

LIFE TIME FITNESS, INC.  
Form 10-Q  
October 28, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended September 30, 2011

or

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

Commission File Number: 001-32230

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Life Time Fitness, Inc.  
(Exact name of registrant as specified in its charter)

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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)

952-947-0000  
(Registrant's telephone number, including area code)

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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 R 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R 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.

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Large accelerated filer	<input checked="" type="checkbox"/> R	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

The number of shares outstanding of the registrant's common stock as of October 17, 2011 was 42,341,575 common shares.

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## 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)

	September 30, 2011 (Unaudited)	December 31, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 12,433	\$ 12,227
Accounts receivable, net	6,347	5,806
Center operating supplies and inventories	20,525	17,281
Prepaid expenses and other current assets	18,741	13,318
Deferred membership origination costs	12,895	14,728
Deferred income taxes	4,606	3,628
Income tax receivable	—	9,916
Total current assets	75,547	76,904
PROPERTY AND EQUIPMENT, net	1,614,071	1,570,234
RESTRICTED CASH	824	2,572
DEFERRED MEMBERSHIP ORIGINATION COSTS	8,361	7,251
GOODWILL	13,322	13,322
OTHER ASSETS	59,202	48,197
<b>TOTAL ASSETS</b>	<b>\$ 1,771,327</b>	<b>\$ 1,718,480</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 5,047	\$ 7,265
Accounts payable	19,059	18,913
Construction accounts payable	23,165	24,342
Accrued expenses	61,116	50,802
Deferred revenue	32,565	32,095
Total current liabilities	140,952	133,417
LONG-TERM DEBT, net of current portion	559,640	605,279
DEFERRED RENT LIABILITY	34,438	32,187
DEFERRED INCOME TAXES	92,377	89,839
DEFERRED REVENUE	8,452	7,279
OTHER LIABILITIES	9,862	9,901
Total liabilities	845,721	877,902
COMMITMENTS AND CONTINGENCIES (Note 6)		
<b>SHAREHOLDERS' EQUITY:</b>		
Undesignated preferred stock, 10,000,000 shares authorized; none issued or outstanding		
Common stock, \$.02 par value, 75,000,000 shares authorized; 42,339,800 and 41,924,985 shares issued and outstanding, respectively	847	839
Additional paid-in capital	429,500	414,922
Retained earnings	497,561	424,787
Accumulated other comprehensive (loss) income	(2,302)	) 30
Total shareholders' equity	925,606	840,578

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,771,327	\$1,718,480
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See notes to unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>REVENUE:</b>				
Membership dues	\$171,504	\$155,288	\$496,530	\$453,332
Enrollment fees	4,403	6,078	14,290	18,577
In-center revenue	80,741	69,453	234,729	203,442
Total center revenue	256,648	230,819	745,549	675,351
Other revenue	8,773	7,493	17,211	13,820
Total revenue	265,421	238,312	762,760	689,171
<b>OPERATING EXPENSES:</b>				
Center operations	159,307	145,205	465,513	424,940
Advertising and marketing	8,940	6,265	26,500	18,940
General and administrative	12,544	10,563	37,307	32,606
Other operating	9,392	7,289	23,397	17,146
Depreciation and amortization	25,358	23,402	73,645	69,385
Total operating expenses	215,541	192,724	626,362	563,017
Income from operations	49,880	45,588	136,398	126,154
<b>OTHER INCOME (EXPENSE):</b>				
Interest expense, net of interest income of \$0, \$10, \$2 and \$31, respectively	(5,072)	) (6,792)	) (15,273)	) (21,806)
Equity in earnings of affiliate	346	302	973	906
Total other income (expense)	(4,726)	) (6,490)	) (14,300)	) (20,900)
<b>INCOME BEFORE INCOME TAXES</b>	<b>45,154</b>	<b>39,098</b>	<b>122,098</b>	<b>105,254</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>18,163</b>	<b>15,720</b>	<b>49,324</b>	<b>42,156</b>
<b>NET INCOME</b>	<b>\$26,991</b>	<b>\$23,378</b>	<b>\$72,774</b>	<b>\$63,098</b>
<b>BASIC EARNINGS PER COMMON SHARE</b>	<b>\$0.67</b>	<b>\$0.59</b>	<b>\$1.81</b>	<b>\$1.59</b>
<b>DILUTED EARNINGS PER COMMON SHARE</b>	<b>\$0.66</b>	<b>\$0.57</b>	<b>\$1.78</b>	<b>\$1.55</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC</b>	<b>40,421</b>	<b>39,932</b>	<b>40,313</b>	<b>39,597</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – DILUTED</b>	<b>40,868</b>	<b>41,260</b>	<b>40,810</b>	<b>40,783</b>

See notes to unaudited consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For the Nine Months Ended September 30,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$72,774	\$63,098
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	73,645	69,385
Deferred income taxes	2,212	(1,100 )
Loss on disposal of property and equipment, net	687	979
Gain on land held for sale	—	(527 )
Amortization of deferred financing costs	1,784	2,024
Share-based compensation	9,913	5,412
Excess tax benefit related to share-based payment arrangements	(2,904 )	(1,697 )
Changes in operating assets and liabilities	20,033	8,930
Other	(822 )	(357 )
Net cash provided by operating activities	177,322	146,147
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(122,149 )	(86,132 )
Acquisitions, net of cash acquired	(7,293 )	(14,378 )
Proceeds from sale of property and equipment	734	721
Proceeds from property insurance settlements	94	—
Proceeds from sale of land held for sale	—	1,019
Increase in other assets	(17 )	(578 )
Decrease in restricted cash	1,748	889
Net cash used in investing activities	(126,883 )	(98,459 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of long-term borrowings	(77,783 )	(38,067 )
Proceeds from revolving credit facility, net	27,800	12,500
Increase in deferred financing costs	(4,395 )	(258 )
Excess tax benefit related to share-based payment arrangements	2,904	1,697
Proceeds from stock option exercises	1,480	3,660
Proceeds from employee stock purchase plan	874	—
Stock purchased for employee stock purchase plan	(1,113 )	—
Net cash used in financing activities	(50,233 )	(20,468 )
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>206</b>	<b>27,220</b>
<b>CASH AND CASH EQUIVALENTS – Beginning of period</b>	<b>12,227</b>	<b>6,282</b>
<b>CASH AND CASH EQUIVALENTS – End of period</b>	<b>\$12,433</b>	<b>\$33,502</b>

See notes to unaudited consolidated financial statements.

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## 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, 2010.

## 2. Share-Based Compensation

## Stock Option and Incentive Plans

We have four share-based compensation plans, 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”), the Life Time Fitness, Inc. 2011 Long-Term Incentive Plan (the “2011 Plan”) and an Employee Stock Purchase Plan (the “ESPP”), collectively, the share-based compensation plans. We no longer make additional grants under the 1998 Plan and the 2004 Plan. There are 2,500,000 shares of common stock reserved for grant under the 2011 Plan and, as of September 30, 2011, there were 2,477,769 shares available for grant. The types of awards that may be granted under the 2011 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 September 30, 2011, 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 497,406 shares were outstanding and vested, and a total of 3,319,784 restricted shares were granted, of which 1,908,650 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 and nine months ended September 30, 2011 and 2010, was as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Share-based compensation expense related to stock options	\$—	\$3	\$—	\$41
Share-based compensation expense related to restricted shares	3,475	1,818	9,823	5,281
Share-based compensation expense related to ESPP	30	30	90	90
Total share-based compensation expense	\$3,505	\$1,851	\$9,913	\$5,412





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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

Shares

Weighted Average Grant Date  
Fair Value

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LIFE TIME FITNESS, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL  
STATEMENTS

(Table amounts in thousands, except share and per share data)

Outstanding at December 31, 2010	1,917,873	\$21.19
Granted	337,029	\$38.32
Canceled	(1,202	) \$22.00
Vested	(323,230	) \$20.80