% increments on August 15 of 2006 and 2007.



- (14) Restricted stock award of 8,500 shares granted November 1, 2006 vests 25% on each 10-month anniversary of the grant date. Also includes restricted stock award of 8,000 shares granted on March 14, 2007, which vests 25% of the total number of shares on March 1 of each of 2008, 2009, 2010 and 2011, subject to accelerated vesting in certain circumstances. Also includes a restricted stock award of 18,140 shares granted on March 14, 2008, which vests 25% of the total number of shares on March 1 of each of 2009, 2010, 2011 and 2012, subject to accelerated vesting in certain circumstances. However, 50% of Mr. Buss' March 14, 2008 restricted stock award was forfeited because we did not achieve budgeted EBT for fiscal 2008 pursuant to the sliding scale described in footnote 2 to the Grants of Plan-Based Awards table.

### 2008 Option Exercises and Stock Vested

The following table sets forth certain information concerning options exercised and stock vested during fiscal 2008 for the named executive officers:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Bahram Akradi	37,500	417,375	50,000	1,975,125
Michael J. Gerend			5,375	157,721
Michael R. Robinson			5,375	157,721
Mark L. Zaebst			4,375	128,264
Eric J. Buss	2,000	41,620	4,125	120,999

### Nonqualified Deferred Compensation for 2008

The following table sets forth certain information concerning nonqualified deferred compensation contributed to the Executive Nonqualified Excess Plan of Life Time Fitness of amounts earned during fiscal 2008 for the named executive officers:

Name	Executive Contributions in Last FY (\$)	Registrant Contributions in Last FY (\$)	Aggregate Earnings in Last FY (\$)	Aggregate Withdrawals/Distributions (\$)	Aggregate Balance at Last FYE (\$)(1)
Bahram Akradi					
Michael J. Gerend	110,022(2)		(73,269)(3)		189,288
Michael R. Robinson					
Mark L. Zaebst	24,750(4)		(5,129)(5)		19,621
Eric J. Buss					

- (1) For fiscal 2007, Mr. Gerend deferred \$120,000 to our Executive Nonqualified Excess Plan, which earned \$1,413 on a 1.61% rate of return for an aggregate balance of \$152,534. Of that amount, all \$120,000 was reported in the Salary column of the Summary Compensation for the fiscal year ended December 31, 2007. For fiscal 2006, Mr. Gerend deferred \$30,000 to our Executive Nonqualified Excess Plan, which earned \$1,121 on a 17.7% rate of return for an aggregate balance of \$31,121 for the fiscal year ended December 31, 2006. Of these amounts, \$30,000 was reported in the Salary column and \$718 was reported in the Change in Pension Value and Nonqualified Deferred Compensation Earnings column of the Summary Compensation Table for the fiscal year ended December 31, 2006.
- (2) This amount was reported in the Summary Compensation Table for 2008 as part of Mr. Gerend's base salary compensation.
- (3) The earnings listed represent, as determined by the third party administrator of the Executive Nonqualified Excess Plan of Life Time Fitness, the change in the value of the investment choices selected by the participant during the fiscal year, weighted for activity, such as increases credited under the plan, transfers, and

distributions, and taking into consideration any fees, reinvestments, net asset value changes, and earnings credited to the investment choices. Mr. Gerend's rate of return was -35.18%.

- (4) This amount was reported in the Summary Compensation Table for 2008 as part of Mr. Zaebst's base salary compensation.
- (5) The earnings listed represent, as determined by the third party administrator of the Executive Nonqualified Excess Plan of Life Time Fitness, the change in the value of the investment choices selected by the participant during the fiscal year, weighted for activity, such as increases credited under the plan, transfers, and distributions, and taking into consideration any fees, reinvestments, net asset value changes, and earnings credited to the investment choices. Mr. Zaebst's rate of return was -40.92%.

