MINUTES OF A CLOSED SESSION OF THE COLUMBIA ASSOCIATION BOARD OF DIRECTORS

July 1, 2004

CA Headquarters

Minutes made Public by Vote of Columbia Association Board of Directors April 21, 2005

The Columbia Association ("CA") Board of Directors ("Board") commenced a closed session at approximately 6:40 p.m. All directors, including Maggie Brown, were present with the exception of Tom O'Connor and Pearl Atkinson-Stewart. Also present were Rob Goldman (CA's Vice President of Sport & Fitness), Donna DuPree (CA's Director of Communications and Marketing), Michelle Miller (CA's Director of Community Services) and Sheri Fanaroff (CA's General Counsel). Mr. Marcus moved to close the meeting and Mr. Greenwood seconded the motion. The meeting was closed by a unanimous vote pursuant to Section 11B-111(4)(viii) of the Homeowners Association Act.

Mr. Goldman informed the Board that he had met with the President of Lifetime Fitness ("LF"), who suggested that CA and LF could work together to expand the market. Mr. Goldman told him that CA obviously would adjust its prices to address the competition created by LF, at which point the President of LF became quite angry and said that CA should not try to undercut LF. The President of LF also offered Mr. Goldman a job as the General Manager of the new club and said that LF offers its general managers a salary of $125,000 plus other benefits that bring the package to $200,000. Consequently, Mr. Goldman advised the Board that it is likely that LF will be able to hire away some CA managers.

Mr. Goldman said that he spoke with the CEOs of four large fitness companies that have faced competition from LF to see what those companies did and what was successful. Mr. Goldman provided a memo regarding his conversations with those CEOs.

As regards the risks presented by LF, Ms. DuPree advised the Board that the largest risk to CA is the loss of non-CA resident members. Mr. Goldman noted that he believes that LF is not counting on capturing CA residents as members, but instead will target the market north and east of Columbia.

There was then a discussion of the fact that CA will need to lower its non-resident prices and may need to revisit its philosophy imposing a significant price difference for non-residents versus residents. Ms. DuPree also suggested that it might be possible to capture some of the market north and east of Columbia that LF sees as its market by an aggressive marketing campaign in those areas.

Mr. Coffman stated that he would like to approach the problem from the aspect of service and quality before CA gets into a price war. Mr. Goldman responded that whatever steps are taken, his suggestions are aimed at minimizing the financial loss to CA.

Mr. Feldmark stated his opinion that the Board needs to decide on the issue of non-resident pricing. He believes that there is a historical mandate to price memberships so that there are not too many non-residents in the clubs. Mr. Goldman stated that historically, non-resident pricing has been based both on controlling the number of non-residents and on the philosophy that residents who pay the annual charge should feel that they are getting a significant discount on memberships.

Mr. Greenwood suggested that there should be focus groups to determine what is important to CA's customers and what they are willing to pay for. He stated that there are a whole host of options to consider, and the Board needs a sense of what is important to the marketplace. Mr. Goldman responded that LF already has done this research, and CA can look at LF's operation. According to Mr. Goldman, LF has gotten rid of all the irritants, by such things as eliminating any wait time for equipment, providing a place to leave children, and 24/7 hours of operation.

Ms. Russell and Mr. Schneider expressed the view that the Board needs to discuss certain philosophies that may create parameters in making decisions, for example, an approach to pricing for non-residents. Mr. Marcus stated that there should be focus groups to determine what CA can do to retain members and capture new members. For example, a focus group might be asked how long they really are willing to wait for a piece of equipment or how many people really want 24/7 hours of operation. Mr. Marcus also said he wants a second opinion from a consultant (in addition to the suggestions offered by Mr. Goldman and Ms. DuPree). Mr. Marcus then opined that LF's President is very nervous about CA and its ability to compete or engage in a price war, because CA has a $20 million line of credit and a $25 million tax base to fall back on. Mr. Coffman said that, contrary to Mr. Marcus' view, CA cannot match LF on a funding level. According to Mr. Coffman, LF can leverage its initial stock offering into substantial bank loans.

Mr. Goldman expressed his concern with losing needed time if CA first hires a consultant or does focus groups before it takes action. Ms. DuPree also pointed out all the various topics that already have been researched. Ms. DuPree stated that CA already has done most of the work that the focus groups would do. She expressed her view that CA needs to act first, before LF enters the market.

