LIFE TIME FITNESS INC
Form 10-Q
May 01, 2008

Table of Contents

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

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2008

or

o **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	**41-1689746**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2902 Corporate Place	**55317**
Chanhassen, Minnesota	(Zip Code)
(Address of principal executive offices)	

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 þ No o

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a 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 o No þ

The number of shares outstanding of the Registrant s common stock as of April 21, 2008 was 39,525,997 common shares.

TABLE OF CONTENTS

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)
(Unaudited)

	March 31, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,459	$ 5,354
Accounts receivable, net	3,278	4,475
Inventories	13,942	14,324
Prepaid expenses and other current assets	13,173	15,963
Deferred membership origination costs	17,333	16,205
Deferred income taxes	1,177	1,188
Income tax receivable		5,814
Total current assets	51,362	63,323
PROPERTY AND EQUIPMENT, net	1,360,427	1,259,271
RESTRICTED CASH	3,515	6,767
DEFERRED MEMBERSHIP ORIGINATION COSTS	15,157	14,367
OTHER ASSETS	52,654	42,805
TOTAL ASSETS	$ 1,483,115	$ 1,386,533
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 9,314	$ 9,568
Accounts payable	12,148	12,872
Construction accounts payable	64,549	59,261
Accrued expenses	48,090	47,052
Deferred revenue	38,181	34,851
Total current liabilities	172,282	163,604
LONG-TERM DEBT, net of current portion	622,130	555,037
DEFERRED RENT LIABILITY	25,827	25,526
DEFERRED INCOME TAXES	39,456	38,607
DEFERRED REVENUE	18,620	17,529
OTHER LIABILITIES	14,839	13,673
Total liabilities	893,154	813,976
COMMITMENTS AND CONTINGENCIES (Note 8)		
SHAREHOLDERS EQUITY:		

Undesignated preferred stock, 10,000,000 shares authorized; none issued or outstanding		
Common stock, $.02 par value, 50,000,000 shares authorized; 39,525,491 and 39,137,947 shares issued and outstanding, respectively	791	783
Additional paid-in capital	376,276	373,910
Retained earnings	217,294	199,890
Accumulated other comprehensive loss	(4,400)	(2,026)
Total shareholders equity	589,961	572,557
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 1,483,115	$ 1,386,533

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, 2008	2007
REVENUE:		
Membership dues	$ 119,648	$ 100,528
Enrollment fees	6,533	5,686
In-center revenue	55,265	43,897
Total center revenue	181,446	150,111
Other revenue	3,005	2,990
Total revenue	184,451	153,101
OPERATING EXPENSES:		
Center operations	107,580	89,492
Advertising and marketing	9,498	7,369
General and administrative	10,672	10,488
Other operating	4,095	3,324
Depreciation and amortization	16,590	13,687
Total operating expenses	148,435	124,360
Income from operations	36,016	28,741
OTHER INCOME (EXPENSE):		
Interest expense, net of interest income of $71 and $44, respectively	(7,211)	(5,528)
Equity in earnings of affiliate	323	316
Total other income (expense)	(6,888)	(5,212)
INCOME BEFORE INCOME TAXES	29,128	23,529
PROVISION FOR INCOME TAXES	11,724	9,395
NET INCOME	$ 17,404	$ 14,134
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	38,895	36,642
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING DILUTED	39,363	37,392

See notes to unaudited consolidated financial statements.

Table of Contents

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

	For the Three Months Ended March 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 17,404	$ 14,134
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,590	13,687
Deferred income taxes	3,252	1,496
Provision for doubtful accounts	30	(5)
Loss on disposal of property and equipment, net	831	39
Amortization of deferred financing costs	235	195
Share-based compensation	1,782	1,818
Excess tax benefit from stock option exercises	(65)	(916)
Equity in earnings of affiliate	(323)	(316)
Changes in operating assets and liabilities	9,568	8,848
Other	18	47
Net cash provided by operating activities	49,322	39,027
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment (excluding non-cash purchases supplementally noted below)	(100,485)	(84,146)
Proceeds from sale of property and equipment	392	35
Proceeds from property insurance settlement		48
Increase in other assets	(7,215)	(1,155)
Decrease in restricted cash	3,252	29
Net cash used in investing activities	(104,056)	(85,189)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings		105,000
Repayments of long-term borrowings	(2,415)	(3,179)
Proceeds from (repayments of) revolving credit facility, net	54,200	(57,700)
Increase in deferred financing costs	(310)	(1,014)
Excess tax benefit from stock option exercises	65	916
Proceeds from stock option exercises	299	1,171
Net cash provided by financing activities	51,839	45,194

DECREASE IN CASH AND CASH EQUIVALENTS		(2,895)		(968)
CASH AND CASH EQUIVALENTS Beginning of period		5,354		6,880
CASH AND CASH EQUIVALENTS End of period	$	2,459	$	5,912
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash payments for interest, including capitalized interest of $1,914 and $1,830, respectively	$	8,683	$	5,721
Cash payments for income taxes	$	109	$	571
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Purchase of property financed through capital lease obligation	$	9,543	$	
Purchases of property and equipment in accounts payable	$	4,957	$	273
Non-cash share-based compensation capitalized to projects under development	$	228	$	166

See notes to unaudited consolidated financial statements.

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, 2007.

2. Share-Based Compensation

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, 2008, 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 1,176,797 shares were outstanding, and a total of 762,402 restricted shares were granted, of which 591,123 restricted shares were outstanding and unvested. We use the term restricted shares to define nonvested shares granted to employees and non-employee directors, whereas Statement of Financial Accounting Standards No. 123, