

LIFE TIME FITNESS INC

Form 10-Q

April 28, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended March 31, 2010

or

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

For the transition period from _____ to _____

Commission File No. 001-32230

Life Time Fitness, Inc.

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of
incorporation or organization)

41-1689746

(I.R.S. Employer
Identification No.)

**2902 Corporate Place
Chanhassen, Minnesota**

(Address of principal executive offices)

55317

(Zip Code)

Registrant's telephone number, including area code: **952-947-0000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(do not check if smaller
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Edgar Filing: LIFE TIME FITNESS INC - Form 10-Q

The number of shares outstanding of the registrant's common stock as of April 23, 2010 was 41,752,604 common shares.

TABLE OF CONTENTS

| | Page |
|--|-------------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| <u>Item 1. Financial Statements</u> | |
| <u>Consolidated Balance Sheets as of March 31, 2010 (unaudited) and December 31, 2009</u> | 3 |
| <u>Consolidated Statements of Operations for the Three Months Ended March 31, 2010 and</u> | |
| <u>2009 (unaudited)</u> | 4 |
| <u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2010 and</u> | |
| <u>2009 (unaudited)</u> | 5 |
| <u>Notes to Unaudited Consolidated Financial Statements</u> | 6 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 12 |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u> | 22 |
| <u>Item 4. Controls and Procedures</u> | 22 |
| <u>PART II. OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | 22 |
| <u>Item 1A. Risk Factors</u> | 22 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 22 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 22 |
| <u>Item 4. (Removed and Reserved)</u> | 22 |
| <u>Item 5. Other Information</u> | 23 |
| <u>Item 6. Exhibits</u> | 23 |
| <u>SIGNATURES</u> | 24 |
| <u>EX-10.1</u> | |
| <u>EX-10.2</u> | |
| <u>EX-31.1</u> | |
| <u>EX-31.2</u> | |
| <u>EX-32</u> | |

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

LIFE TIME FITNESS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

| | March 31, 2010 (Unaudited) | December 31, 2009 |
|--|---|----------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 12,955 | \$ 6,282 |
| Accounts receivable, net | 3,638 | 4,026 |
| Center operating supplies and inventories | 15,222 | 14,621 |
| Prepaid expenses and other current assets | 16,540 | 12,938 |
| Deferred membership origination costs | 19,435 | 20,278 |
| Deferred income taxes | | 660 |
| | | |
| Total current assets | 67,790 | 58,805 |
| PROPERTY AND EQUIPMENT, net | 1,513,385 | 1,512,993 |
| RESTRICTED CASH | 2,434 | 2,941 |
| DEFERRED MEMBERSHIP ORIGINATION COSTS | 7,748 | 8,716 |
| OTHER ASSETS | 47,483 | 48,070 |
| | | |
| TOTAL ASSETS | \$ 1,638,840 | \$ 1,631,525 |
| | | |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current maturities of long-term debt | \$ 12,815 | \$ 16,716 |
| Accounts payable | 17,453 | 14,429 |
| Construction accounts payable | 9,499 | 9,882 |
| Accrued expenses | 57,485 | 48,235 |
| Deferred revenue | 38,154 | 36,939 |
| | | |
| Total current liabilities | 135,406 | 126,201 |
| LONG-TERM DEBT, net of current portion | 622,056 | 643,630 |
| DEFERRED RENT LIABILITY | 30,197 | 29,048 |
| DEFERRED INCOME TAXES | 76,105 | 77,189 |
| DEFERRED REVENUE | 8,445 | 8,819 |
| OTHER LIABILITIES | 9,297 | 9,207 |
| | | |
| Total liabilities | 881,506 | 894,094 |
| | | |
| COMMITMENTS AND CONTINGENCIES (Note 6) | | |
| SHAREHOLDERS EQUITY: | | |
| Undesignated preferred stock, 10,000,000 shares authorized; none issued or outstanding | | |

Edgar Filing: LIFE TIME FITNESS INC - Form 10-Q

| | | |
|--|--------------|--------------|
| Common stock, \$.02 par value, 75,000,000 shares authorized; 41,731,529 and 41,410,367 shares issued and outstanding, respectively | 835 | 829 |
| Additional paid-in capital | 396,413 | 395,121 |
| Retained earnings | 361,931 | 344,095 |
| Accumulated other comprehensive loss | (1,845) | (2,614) |
| Total shareholders' equity | 757,334 | 737,431 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 1,638,840 | \$ 1,631,525 |

See notes to unaudited consolidated financial statements.

3

Table of Contents

LIFE TIME FITNESS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

| | For the Three Months Ended March 31, | |
|--|---|-------------|
| | 2010 | 2009 |
| REVENUE: | | |
| Membership dues | \$ 145,165 | \$ 137,397 |
| Enrollment fees | 6,324 | 6,473 |
| In-center revenue | 65,532 | 59,302 |
| Total center revenue | 217,021 | 203,172 |
| Other revenue | 2,750 | 3,262 |
| Total revenue | 219,771 | 206,434 |
| OPERATING EXPENSES: | | |
| Center operations | 137,584 | 126,974 |
| Advertising and marketing | 6,772 | 8,298 |
| General and administrative | 10,700 | 11,708 |
| Other operating | 4,308 | 4,887 |
| Depreciation and amortization | 22,765 | 22,064 |
| Total operating expenses | 182,129 | 173,931 |
| Income from operations | 37,642 | 32,503 |
| OTHER INCOME (EXPENSE): | | |
| Interest expense, net of interest income of \$19 and \$139, respectively | (8,097) | (7,474) |
| Equity in earnings of affiliate | 301 | 337 |
| Total other income (expense) | (7,796) | (7,137) |
| INCOME BEFORE INCOME TAXES | 29,846 | 25,366 |
| PROVISION FOR INCOME TAXES | 12,010 | 10,252 |
| NET INCOME | \$ 17,836 | \$ 15,114 |
| BASIC EARNINGS PER COMMON SHARE | \$ 0.45 | \$ 0.39 |
| DILUTED EARNINGS PER COMMON SHARE | \$ 0.44 | \$ 0.38 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING BASIC | 39,746 | 39,226 |
| | 40,780 | 39,392 |

WEIGHTED AVERAGE NUMBER OF COMMON SHARES
OUTSTANDING DILUTED

See notes to unaudited consolidated financial statements.