All highly compensated employees eligible to participate in the Executive Nonqualified Excess Plan of Life Time Fitness, including but not limited to our executives, may elect to defer up to 50% of their annual base salary and/or annual bonus earnings to be paid in any coming year. The investment choices available to participants under the non-qualified deferred compensation plan are of the same type and risk categories as those offered under our company's 401(k) plan and may be modified or changed by the participant or our company at any time. Distributions can be paid out as in-service payments or at retirement. Upon retirement, a participant's account benefits can be paid out as a lump sum or in annual installments over a term of up to 10 years. We may, but do not currently plan to, make matching contributions and/or discretionary contributions to this plan. If we did desire to make contributions to this plan, the contributions would vest to each participant according to their years of service with our company.

### **Equity Ownership Guidelines**

We encourage our executives and directors to hold company shares, however, we do not have formal stock ownership guidelines.

In February 2007 we adopted a formal equity grant policy governing all awards granted under our stock incentive plans, including the grant of any shares of our common stock, restricted shares, restricted stock units, stock options, stock appreciation rights, deferred stock units, phantom stock and performance units. This policy was amended and restated in July 2008.

This policy maintains that no grants are to occur on a date when our insider trading window is closed. Annual grants, which must be approved by our compensation committee are to occur on or about the same time every year. Any new hire grants are to be approved by our compensation committee at their next meeting that occurs during an open trading window, which shall, as amended, be held on the first Monday following the close of each blackout period. However, any such meeting may be cancelled by our compensation committee if it deems there are no grants to be approved. The policy requires that all grants of awards to any members of our board of directors must be approved by our board of directors and that all grants of awards to any current or new hire executive officers must be approved by our compensation committee.

This policy also maintains that upon the compensation committee's request, they may receive and review a report from a compensation consultant hired by the compensation committee that includes relevant survey and benchmarking data prior to approving annual awards for executive officers as well as prior to approving awards to any new hire executive officers. In connection with approving grants of awards to any executive officer, the policy holds that our compensation committee is to review total compensation for such person for the most recent three year period, or such lesser time as the person has been employed by us. The review is to include a listing of all equity awards granted to such executive officer in the three year period and a listing of all outstanding equity awards issued to such executive officer. Our compensation committee may consider recommendations of any executive officer when approving

awards, other than recommendations by an individual for his or her own award.

## **Employment Agreements and Change of Control Provisions**

In December 2008, our compensation committee approved a revised form of employment agreement for certain of our executive officers. During December 2008, the revised employment agreements were executed by each of our executive officers. Mr. Akradi does not currently have an employment agreement with us.

### ***Summary of Revisions from Prior Employment Agreements***

The form of executive employment agreement was modified in 2008 in response to requirements under Section 409A of the Internal Revenue Code. The new agreement replaces the form of executive employment agreement previously in effect for executive officers. The primary differences between the new executive employment agreements and the prior agreements include:

Modification of the definition of a change of control to be consistent with the definition set forth in our 2004 Plan.

Modification of the definition of good reason for resignation that entitles the executive to severance benefits, in response to requirements of Section 409A.

Restructuring of severance pay and reimbursement provisions to provide severance benefits and reimbursements to executives that comply with (or, where possible, are structured to fall outside the coverage of) the requirements of Section 409A. Such restructuring includes the elimination of enhanced severance benefits for employment terminations that occur in connection with, but prior to, a change of control.

Limitation of post-employment benefits continuation to medical and life insurance coverage as in place immediately prior to the termination of employment for up to 18 months, but in any event not to exceed the COBRA continuation period.

### ***Summary of Current Form of Employment Agreements***

The employment agreements provide that if an executive's employment is terminated by us other than for cause, death or disability, or the executive terminates his employment for good reason, other than within one year following a change of control, then we are to provide the executive with (i) payment in an amount equal to 1 1/2 times the executive's Target Salary (defined as the sum of the executive's annual base salary and annual target payout under our annual cash-based incentive plan) in effect as of the termination date (or, if executive resigns for good reason due to a 25% or greater reduction in executive's Target Salary, the Target Salary in effect immediately prior to the reduction) payable in accordance with the schedule and limitations described below; (ii) up to \$10,000 in aggregate reasonable outplacement costs associated with the executive's search for new employment during the first 12 months following the termination date; and (iii) continuation of medical plan coverage and life insurance coverage for a period of up to 18 months, not to exceed the COBRA continuation period, at the same level, in the same manner and at the same cost to the executive as in effect on the termination date of employment.

The payment of executive's Target Salary in (i) above will be paid in equal installments in accordance with our regular payroll schedule commencing on the first regular payroll date after the date of executive's termination of employment, provided that the amount equal to 1/2 of executive's Target Salary that is otherwise payable in the first six months following the termination date shall not exceed the amount that would cause the payments to be considered a deferral of compensation under Section 409A.

The employment agreements define "good reason" as any of the following events, provided that the executive gives written notice to our company within 90 days of the first occurrence of the event and we fail to remedy the condition within 30 days thereafter:

our breach of any material terms or conditions of the employment agreement;

our executive offices are relocated outside of a 75 mile radius of its current location, if the relocation results in a material change to the location where the executive performs services for us;

our reduction of an executive's Target Salary by 25% or more, or our material reduction of an executive's duties and responsibilities; or

our assignment of duties and responsibilities to an executive that are materially inconsistent with the executive's position and experience, which results in a material reduction in the executive's duties, responsibilities or authority.

The employment agreements generally define cause as our determination in good faith that an executive has:

engaged in willful and deliberate acts of dishonesty, fraud or unlawful behavior that adversely affects our business affairs;

been convicted of or pleaded no contest to a felony;

been grossly negligent or engaged in willful misconduct in performing his or her duties and responsibilities and thereby materially adversely affected our business affairs;

refused to substantially perform or persistently neglected his or her duties and responsibilities, or experienced chronic unapproved absenteeism;

demonstrated an inability to perform the duties of his or her position, and is unable to satisfy within 60 days the conditions of any resulting performance improvement plan; or

breached any material terms or conditions of the employment agreement.

Events relating to executive's absenteeism, neglect or refusal to perform, or inability to perform, will constitute cause only if we provide the executive with written notice of the event and the executive fails to remedy the event within 21 business days.

**Termination Other than for Cause, Death or Disability or Termination for Good Reason (Other than Within One Year Following a Change of Control)**

The following table presents the estimated total amounts that would be paid out (including the present value cost to our company of benefits coverage provided) to the executive officer if his employment was terminated other than for cause, death or disability, or the executive terminated his employment for good reason, as of December 31, 2008, other than within one year following a change of control of our company. In addition to the amounts included below, certain terminations for good reason will result in acceleration of stock options, the circumstances of which are described below:

Name	Cash	Aggregate	Continued	Total
	Severance Payments \$(1)	Outplacement Costs (\$)	Benefits Coverage (\$)	Potential Payout (\$)
Bahram Akradi				
Michael J. Gerend	750,000	10,000	14,010	774,010

Michael R. Robinson	750,000	10,000	14,010	774,010
Mark L. Zaebst	600,000	10,000	12,494	622,494
Eric J. Buss	600,000	10,000	14,010	624,010

(1) Cash Severance Payments are calculated based on the executive's Target Salary on the date of termination.

**Termination Other than for Cause, Death or Disability or Termination for Good Reason Within One Year of a Change of Control**

The employment agreements also provide that if the executive's employment with us or a successor is terminated by us within one year of a change of control for any reason other than cause, death or disability, or by the executive within one year of a change of control for good reason, then the executive will receive the same benefits as set forth above, subject to the same schedule and limitations; and in addition, we will pay the



executive an amount equal to 1/4 of the Target Salary, payable in equal installments in accordance with our regular payroll schedule over the 3-month period beginning after completion of the Target Salary payments described above.

In addition, our 2004 Plan and the agreements relating to stock option and restricted stock awards subject to that plan provide that all stock option awards will become immediately exercisable in full and all restricted stock awards will fully vest immediately upon a change of control of our company. However, in the event of a change of control, our compensation committee has the right to cancel any outstanding options under the 2004 Plan and to cause us to instead pay the optionee the excess of the fair market value of the option shares covered by the option over the exercise price of the option at the date that our compensation committee provides a buy-out notice.

Awards granted before April 24, 2008, under the 2004 Plan, define change of control as consisting of any of the following events:

a change in the composition of our board of directors such that the individuals who constitute the board of directors cease for any reason to constitute at least a majority of our board of directors, provided that any director who was approved by a majority of our incumbent directors (other than in connection with a proxy contest) shall be considered an original member of our board of directors;

the consummation of a merger, tender offer or consolidation of our company with any other corporation, other than a merger or consolidation that would result in the voting securities of our company outstanding prior to the transaction continuing to represent at least 45% of the combined voting power of the voting securities of us or the surviving entity; or

the consummation of a sale of all or substantially all of the assets of our company, other than in connection with the sale-leaseback of our real estate.

The employment agreements, as well as awards granted after April 24, 2008 under the 2004 Plan, define change of control as consisting of any of the following events:

a change in the composition of our board of directors such that the individuals who constitute the board of directors cease for any reason to constitute at least 50% of our board of directors, provided that any director who was approved by a majority of our incumbent directors (other than in connection with a proxy contest) shall be considered an original member of our board of directors;

the consummation of a merger or consolidation of our company with any other corporation or other entity, a statutory share exchange involving our capital stock, or a sale or other disposition of all or substantially all of our assets (other than in connection with a sale-leaseback of our company's real estate) unless our shareholders own a majority of the voting power and common stock of the surviving corporation and other conditions are satisfied;

the acquisition of beneficial ownership by a person or group which results in aggregate beneficial ownership of 30% or more of voting power or common stock, subject to certain exceptions; or

a plan to liquidate or dissolve our company.

The following table presents (i) the estimated total amounts that would be paid out (including the present value cost of continued benefits coverage) to each named executive officer if the officer's employment were terminated by us or a successor for any reason other than cause, death or disability, or by the named executive officer for good reason, as of December 31, 2008, and within one year of a change of control; and (ii) the intrinsic value of the stock options whose exercisability would be accelerated, and of the restricted stock awards whose vesting would be accelerated, if a change of control occurred as of December 31, 2008:

Name	Cash Severance Payments \$(1)	Aggregate Outplacement Costs (\$)	Continued Benefits Coverage (\$)	Value of Accelerated Equity Awards \$(2)	Total Potential Payout (\$)
Bahram Akradi				2,644,649	2,644,649
Michael J. Gerend	875,000	10,000	14,010	318,441	1,217,451
Michael R. Robinson	875,000	10,000	14,010	318,441	1,217,451
Mark L. Zaebst	700,000	10,000	12,494	259,907	982,401
Eric J. Buss	700,000	10,000	14,010	250,194	974,204

- (1) Cash Severance Payments are calculated based on the executive's Target Salary on the date of termination.
- (2) Value based on a share price of \$12.95, which was closing price for a share of our common stock on the NYSE on December 31, 2008. Value of restricted stock awards is determined by multiplying that closing share price by the number of restricted shares; value of accelerated stock options is determined by multiplying the number of option shares by the difference between that closing share price and the option exercise price.

Payment of severance benefits under our employment agreements, whether or not termination is in connection with a change of control, is conditioned upon the executive signing and not rescinding a global release of all claims against us, and remaining in compliance with his obligations under the employment agreement to (i) protect our confidential information, (ii) refrain from competing with us for 18 months (or 24 months in connection with a change of control) after his termination of employment, (iii) refrain from hiring any of our employees for 12 months after his termination of employment, and (iv) refrain from soliciting any of our customers or inducing any customer or supplier to stop doing business with us for 12 months after his termination of employment.

#### Acceleration of Vesting of Equity Awards

Under our 2004 Plan, if an executive's employment is terminated due to death or disability, any outstanding stock option will immediately become exercisable in full for one year (or until the option expires, if that occurs sooner), and any restricted stock award will vest in proportion to the term of the award during which the executive was employed.

Beginning in 2006, each restricted stock agreement granted by us to our employees, including our executive officers, provides for the complete vesting of all restricted stock upon termination of employment due to death or disability. If an executive's employment terminates for any reason other than death, disability or cause (defined in a manner similar to that in our employment agreements), his outstanding stock options will remain exercisable for a period of 90 days after termination to the extent they were exercisable immediately before termination, but any unvested shares of

restricted stock will be forfeited. The following table presents the intrinsic value of the stock options granted under the 2004 Plan whose exercisability would

be accelerated, and of the restricted stock awards whose vesting would be accelerated, if the named executive officer's employment were terminated due to death or disability as of December 31, 2008:

<b>Name</b>	<b>Value of Accelerated Equity Awards (\$)(1)</b>
Bahram Akradi	2,644,649
Michael J. Gerend	318,441
Michael R. Robinson	318,441
Mark L. Zaebst	259,907
Eric J. Buss	250,194

- (1) Value based on a share price of \$12.95 which was the closing price for a share of our common stock on the NYSE on December 31, 2008. Value of accelerated stock options is determined using the difference between that closing share price and the applicable option exercise price multiplied by the number of option shares whose exercisability is accelerated; value of accelerated restricted stock awards is determined by multiplying that closing share price by the number of restricted shares whose vesting is accelerated.

### **Compensation of Directors**

Non-employee directors are compensated for serving as directors with a grant of restricted stock, an annual stipend, and annual chairperson and lead director fees, if applicable, and are also reimbursed for out-of-pocket traveling expenses incurred in attending board and committee meetings.

### **Director Compensation Table**

The following table shows, for each of our non-employee directors, information concerning annual and long-term compensation earned for services in all capacities during the fiscal year ended December 31, 2008.

<b>Name</b>	<b>Fees Earned or Paid in Cash (\$)</b>	<b>Stock Awards (\$)(1)</b>	<b>Total (\$)</b>
Giles H. Bateman	68,064	75,565	143,629
James F. Halpin(2)	41,854		
			2,441,860

Series D Cvt. Pfd.

9/30/05

957,880

1.40

956,200

CytoLogix Corporation

Series A Cvt. Pfd.

1/13/98-7/21/99

1,623,878

0.01

4,848

Series B Cvt. Pfd.

1/11/01

763,952

3.14

713,188

Subordinated Promissory Note

11/29/07

524,224

100.00

507,842

Dako A/S

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Restricted Common

6/14/04, 2/16/07

1,306,894

28.86

1,319,450

EPR, Inc.

Series A Cvt. Pfd.

3/9/94

1,000,409

0.01

63

2,222

FlowCardia, Inc.

Series C Cvt. Pfd.

8/29/07

2,474,767

1.07

2,458,333

I-trax, Inc.



Series A Cvt. Pfd.

3/18/04

4,003,650

43.08

6,893,370

Labcyte, Inc.

Series C Cvt. Pfd.

7/18/05

1,923,506

0.52

1,920,000

Magellan Biosciences, Inc.

Series A Cvt. Pfd.

11/28/06

2,954,179

1.00

2,950,000

Masimo Corporation

Restricted Common

8/14/96

1,120,657

37.48

17,989,200

Masimo Laboratories, Inc.

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Restricted Common

3/31/98

0

0.26

41,472

OmniSonics Medical Technologies, Inc.

Series A-1 Cvt. Pfd.

10/1/03

1,800,514

0.76

68

	1,171,827
Series B-1 Cvt. Pfd.	
	6/4/07, 11/15/07
	960,516
	0.76
	956,166
Common	
	5/24/01
	2,409,033
	0.01
	930
PHT Corporation	

Series D Cvt. Pfd.

7/23/01

4,205,754

0.78

4,200,000

Series E Cvt. Pfd.