Mr. Feldmark noted that LF provides elite club service at a non-elite club price. He stated that he believes that LF poses a real threat to CA's staffing because LF pays so well, and therefore likely will be able to hire away CA staff. Mr. Goldman responded that he is starting to gather information on this issue, but does not believe that there is an immediate threat because LF probably won't hire for at least a year.

Mr. Malone stated that he feels comfortable that Mr. Goldman and Ms. DuPree have done what needs to be done to come up with their recommendations, and focus groups and consultants are not necessary. Mr. Malone observed that there is a need to get the process started and move forward now. Mr. Malone noted that all of this is not a catastrophe if CA takes action and does it right, and that in fact this is an opportunity to provide better facilities and services. Ms. DuPree responded that she thinks it might be useful to have more data on the issue of a facility in Gateway, but otherwise she believes that she and Mr. Goldman have enough market data.

Mr. Goldman provided several documents to the Board: (a) a handout showing the profitability of the three clubs, (b) a timeline for competitive responses to LF, and (c) a memo with recommended actions as to which Board approval is sought. Mr. Goldman requested that the Board approve the four items set forth in that memo at its July 8 meeting. Those items were: (1) a $54,000 increase in the FY05 operating budget and a $80,000 increase in the FY06 operating budget to make the Supreme Sports Club ("SSC") a 24/7 club effective 9/7/04, and a $221,500 addition to the FY05 capital budget to revitalize the SSC; (2) $100,000 in planning funds to expand the Hopewell pool into a major family aquatic center; (3) preparation of a business plan to develop a new fitness facility in leased space in Gateway, and $5,000 for preparation of space planning and illustrative drawings; and (4) a $148,000 increase in the FY05 operating budget and a $220,000 increase in the FY06 operating budget to upgrade cleanliness efforts at the SSC, Athletic Club, Columbia Gym and the Swim Center.

At approximately 9:00 p.m., Mr. Schneider left the meeting.

Mr. Greenwood, Mr. Coffman and Ms. Russell expressed concerns with a CA facility in Gateway. They questioned whether it would succeed and expressed doubt that the community would support it.

It was the consensus of the directors that they would be comfortable at the July 8, 2004 Board meeting approving items (1) and (4) listed above but would not be in favor of item (3). The directors had varying views on item (2). It was agreed that items (1), (2) and (4), but not (3), should be placed on the July 8, 2004 agenda as an item entitled "Sports & Fitness Enhancements" and that the supporting documentation should be a revised version of Mr. Goldman's memo with item (3) deleted. As regards item (3), the Board agreed that CA staff should do a study on Gateway.

As regards comments to the public on LF, it was the consensus of the Board that members may say "Yes, LF is coming to town and the Board is looking at various responses." It was also agreed that the timeline provided by Mr. Goldman would **not** be released to the public.

Mr. Coffman stated that he thinks two philosophical issues need to be discussed in a work session: (1) the pricing differential between resident and non-resident memberships; and (2) maximization of participation by residents. Ms. DuPree pointed out that it was not necessary to discuss these issues immediately, because CA would not really be making changes in rates, but rather would be giving discounts.

Ms. Fanaroff provided the Board members with a legal opinion letter dated June 29, 2004 from the firm of Whiteford, Taylor & Preston regarding an appropriate process for Board communication with the press. Ms. Fanaroff advised the Board that if they wish to discuss the letter and/or entertain a vote to waive their privilege and release the letter to the public, they would need to hold another closed session for those purposes.

Mr. Greenwood moved to approve the minutes of the May 13, 2004 closed session of the CA Board. Mr. Hlass seconded the motion, and the minutes were approved by unanimous vote. Mr. Hlass moved to approve the minutes of the June 10, 2004 closed session of the CA Board. Mr. Coffman seconded, and the minutes were approved by unanimous vote.

Mr. Greenwood moved to open the meeting, Mr. Coffman seconded and the motion passed unanimously. Mr. Coffman moved to adjourn, Mr. Hlass seconded and the motion passed unanimously. The meeting adjourned at approximately 10:00 p.m.

Respectfully submitted,

Joshua Feldmark
Chair, Columbia Association Board of Directors

Approved by Board August 5, 2004