4

Table of Contents

LIFE TIME FITNESS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

| | For the Three Months Ended March 31, | |
|---|---|------------------|
| | 2010 | 2009 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 17,836 | \$ 15,114 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 22,765 | 22,064 |
| Deferred income taxes | (1,826) | 303 |
| Loss on disposal of property and equipment, net | 104 | 119 |
| Amortization of deferred financing costs | 849 | 669 |
| Share-based compensation | 1,775 | 2,234 |
| Equity in earnings of affiliate | (301) | (337) |
| Dividend received from equity investment | 350 | 350 |
| Changes in operating assets and liabilities | 12,238 | 7,868 |
| Other | 85 | 1,276 |
| Net cash provided by operating activities | 53,875 | 49,660 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (23,039) | (48,900) |
| Proceeds from sale of property and equipment | 20 | 4 |
| Increase in other assets | (237) | (1,634) |
| Decrease in restricted cash | 507 | 144 |
| Net cash used in investing activities | (22,749) | (50,386) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from long-term borrowings | | 4,813 |
| Repayments of long-term borrowings | (32,666) | (3,694) |
| Proceeds from (repayments of) revolving credit facility, net | 7,800 | (300) |
| Decrease (increase) in deferred financing costs | 42 | (346) |
| Proceeds from stock option exercises | 371 | |
| Net cash provided by (used in) financing activities | (24,453) | 473 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 6,673 | (253) |
| CASH AND CASH EQUIVALENTS Beginning of period | 6,282 | 10,829 |
| CASH AND CASH EQUIVALENTS End of period | \$ 12,955 | \$ 10,576 |

See notes to unaudited consolidated financial statements.

Table of Contents

LIFE TIME FITNESS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary to fairly present financial position, results of operations and cash flows for the periods have been included.

These interim consolidated financial statements and the related notes should be read in conjunction with the annual consolidated financial statements and notes included in the latest Form 10-K, as filed with the Securities and Exchange Commission (SEC), which includes audited consolidated financial statements for the three fiscal years ended December 31, 2009.

2. Share-Based Compensation*Stock Option and Incentive Plans*

We have four share-based compensation plans, the FCA, Ltd. 1996 Stock Option Plan (the 1996 Plan), the Life Time Fitness, Inc. 1998 Stock Option Plan (the 1998 Plan), the Amended and Restated Life Time Fitness, Inc. 2004 Long-Term Incentive Plan (the 2004 Plan) and an Employee Stock Purchase Plan (the ESPP), collectively, the share-based compensation plans. In connection with approval for the 2004 Plan, our Board of Directors approved a resolution to cease making additional grants under the 1996 Plan and the 1998 Plan. The types of awards that may be granted under the 2004 Plan include incentive and non-qualified options to purchase shares of common stock, stock appreciation rights, restricted shares, restricted share units, performance awards and other types of share-based awards.

As of March 31, 2010, we had granted a total of 5,587,165 options to purchase common stock under all of the share-based compensation plans, of which options to purchase 787,052 shares were outstanding, and a total of 2,851,763 restricted shares were granted, of which 1,985,478 restricted shares were outstanding and unvested. We use the term restricted shares to define nonvested shares granted to employees and non-employee directors, whereas applicable accounting guidance reserves that term for fully vested and outstanding shares whose sale is contractually or governmentally prohibited for a specified period of time.

Total share-based compensation expense included in our consolidated statements of operations for the three months ended March 31, 2010 and 2009, was as follows:

| | For the Three Months Ended March 31, | |
|---|---|-------------|
| | 2010 | 2009 |
| Share-based compensation expense related to stock options | \$ 31 | \$ 541 |
| Share-based compensation expense related to restricted shares | 1,714 | 1,663 |
| Share-based compensation expense related to ESPP | 30 | 30 |
| Total share-based compensation expense | \$ 1,775 | \$ 2,234 |

Table of Contents

LIFE TIME FITNESS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

Summary of Restricted Stock Activity

| | Restricted Shares | Range of Market Price Per Share on Grant Date |
|----------------------------------|------------------------------|--|
| Outstanding at December 31, 2009 | 1,966,672 | \$ 9.72-53.95 |
| Granted | 313,561 | \$ 28.79 |
| Canceled | (15,927) | \$ 9.72-50.82 |
| Vested | (278,828) | \$ 9.72-53.95 |
| Outstanding at March 31, 2010 | 1,985,478 | \$ 9.72-53.95 |

During the three months ended March 31, 2010 and 2009, we issued 313,561 and 657,315 shares of restricted stock, respectively, with an aggregate fair value of \$9.0 million and \$6.4 million, respectively. The grant date fair market value of restricted shares that vested during the three months ended March 31, 2010 was \$5.9 million. The total value of each restricted stock grant, based on the fair market value of the stock on the date of grant, is amortized to compensation expense on a straight-line basis over the related vesting period. As of March 31, 2010, there was \$19.1 million of unrecognized compensation expense related to restricted stock that is expected to be recognized over a weighted average period of 3.0 years.

Special 2009 Restricted Stock Grant

In June 2009, the Compensation Committee of our Board of Directors approved the grant of 996,000 shares of long-term performance-based restricted stock to serve as an incentive to our senior management team to achieve certain diluted earnings per share (EPS) targets in 2011 and 2012. As of March 31, 2010, 980,000 of these shares were still outstanding. If a specified EPS target is achieved for fiscal 2011, 50% of the restricted shares will vest. If a higher EPS target is achieved for fiscal 2011, 100% of the restricted shares will vest. If the grant has not fully vested after fiscal 2011, 50% of the shares will vest if a specified EPS target is achieved for fiscal 2012. If none of the shares vested after fiscal 2011, 100% of the shares will vest if a higher EPS target is achieved for fiscal 2012. In the event that we do not achieve the required EPS targets, the restricted stock will be forfeited. A maximum of \$20.0 million could be recognized as compensation expense under this grant if all EPS targets are met.

We believe these targets, inclusive of compensation expense under this grant, to be aggressive goals in excess of our current baseline expectations, and therefore, we did not recognize any compensation expense associated with the grant since the grant date, including the three months ended March 31, 2010, nor has any share amount been included in our total diluted shares. If all of the targets had been considered probable at March 31, 2010, we would have recognized \$6.2 million of compensation cost during the three months ended March 31, 2010. If it becomes probable that certain of the EPS performance targets will be achieved, the corresponding estimated cost of the grant will be recorded as compensation expense over the performance period. The probability of reaching the targets is revaluated each reporting period. If it becomes probable that certain of the target performance levels will be achieved, a cumulative adjustment will be recorded and future compensation expense will increase based on the currently projected performance levels. If we later determine that it is not probable that the minimum EPS performance threshold for the grants will be met, no further compensation cost will be recognized and any previously recognized compensation cost will be reversed.

Table of Contents

LIFE TIME FITNESS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

Summary of Stock Option Activity

| | Stock Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value |
|--|------------------|--|---|---------------------------------|
| Outstanding at December 31, 2009 | 810,578 | \$ 22.93 | 4.8 | \$ 3,669 |
| Granted | | \$ | | |
| Exercised | (23,526) | \$ 15.75 | | |
| Canceled | | \$ | | |
| Outstanding at March 31, 2010 | 787,052 | \$ 23.14 | 4.5 | \$ 5,315 |
| Vested or Expected to Vest at March 31, 2010 | 786,657 | \$ 23.13 | 4.5 | \$ 5,315 |
| Exercisable at March 31, 2010 | 783,106 | \$ 23.03 | 4.5 | \$ 5,315 |

No options were granted during the three months ended March 31, 2010 or the three months ended March 31, 2009. As of March 31, 2010, there was less than \$0.1 million of unrecognized compensation expense related to stock options that is expected to be recognized over a weighted average period of 0.1 years.

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between our closing stock price at March 31, 2010 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders, had all option holders exercised their options on March 31, 2010.

This amount changes based on the fair market value of our stock. Total intrinsic value of options exercised during the three months ended March 31, 2010 and 2009 was \$0.3 million and \$0.0 million, respectively.

Net cash proceeds from the exercise of stock options were \$0.4 million and \$0.0 million for the three months ended March 31, 2010, and 2009, respectively. The actual income tax benefit realized from stock option exercises total \$0.0 million for each of those same periods.

Employee Stock Purchase Plan and Related Share Repurchase Plan

Our ESPP provides for the sale of our common stock to our employees at discounted purchase prices. The cost per share under this plan is 90% of the fair market value of our common stock on the last day of the purchase period, as defined. The current purchase period for employees under the ESPP began January 1, 2010 and ends June 30, 2010. Compensation expense under the ESPP is estimated based on the discount of 10% at the end of the purchase period. In June 2006, our Board of Directors authorized the repurchase of 500,000 shares of our common stock from time to time in the open market or otherwise for the primary purpose of offsetting the dilutive effect of shares pursuant to our ESPP. During the first three months of 2010, we repurchased 18,425 shares for approximately \$0.5 million. As of March 31, 2010, there were 356,963 remaining shares authorized to be repurchased for this purpose. The shares repurchased to date have been purchased in the open market and, upon repurchase, became authorized, but unissued shares of our common stock.

Table of Contents

LIFE TIME FITNESS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

3. Earnings per Share

Basic EPS is computed by dividing net income applicable to common shareholders by the weighted average number of shares of common stock outstanding for each period. Diluted EPS is computed based on the weighted-average number of common shares and common equivalent shares. Common equivalent shares represent the effect of dilutive stock options and restricted stock awards during each period presented. Stock options excluded from the calculation of diluted EPS because the option exercise or award price was greater than the average market price of the common share were 153,852 and 851,350 for the three months ended March 31, 2010 and 2009, respectively. Long-term performance-based restricted shares excluded from the calculation of diluted EPS because vesting of the shares was not probable were 980,000 and 0 for the three months ended March 31, 2010 and 2009, respectively.

The basic and diluted earnings per share calculations are shown below:

| | For the Three Months Ended March 31, | |
|---|---|-------------|
| | 2010 | 2009 |
| Net income | \$ 17,836 | \$ 15,114 |
| Weighted average number of common shares outstanding basic | 39,746 | 39,226 |
| Effect of dilutive stock options | 133 | 81 |
| Effect of dilutive restricted stock awards | 901 | 85 |
| Weighted average number of common shares outstanding diluted | 40,780 | 39,392 |
| Basic earnings per common share | \$ 0.45 | \$ 0.39 |
| Diluted earnings per common share | \$ 0.44 | \$ 0.38 |

4. Operating Segments

Our operations are conducted mainly through our distinctive and large, multi-use sports and athletic, professional fitness, family recreation and spa centers in a resort-like environment. We aggregate the activities of our centers and other ancillary products and services into one reportable segment as none of the centers or other ancillary products or services meet the quantitative thresholds for separate disclosure under the applicable accounting. Each of the centers has similar expected economic characteristics and customers, and generally offers similar service and product offerings. Each of the other ancillary products and services either directly or indirectly, through advertising or branding, compliment the operations of the centers. Our chief operating decision maker uses EBITDA as the primary measure of operating segment performance.

The following table presents revenue for the three months ended March 31, 2010 and 2009:

| | For the Three Months Ended March 31, | |
|-------------------|---|-------------|
| | 2010 | 2009 |
| Membership dues | \$ 145,165 | \$ 137,397 |
| Enrollment fees | 6,324 | 6,473 |
| Personal training | 32,626 | 29,142 |
| Other in-center | 32,906 | 30,160 |
| Other | 2,750 | 3,262 |

| | | |
|---------------|------------|------------|
| Total revenue | \$ 219,771 | \$ 206,434 |
|---------------|------------|------------|

Table of Contents

LIFE TIME FITNESS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 (Table amounts in thousands, except share and per share data)

5. Supplementary Cash Flow Information

Decreases (increases) in operating assets and increases (decreases) in operating liabilities are as follows:

| | For the Three Months Ended March 31, | |
|---|---|-------------|
| | 2010 | 2009 |
| Accounts receivable | \$ 323 | \$ 2,531 |
| Center operating supplies and inventories | (601) | 506 |
| Prepaid expenses and other current assets | (3,892) | (2,920) |
| Deferred membership origination costs | 1,811 | (1,095) |
| Accounts payable | 3,195 | (2,474) |
| Accrued expenses | 9,250 | 8,308 |
| Deferred revenue | 841 | 2,485 |
| Deferred rent liability | 1,148 | (651) |
| Other liabilities | 163 | 1,178 |
| | | |
| Changes in operating assets and liabilities | \$ 12,238 | \$ 7,868 |

We made cash payments for income taxes of \$4.9 million and \$1.6 million for the three months ended March 31, 2010 and 2009, respectively.

We made cash payments for interest, net of capitalized interest, of \$6.8 million and \$7.1 million for the three months ended March 31, 2010 and 2009, respectively. Capitalized interest was \$0.7 million and \$0.9 million for the three months ended March 31, 2010 and 2009, respectively.

Construction accounts payable and accounts payable related to property and equipment was \$9.4 million at March 31, 2010 and \$44.3 million at March 31, 2009.

6. Commitments and Contingencies

Litigation We are engaged in proceedings incidental to the normal course of business. Due to their nature, such legal proceedings involve inherent uncertainties, including but not limited to, court rulings, negotiations between affected parties and governmental intervention. We have established reserves for matters that are probable and estimable in amounts we believe are adequate to cover reasonable adverse judgments not covered by insurance. Based upon the information available to us and discussions with legal counsel, it is our opinion that the outcome of the various legal actions and claims that are incidental to our business will not have a material adverse impact on the consolidated financial position, results of operations or cash flows; however, such matters are subject to many uncertainties, and the outcome of individual matters are not predictable with assurance.

7. Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board issued new guidance on the consolidation of variable interest entities, which was effective for us beginning January 1, 2010. The guidance amends the consolidation guidance applicable to variable interest entities to require revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. The implementation did not have an impact on our consolidated financial statements.

8. Derivative Instruments

As part of our risk management program, we may periodically use interest rate swaps to manage known market exposures. Terms of derivative instruments are structured to match the terms of the risk being managed and are generally held to maturity.

Table of Contents

LIFE TIME FITNESS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Table amounts in thousands, except share and per share data)

In 2007, we entered into an interest rate swap contract that effectively fixed the rates paid on a total of \$125.0 million of variable rate borrowings at 4.825% plus the applicable spread (which depends on our cash flow leverage ratio) until October 2010. In May 2009, we amended the interest rate swap contract to effectively fix the rates paid on the \$125.0 million of variable rate borrowings at 4.715% plus the applicable spread from July 2009 until October 2010. The contract has been designated a cash flow hedge against interest rate volatility. In accordance with applicable accounting guidance, changes in the fair market value of the swap contract are recorded in accumulated other comprehensive income (loss). As of March 31, 2010, the \$1.8 million fair market value loss, net of tax, of the swap contract was recorded as accumulated other comprehensive loss in the shareholders' equity section of our consolidated balance sheets and the \$3.0 million gross fair market value of the swap contract was included in current maturities of long-term debt.

On an ongoing basis, we assess whether the interest rate swap used in this hedging transaction is highly effective in offsetting changes in the fair value or cash flow of the hedged item by comparing the current terms of the swap and the debt to assure they continue to coincide and through an evaluation of the continued ability of the counterparty to the swap to honor its obligations under the swap. If it is determined that the derivative is not highly effective as a hedge or hedge accounting is discontinued, any change in fair value of the derivative since the last date at which it was determined to be effective would be recognized in earnings.

9. Fair Value Measurements

The carrying amounts related to cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the relatively short maturities of such instruments. The fair value of our long-term debt and capital leases are estimated based on estimated current rates for debt with similar terms, credit worthiness and the same remaining maturities. The fair value estimates presented are based on information available to us as of March 31, 2010. These fair value estimates have not been comprehensively revalued for purposes of these consolidated financial statements since that date, and current estimates of fair values may differ significantly.

The following table presents the carrying value and the estimated fair value of long-term debt:

| | March 31, 2010 | |
|----------------------------------|---------------------------|---------------------------------|
| | Carrying Value | Estimated Fair Value |
| Fixed-rate debt | \$ 338,727 | \$ 317,428 |
| Obligations under capital leases | 18,451 | 18,344 |
| Floating-rate debt | 277,693 | 264,085 |
| Total | \$ 634,871 | \$ 599,857 |

The accounting guidance established a framework for measuring fair value and expanded disclosures about fair value measurements. The guidance applies to all assets and liabilities that are measured and reported on a fair value basis. This enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The guidance requires that each asset and liability carried at fair value be classified into one of the following categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

We determined the fair value of the swap contract based upon current fair values as quoted by recognized dealers. As prescribed by the guidance, we recognize the fair value of the swap liability as a Level 2 valuation.

Table of Contents

Item 2.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Forward-Looking Statements

The following discussion may contain forward-looking statements regarding us and our business, prospects and results of operations that are subject to certain risks and uncertainties posed by many factors and events that could cause our actual business, prospects and results of operations to differ materially from those that may be anticipated by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those described under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the SEC that advise interested parties of the risks and factors that may affect our business.

The interim consolidated financial statements filed on this Form 10-Q and the discussions contained herein should be read in conjunction with the annual consolidated financial statements and notes included in the latest Form 10-K, as filed with the SEC, which includes audited consolidated financial statements for the three fiscal years ended December 31, 2009.

Overview

We operate large, multi-use sports, fitness and family recreation centers. As of April 28, 2010, we operated 87 centers primarily in residential locations across 19 states under the LIFE TIME FITNESS and LIFE TIME ATHLETIC brands.

We compare the results of our centers based on how long the centers have been open at the most recent measurement period. We include a center for same-center revenue purposes beginning on the first day of the thirteenth full calendar month of the center's operation, prior to which time we refer to the center as a new center. We include an acquired center for same-center revenue purposes beginning on the first day of the thirteenth full calendar month after we assumed the center's operations.

As we grow our presence in existing markets by opening new centers, we expect to attract some memberships away from our other existing centers already in those markets, reducing revenue and initially lowering the memberships of those existing centers. In addition, as a result of new center openings in existing markets, and because older centers will represent an increasing proportion of our center base over time, our same-center revenue may be lower in future periods than in the past. Of the three new large format centers we have opened or plan to open in 2010, two will be in existing markets. Of the two boutique centers we have opened or plan to open in 2010, both will be in existing markets. We do not expect that operating costs of our planned new centers will be significantly higher than centers opened in the past, and we also do not expect that the planned increase in the number of centers will have a material adverse effect on the overall financial condition or results of operations of existing centers.

Over the past several years, in addition to opening new centers, we have assumed the operations of leased facilities and we have financed several centers with sale-leasebacks transactions. As a result of opening new centers, assuming the operations of leased facilities and entering into sale-leaseback transactions, our center operating margins are lower than they have been historically. We expect that the addition of pre-opening expenses and the lower revenue volumes characteristic of newly-opened centers, as well as the occupancy costs for our leased centers and the lease costs for facilities which we financed through sale-leaseback transactions, will affect our center operating margins at these centers and on a consolidated basis.

In 2008 and 2009, we experienced increased member attrition and lower revenue per membership as well as higher membership acquisition costs due to the challenging economic environment. If the challenging economic conditions continue, we may face continued lower total revenue and operating profit in affected centers and on a consolidated basis. Certain of our markets may be impacted more severely than others as a result of regional economic factors such as housing, competition or unemployment rates. In the first quarter 2010, we saw some improvement in attrition and revenue per membership metrics, but we continue to incur high membership acquisition costs.

Table of Contents

In 1999, we formed Bloomingdale LIFE TIME Fitness, L.L.C. (Bloomingdale LLC) with two unrelated organizations for the purpose of constructing, owning and operating a center in Bloomingdale, Illinois. Bloomingdale LLC is accounted for as an investment in an unconsolidated affiliate and is not consolidated in our financial statements. We measure performance using such key operating statistics as member satisfaction ratings, return on investment, average revenue per membership, including membership dues and enrollment fees, average in-center revenue per membership and center operating expenses, with an emphasis on payroll and occupancy costs, as a percentage of revenue and same-center revenue growth. We use center revenue and EBITDA margins to evaluate overall performance and profitability on an individual center basis. In addition, we focus on several membership statistics on a center-level and system-wide basis. These metrics include change in center membership levels and growth of system-wide memberships, percentage center membership to target capacity, center membership usage, center membership mix among individual, couple and family memberships, Flex subscription memberships and center attrition rates. During 2008, our annual attrition rate (trailing 12 month) increased from 34.3% to 42.3% driven primarily by the slowing economy and inactive members leaving earlier than in the past. During 2009, our annual attrition rate decreased from 42.3% to 40.6%. In first quarter 2010, our trailing 12 month attrition rate decreased to 39.3%.

We have three primary sources of revenue.

Our largest source of revenue is membership dues (66.1% of total revenue for the three months ended March 31, 2010) and enrollment fees (2.9% of total revenue for the three months ended March 31, 2010) paid by our members. We recognize revenue from monthly membership dues in the month to which they pertain. We recognize revenue from enrollment fees over the estimated average membership life, which we estimate to be 30 months for the first quarter of 2010 and all of 2009 and the fourth quarter of 2008, 33 months for the second and third quarters of 2008 and 36 months for the first quarter of 2008 and prior periods.

We generate revenue within a center, which we refer to as in-center revenue, or in-center businesses (29.7% of total revenue for the three months ended March 31, 2010), including fees for personal training, group fitness training and other member activities, sales of products at our LifeCafe, sales of products and services offered at our LifeSpa, tennis programs and renting space in certain of our centers.

We have expanded the LIFE TIME FITNESS brand into other wellness-related offerings that generate revenue, which we refer to as other revenue, or corporate businesses (1.3% of total revenue for the three months ended March 31, 2010), including our media, wellness and athletic events businesses. Our primary media offering is our magazine, *Experience Life*. Other revenue also includes two restaurants in the Minneapolis market and rental income from our Highland Park, Minnesota office building.

We have five primary sources of operating expenses.

Center operations expenses consist primarily of salary, commissions, payroll taxes, benefits, real estate taxes and other occupancy costs, utilities, repairs and maintenance, supplies, administrative support and communications to operate our centers.

Advertising and marketing expenses consist of our marketing department costs and media and advertising costs to support center membership levels, in-center businesses and our corporate businesses.

General and administrative expenses include costs relating to our centralized support functions, such as accounting, information systems, procurement, real estate and development and member relations.

Other operating expenses include the costs associated with our media, athletic events and nutritional product businesses, two restaurants and other corporate expenses, as well as gains or losses on our dispositions of assets.

Depreciation and amortization are computed primarily using the straight-line method over estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the improvement.

Table of Contents

Our total operating expenses may vary from period to period depending on the number of new centers opened during that period, the number of centers engaged in presale activities and the performance of our in-center businesses.

Our primary capital expenditures relate to the construction of new centers and updating and maintaining our existing centers. The land acquisition, construction and equipment costs for a large format center can vary considerably based on variability in land cost and the cost of construction labor, as well as whether or not a tennis area is included or whether or not we expand the gymnasium or add other facilities. We perform maintenance and make improvements on our centers and equipment throughout each year. We conduct a more thorough remodeling project at each center approximately every four to six years.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S., or GAAP, requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Ultimate results could differ from those estimates. In recording transactions and balances resulting from business operations, we use estimates based on the best information available. We use estimates for such items as depreciable lives and tax provisions. We also use estimates for calculating the amortization period for deferred enrollment fee revenue and associated direct costs, which are based on the historical estimated average membership life. We revise the recorded estimates when better information is available, facts change or we can determine actual amounts. These revisions can affect operating results.

Our critical accounting policies and use of estimates are discussed in and should be read in conjunction with the annual consolidated financial statements and notes included in the latest Form 10-K, as filed with the SEC, which includes audited consolidated financial statements for our three fiscal years ended December 31, 2009.

Table of Contents**Results of Operations**

The following table sets forth our statements of operations data as a percentage of total revenue and also sets forth other financial and operating data:

| | For the Three Months Ended March 31, | |
|--|---|-------------|
| | 2010 | 2009 |
| Revenue | | |
| Center revenue | | |
| Membership dues | 66.1% | 66.6% |
| Enrollment fees | 2.9 | 3.1 |
| In-center revenue | 29.7 | 28.7 |
| | | |
| Total center revenue | 98.7 | 98.4 |
| Other revenue | 1.3 | 1.6 |
| | | |
| Total revenue | 100.0 | 100.0 |
| | | |
| Operating expenses | | |
| Center operations | 62.5 | 61.5 |
| Advertising and marketing | 3.1 | 4.0 |
| General and administrative | 4.9 | 5.7 |
| Other operating | 2.0 | 2.4 |
| Depreciation and amortization | 10.4 | 10.7 |
| | | |
| Total operating expenses | 82.9 | 84.3 |
| | | |
| Income from operations (operating margin) | 17.1 | 15.7 |
| | | |
| Other income (expense) | | |
| Interest expense, net | (3.7) | (3.6) |
| Equity in earnings of affiliate | 0.2 | 0.2 |
| | | |
| Total other income (expense) | (3.5) | (3.4) |
| | | |
| Income before income taxes | 13.6 | 12.3 |
| Provision for income taxes | 5.5 | 5.0 |
| | | |
| Net income | 8.1% | 7.3% |
| | | |
| Other financial data: | | |
| Same-center revenue growth 13 month (1) | 2.6% | (2.7%) |
| Mature same-center revenue growth 37 month (1) | (1.2%) | (7.9%) |
| Average revenue per membership (2) | \$ 369 | \$ 352 |
| Average in-center revenue per membership (3) | \$ 111 | \$ 103 |
| Trailing 12 month attrition rate (4) | 39.3% | 42.7% |
| Quarterly attrition rate (5) | 8.5% | 9.8% |
| EBITDA (in thousands) (6) | \$ 60,708 | \$ 54,904 |

Edgar Filing: LIFE TIME FITNESS INC - Form 10-Q

| | | |
|---|-----------|-----------|
| EBITDA margin (7) | 27.6% | 26.6% |
| EBITDAR (in thousands) (6) | \$ 71,218 | \$ 64,900 |
| EBITDAR margin (8) | 32.4% | 31.4% |
| Capital expenditures (in thousands) (9) | \$ 23,039 | \$ 48,900 |
| Free cash flow (in thousands) (10) | \$ 30,836 | \$ 760 |
| Operating data (end of period) (11): | | |
| Centers open | 87 | 83 |
| Memberships | 613,882 | 599,919 |
| Center square footage (12) | 8,704,380 | 8,333,579 |

Table of Contents

- (1) Membership dues, enrollment fees and in-center revenue for a center are included in *same-center revenue growth 13 month* beginning on the first day of the thirteenth full calendar month of the center s operation and are included in *same-center revenue growth 37 month* beginning on the first day of the thirty-seventh full calendar month of the center s operation.
- (2) Average revenue per membership is total center revenue for the period divided by an average number of memberships for the period, where the average number of memberships for the period is derived from dividing the sum of the total memberships

outstanding at the end of each month during the period by the total number of months in the period.

(3) Average in-center revenue per membership is total in-center revenue for the period divided by the average number of memberships for the period, where the average number of memberships for the period is derived from dividing the sum of the total memberships outstanding at the end of each month during the period by the total number of months in the period.

(4) Trailing 12 month attrition rate (or annual attrition rate) is calculated as follows: total terminations for the trailing 12 months (excluding frozen memberships) divided into the average beginning

month
membership
balance for the
trailing
12 months.

(5) Quarterly
attrition rate is
calculated as
follows: total
terminations for
the quarter
(excluding
frozen
memberships)
divided into the
average
beginning
month
membership
balance for the
quarter.

(6) EBITDA
consists of net
income plus
interest expense,
net, provision
for income taxes
and depreciation
and
amortization.
EBITDAR adds
rent expense to
EBITDA. These
terms, as we
define them,
may not be
comparable to a
similarly titled
measures used
by other
companies and
are not
measures of
performance
presented in
accordance with
GAAP. We use
EBITDA and
EBITDAR as

measures of operating performance. EBITDA or EBITDAR should not be considered as a substitute for net income, cash flows provided by operating activities or other income or cash flow data prepared in accordance with GAAP. The funds depicted by EBITDA and EBITDAR are not necessarily available for discretionary use if they are reserved for particular capital purposes, to maintain debt covenants, to service debt or to pay taxes.

The following table provides a reconciliation of net income, the most directly comparable GAAP measure, to EBITDA and EBITDAR (in thousands):

| | For the Three Months Ended March 31, | |
|-------------------------------|---|------------------|
| | 2010 | 2009 |
| Net income | \$ 17,836 | \$ 15,114 |
| Interest expense, net | 8,097 | 7,474 |
| Provision for income taxes | 12,010 | 10,252 |
| Depreciation and amortization | 22,765 | 22,064 |
| EBITDA | \$ 60,708 | \$ 54,904 |
| Rent expense | 10,510 | 9,996 |
| EBITDAR | \$ 71,218 | \$ 64,900 |

- (7) EBITDA margin is the ratio of EBITDA to total revenue.
- (8) EBITDAR margin in the ratio of EBITDAR to total revenue.
- (9) Capital expenditures represent investments in our new centers, costs related to updating and maintaining our existing centers and other infrastructure investments. For purposes of deriving capital expenditures from our cash flows statement, capital expenditures include our purchases of property and equipment, excluding purchases of property and equipment in accounts payable at period end, property and equipment purchases financed through notes payable and capital lease obligations, and non-cash

share-based
compensation
capitalized to
projects under
development.

Table of Contents

(10) Free cash flow is a non-GAAP measure consisting of net cash provided by operating activities, less purchases of property and equipment. This term, as we define it, may not be comparable to a similarly titled measure used by other companies and does not represent the total increase or decrease in the cash balance presented in accordance with GAAP. We use free cash flow as a measure of cash generated after spending on property and equipment. Free cash flow should not be considered as a substitute for net cash provided by operating activities prepared in accordance with GAAP.

The following table provides a reconciliation of net cash provided by operating activities to free cash flow (in thousands):

| For the Three Months Ended March 31, | |
|---|-------------|
| 2010 | 2009 |

Edgar Filing: LIFE TIME FITNESS INC - Form 10-Q

| | | |
|---|-----------|-----------|
| Net cash provided by operating activities | \$ 53,875 | \$ 49,660 |
| Less: Purchases of property and equipment | (23,039) | (48,900) |
| Free cash flow | \$ 30,836 | \$ 760 |

(11) The operating data presented in these items include the center owned by Bloomingdale LLC. The data presented elsewhere in this section exclude the center owned by Bloomingdale LLC.

(12) The square footage presented in this table reflects fitness square footage which is the best metric for the efficiencies of a facility. We exclude outdoor pool, outdoor play areas, indoor/outdoor tennis elements and satellite facility square footage.

Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009

Total revenue. Total revenue increased \$13.3 million, or 6.5%, to \$219.8 million for the three months ended March 31, 2010 from \$206.4 million for the three months ended March 31, 2009.

Total center revenue grew \$13.8 million, or 6.8%, to \$217.0 million for the three months ended March 31, 2010 from \$203.2 million for the three months ended March 31, 2009. Of the \$13.8 million increase in total center revenue, 56.1% was from membership dues, which increased \$7.7 million, or 5.7%, due to increased memberships at new centers and higher average dues. Our number of memberships increased 2.3% to 613,882 at March 31, 2010 from 599,919 at March 31, 2009.

45.0% was from in-center revenue, which increased \$6.2 million primarily as a result of increased sales of our LifeSpa and LifeCafe products and services and personal training. Average in-center revenue per membership increased from \$103 for the three months ended March 31, 2009 to \$111 for the three months ended March 31,

2010.

(1.1%) was from enrollment fees, which are deferred until a center opens and recognized on a straight-line basis over our estimated average membership life. Since the fourth quarter of 2008, the estimated average membership life has been 30 months. For the second and third quarters of 2008, it was 33 months, and for the first quarter of 2008 and prior, it was 36 months. Enrollment fees decreased by \$0.1 million for the three months ended March 31, 2010 to \$6.3 million. Our average enrollment fee was lower in the first quarter of 2010 than in the first quarter of 2009.

Other revenue decreased \$0.5 million, or 15.7%, to \$2.8 million for the three months ended March 31, 2010, which was primarily due to lower media sales.

Center operations expenses. Center operations expenses totaled \$137.6 million, or 63.4% of total center revenue (or 62.5% of total revenue), for the three months ended March 31, 2010, compared to \$127.0 million, or 62.5% of total center revenue (or 61.5% of total revenue), for the three months ended March 31, 2009. This \$10.6 million increase primarily consisted of an increase of \$5.3 million in additional payroll-related costs to support increased memberships and revenue growth at our centers and \$1.9 million in occupancy-related costs, including utilities, real estate taxes and rent on leased centers. Center rent expense totaled \$10.3 million for the three months ended March 31, 2010 and \$9.8 million for the three months ended March 31, 2009. This \$0.5 million increase is primarily a result of a new ground lease. Center operations expenses increased as a percent of

Table of Contents

total revenue due primarily to increases in member acquisition costs and costs associated with increased in-center revenue.

Advertising and marketing expenses. Advertising and marketing expenses were \$6.8 million, or 3.1% of total revenue, for the three months ended March 31, 2010 compared to \$8.3 million, or 4.0% of total revenue, for the three months ended March 31, 2009. These expenses decreased primarily due to more targeted and more market-specific marketing campaigns.

General and administrative expenses. General and administrative expenses were \$10.7 million, or 4.9% of total revenue, for the three months ended March 31, 2010 compared to \$11.7 million, or 5.7% of total revenue, for the three months ended March 31, 2009. This \$1.0 million decrease was primarily due to increased efficiencies and productivity improvements.

Other operating expenses. Other operating expenses were \$4.3 million for the three months ended March 31, 2010 compared to \$4.9 million for the three months ended March 31, 2009.

Depreciation and amortization. Depreciation and amortization was \$22.8 million for the three months ended March 31, 2010 compared to \$22.1 million for the three months ended March 31, 2009. This \$0.7 million increase was due primarily to depreciation on our new centers opened in 2009 and the first quarter of 2010.

Interest expense, net. Interest expense, net of interest income, was \$8.1 million for the three months ended March 31, 2010 compared to \$7.5 million for the three months ended March 31, 2009. This \$0.6 million increase was primarily the result of costs associated with the partial prepayment of mortgage debt of \$0.8 million and decreased capitalized interest on construction projects of \$0.2 million, partially offset by a reduction in debt levels.

Provision for income taxes. The provision for income taxes was \$12.0 million for the three months ended March 31, 2010 compared to \$10.3 million for the three months ended March 31, 2009. This \$1.7 million increase was due to an increase in income before income taxes of \$4.5 million, partially offset by a lower effective income tax rate in the first quarter of 2010. The effective income tax rate for the three months ended March 31, 2010 was 40.2% compared to 40.4% for the three months ended March 31, 2009.

Net income. As a result of the factors described above, net income was \$17.8 million, or 8.1% of total revenue, for the three months ended March 31, 2010 compared to \$15.1 million, or 7.3% of total revenue, for the three months ended March 31, 2009.

Liquidity and Capital Resources**Liquidity**

Historically, we have satisfied our liquidity needs through various debt arrangements, sales of equity and cash flow provided by operations. Principal liquidity needs have included the development of new centers, debt service requirements and expenditures necessary to maintain and update our existing centers and associated fitness equipment. We believe that we can satisfy our current and longer-term debt service obligations and capital expenditure requirements primarily with cash flow from operations, by the extension of the terms of or refinancing our existing debt facilities, through sale-leaseback transactions and by continuing to raise long-term debt or equity capital, although there can be no assurance that such actions can or will be completed.

In 2009, we slowed our growth plans and began to generate free cash flow that allowed us to pay down a portion of our existing debt. We plan to pay off or refinance debt scheduled to mature in 2011 and 2012, including mortgage notes payable in July 2011 and our revolving credit facility in May 2012, through cash flow from operations, refinancing existing debt facilities or issuing new debt.

Our business model operates with negative working capital because we carry minimal accounts receivable due to our ability to have monthly membership dues paid by electronic draft, we defer enrollment fee revenue and we fund the construction of our new centers under standard arrangements with our vendors that are paid with proceeds from long-term debt.

Table of Contents

The following table summarizes our capital structure as of March 31, 2010 and December 31, 2009 (in thousands).

| | March 31, 2010 | December 31, 2009 |
|--------------------------------------|---------------------------|----------------------------------|
| Debt | | |
| Long-term debt | \$ 622,056 | \$ 643,630 |
| Current maturities of long-term debt | 12,815 | 16,716 |
| Total debt | 634,871 | 660,346 |
| Shareholders' Equity | | |
| Common stock | 835 | 829 |
| Additional paid-in capital | 396,413 | 395,121 |
| Retained earnings | 361,931 | 344,095 |
| Accumulated other comprehensive loss | (1,845) | (2,614) |
| Total shareholders' equity | 757,334 | 737,431 |
| Total capitalization | \$ 1,392,205 | \$ 1,397,777 |

Debt highlights, as of March 31, 2010 and December 31, 2009:

| | March 31, 2010 | December 31, 2009 |
|---|-------------------------------|----------------------------------|
| Fixed-rate debt as a percent of total debt | 56.7% | 59.6% |
| Weighted-average annual interest rate of total debt | 3.4% | 3.7% |
| Total debt (net of cash) as a percent of total capitalization (total debt (net of cash) and total shareholders' equity) | 45.1% | 47.0% |
| Cash provided by operating activities (trailing twelve months) as a percent of total debt | 30.0% | 28.2% |

Operating Activities

As of March 31, 2010, we had total cash and cash equivalents of \$13.0 million. We also had \$93.2 million available under the existing terms of our revolving credit facility as of March 31, 2010.

Net cash provided by operating activities was \$53.9 million for the three months ended March 31, 2010 compared to \$49.7 million for the three months ended March 31, 2009.

Investing Activities

Investing activities consist primarily of purchasing real property, constructing new centers and purchasing new fitness equipment. In addition, we invest in capital expenditures to maintain and update our existing centers. We finance the purchase of our property and equipment by cash payments or by financing through notes payable or capital lease obligations.

Net cash used in investing activities was \$22.7 million for the three months ended March 31, 2010 compared to \$50.4 million for the three months ended March 31, 2009. The decrease of \$27.7 million was primarily due to a reduction in construction accounts payable.

Table of Contents

Our capital expenditures were as follows (in thousands):

| | For the Three Months Ended March 31, | |
|---|---|------------------|
| | 2010 | 2009 |
| Purchases of property and equipment | \$ 23,039 | \$ 48,900 |
| Non-cash property purchases in construction accounts payable and accounts payable | (554) | (19,470) |
| Non-cash share-based compensation capitalized to projects under development | 88 | 153 |
| Total capital expenditures | \$ 22,573 | \$ 29,583 |

The following schedule reflects capital expenditures by type of expenditure for the three months ended March 31, 2010 (in thousands):

| | |
|---|------------------|
| New center land and construction | \$ 19,715 |
| Initial remodels of acquired centers | 186 |
| Maintenance of existing facilities and centralized infrastructure | 2,672 |
| Total capital expenditures | \$ 22,573 |

At March 31, 2010, we had purchased the real property for the three large format centers we plan to open in 2010, of which two have already opened, and had signed leases for two boutique centers we plan to open in 2010, one of which has already opened. We had also purchased real property for three, and entered into a ground lease for two, large format centers that we plan to open after 2010. Construction in progress, including land purchased for future development, totaled \$88.6 million at March 31, 2010 and \$144.9 million at March 31, 2009.

We expect our cash outlays for capital expenditures to be approximately \$100 to \$120 million in 2010, including approximately \$77 to \$97 million in the remaining nine months of 2010. Of this approximately \$77 to \$97 million, we expect to incur approximately \$55 to \$65 million for new center construction and approximately \$22 to \$32 million for the updating of existing centers and corporate infrastructure. We plan to fund these capital expenditures primarily with cash flow from operations.

Financing Activities

Net cash used in financing activities was \$24.5 million for the three months ended March 31, 2010 compared to net cash provided by financing activities of \$0.5 million for the three months ended March 31, 2009. The decrease of \$25.0 million was primarily due to payments made on term notes payable to Teachers Insurance and Annuity Association of America (TIAA).

Table of Contents

Long-term debt consists of the following (in thousands):

| | March 31, 2010 | December 31, 2009 |
|---|---------------------------|----------------------------------|
| Term notes payable with monthly interest and principal payments totaling \$836 and \$1,273, respectively, including interest at 8.25% to July 2011 | \$ 73,956 | \$ 105,531 |
| Revolving credit facility, interest only due monthly at interest rates ranging from LIBOR plus 0.625% to 1.50% or base plus 0.0%, facility expires May 2012 | 365,900 | 358,100 |
| Term notes payable with monthly interest and principal payments totaling \$632 including interest at 6.03% to February 2017 | 101,050 | 101,418 |
| Other | 75,514 | 76,588 |
| Total debt (excluding obligations under capital leases) | 616,420 | 641,637 |
| Obligations under capital leases | 18,451 | 18,709 |
| Total debt | 634,871 | 660,346 |
| Less current maturities | 12,815 | 16,716 |
| Total long-term debt | \$ 622,056 | \$ 643,630 |

Revolving Credit Facility

The amount of our revolving credit facility is \$470.0 million. We may increase the total amount of the facility up to \$600.0 million through further exercise of the accordion feature by us if one or more lenders commit the additional \$130.0 million. As of March 31, 2010, \$365.9 million was outstanding on the facility, plus \$10.9 million related to letters of credit, leaving \$93.2 million available for additional borrowing under the existing terms of the facility. The weighted average interest rate and debt outstanding under the revolving credit facility for the three months ended March 31, 2010 was 1.5% and \$354.0 million, respectively. The weighted average interest rate and debt outstanding under the revolving credit facility for the three months ended March 31, 2009 was 2.2% and \$392.8 million, respectively.