9/12/03 - 10/14/04

941,669

0.78

939,506

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Security (g)	Acquisition Date	Cost	Carrying Value per Unit	Value
<b>Raven biotechnologies, Inc.</b>				
Series B Cvt. Pfd.	12/12/00	\$ 3,001,725	\$ 0.21	\$ 377,273
Series C Cvt. Pfd.	11/26/02	2,331,600	0.21	582,900
Series D Cvt. Pfd.	6/23/05	1,205,689	0.07	300,102
Cvt. Note	11/13/07	47,810	100.00	44,651
<b>Songbird Hearing, Inc.</b>				
Restricted Common	12/14/00	3,004,861	0.67	139
<b>Syntiro Healthcare Services</b>				
Restricted Common	2/5/97	1,200,325	0.001	306
<b>TargeGen, Inc.</b>				
Series C Cvt. Pfd.	8/30/05	2,763,495	0.87	1,840,007
Series D Cvt. Pfd.	5/8/07	764,407	0.87	508,624
<b>TherOx, Inc.</b>				
Series H Cvt. Pfd.	9/11/00	3,002,506	3.86	251,803
Series I Cvt. Pfd.	7/8/05	579,407	3.86	577,100
Warrants (expiration 1/26/10)	1/26/05	0	0.00	0
Warrants (expiration 6/09/09)	6/9/04	0	0.00	0
<b>Xanthus Pharmaceuticals, Inc.</b>				
Series B Cvt. Pfd.	12/5/03 - 11/15/06	4,004,952	1.00	4,001,078
Cvt. Promissory Note	12/3/07	300,426	100.00	300,426
<b>Xoft</b>				
Series D Cvt. Pfd.	3/23/07	2,958,518	3.20	2,950,000
<b>Zyomyx, Inc.</b>				
Series A New Cvt. Pfd.	1/12/04	299,700	0.10	30,000
Series B New Cvt. Pfd.	2/19/99, 1/12/04	468	0.10	30
New Restricted Common	2/19/99 - 7/22/04	3,602,065	0.01	3,000
		\$ 82,428,778		\$ 89,587,858

(g) See Schedule of Investments and corresponding footnotes for more information on each issuer.

Federal Income Tax Cost - At December 31, 2007, the total cost of securities for Federal income tax purposes was \$383,080,067. The net unrealized gain on securities held by the Fund was \$61,336,188, including gross unrealized gain of \$102,464,046 and gross unrealized loss of \$41,127,858.

Affiliate Transactions An affiliate issuer is a company in which the Fund holds 5% or more of the voting securities. Transactions with such companies during the three months ended December 31, 2007 were as follows:

HQH

Insert for Affiliate Transactions

Issuer	Value on September 30, 2007	Purchases	Sales	Income	Value on December 31, 2007
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Agilix Corporation	\$	141,809	\$	\$	\$	141,809
Concentric Medical, Inc.		10,192,176				10,192,176
CytoLogix Corporation		527,247	507,842		2,803	1,225,878
Medwave, Inc.		35,287				0
PHT Corporation		5,139,506				5,139,506
	\$	16,036,025	\$	507,842	\$	2,803
					\$	16,699,369



**Item 2. Controls and Procedures.**

(a.) The registrant's principal executive officer and principal financial officer have concluded, based on their evaluation of the registrant's disclosure controls and procedures as conducted within 90 days of the filing date of this report, that these disclosure controls and procedures are adequately designed and are operating effectively to ensure that information required to be disclosed by the registrant on Form N-Q is (i) accumulated and communicated to the investment company's management, including its certifying officers, to allow timely decisions regarding required disclosure; and (ii) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b.) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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**Item 3. Exhibits.**

Separate certifications for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Act (17 CFR 270.30a-2(a)). Filed herewith.

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**SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant)	H&Q Healthcare Investors
By (Signature and Title)	/s/ Daniel Omstead Daniel Omstead, President
Date	2/29/08

Pursuant to the requirements of the Securities and Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)	/s/ Carolyn Haley Carolyn Haley, Treasurer
Date	2/29/08

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