Long-Term Debt Activity

On February 23, 2010, we prepaid three of the mortgage notes payable to TIAA at the par amount of \$30.2 million. Concurrent with the prepayment, the mortgages were released on three of our centers. Additionally, the loan documents with TIAA were amended reducing the number of shares of our common stock our Chief Executive Officer must retain from 1.8 million to 1.0 million. As of the date of the prepayment, the obligations to TIAA under the remaining ten mortgage notes payable, totaling \$74.3 million, remain due in July 2011. In March 2010, TIAA sold a portfolio of mortgages, including ours, to Starwood Property Mortgage Sub-1, L.L.C.

Debt Covenants

We are in compliance in all material respects with all restrictive and financial covenants under our various credit facilities as of March 31, 2010.

Our primary financial covenants under our revolving credit facility are:

| Covenant | Requirement | Actual as of March 31, 2010 | Actual as of December 31, 2009 |
|------------------------------------|---------------------------|--|---|
| Total Consolidated Debt to EBITDAR | Not more than 4.00 to 1.0 | 3.16 to 1.0 | 3.29 to 1.0 |
| Senior Debt to EBITDA | Not more than 3.25 to 1.0 | 1.81 to 1.0 | 1.82 to 1.0 |

Edgar Filing: LIFE TIME FITNESS INC - Form 10-Q

Fixed Charge Coverage Ratio Not less than 1.60 2.63 to 1.0 2.65 to 1.0

The formulas for these covenants are specifically defined in the revolving credit facility and include, among other things, an add back of share-based compensation expense to EBITDAR and EBITDA.

Table of Contents**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We invest our excess cash in highly liquid short-term investments. These investments are not held for trading or other speculative purposes. Changes in interest rates affect the investment income we earn on our cash and cash equivalents and, therefore, impact our consolidated cash flows and consolidated results of operations. As of March 31, 2010 and December 31, 2009, our net floating-rate indebtedness was approximately \$277.7 million and \$271.1 million, respectively. If our interest rates on our floating-rate indebtedness were to have increased by 100 basis points during the three months ended March 31, 2010, our interest costs would have increased by approximately \$0.7 million. If short-term interest rates were to have increased by 100 basis points during the three months ended March 31, 2010, our interest income from cash equivalents would have increased by less than \$0.1 million. These amounts are determined by considering the impact of the hypothetical interest rates on our floating-rate indebtedness and cash equivalents balances at March 31, 2010.

Item 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)). Based on this evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including the principal executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

Not applicable.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**Issuer Purchases of Equity Securities in First Quarter 2010**

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan (1) | Maximum Number of Shares that May Yet be Purchased Under the Plan (1) |
|---------------------|---|------------------------------------|---|---|
| January 1 31, 2010 | 18,425 | \$25.99 | 18,425 | 356,963 |
| February 1 28, 2010 | | | | 356,963 |
| March 1 31, 2010 | | | | 356,963 |
| Total | 18,425 | \$25.99 | 18,425 | 356,963 |

(1) In June 2006, our Board of Directors authorized the

repurchase of
500,000 shares
of our common
stock from time
to time in the
open market or
otherwise for
the primary
purpose of
offsetting the
dilutive effect of
shares issued
pursuant to our
Employee Stock
Purchase Plan.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. (REMOVED AND RESERVED)

Table of Contents**ITEM 5. OTHER INFORMATION**

Not applicable.

ITEM 6. EXHIBITS*Exhibits filed with this report*

| Exhibit No. | Description | Method of Filing |
|--------------------|---|---|
| 3.1 | Amended and Restated Articles of Incorporation, as amended, of the Registrant | Incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K dated April 20, 2009 (File No. 001-32230) |
| 3.2 | Amended and Restated Bylaws of the Registrant | Incorporated by reference to Exhibit 3.4 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (File No. 333-113764), filed with the Commission on May 21, 2004 |
| 4 | Specimen of Common Stock Certificate | Incorporated by reference to Exhibit 4 to Amendment No. 4 to the Registrant's Registration Statement of Form S-1 (File No. 333-113764), filed with the Commission on June 23, 2004 |
| 10.1 | Form of 2010 Restricted Stock Agreement (Executive) for 2004 Long-Term Incentive Plan with performance-based vesting component | Filed Electronically |
| 10.2 | Form of Omnibus Waiver and Amendment to Loan Documents with Teachers Insurance and Annuity Association of America dated February 23, 2010 | Filed Electronically |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification by Principal Executive Officer | Filed Electronically |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification by Principal Financial and Accounting Officer | Filed Electronically |
| 32 | Section 1350 Certifications | Filed Electronically |

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Life Time Fitness, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on April 28, 2010.

LIFE TIME FITNESS, INC.

By: /s/ Bahram Akradi
Name: Bahram Akradi
Title: Chairman of the Board of Directors,
President and Chief Executive Officer
(Principal Executive Officer and
Director)

By: /s/ Michael R. Robinson
Name: Michael R. Robinson
Title: Executive Vice President and Chief
Financial Officer
(Principal Financial Officer)

By: /s/ John M. Hugo
Name: John M. Hugo
Title: Vice President and Corporate
Controller (Principal Accounting
Officer)

Table of Contents**INDEX TO EXHIBITS**

| Exhibit No. | Description | Method of Filing |
|--------------------|---|---|
| 3.1 | Amended and Restated Articles of Incorporation, as amended, of the Registrant | Incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K dated April 20, 2009 (File No. 001-32230) |
| 3.2 | Amended and Restated Bylaws of the Registrant | Incorporated by reference to Exhibit 3.4 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (File No. 333-113764), filed with the Commission on May 21, 2004 |
| 4 | Specimen of Common Stock Certificate | Incorporated by reference to Exhibit 4 to Amendment No. 4 to the Registrant's Registration Statement of Form S-1 (File No. 333-113764), filed with the Commission on June 23, 2004 |
| 10.1 | Form of 2010 Restricted Stock Agreement (Executive) for 2004 Long-Term Incentive Plan with performance-based vesting component | Filed Electronically |
| 10.2 | Form of Omnibus Waiver and Amendment to Loan Documents with Teachers Insurance and Annuity Association of America dated February 23, 2010 | Filed Electronically |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification by Principal Executive Officer | Filed Electronically |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification by Principal Financial and Accounting Officer | Filed Electronically |
| 32 | Section 1350 Certifications | Filed Electronically |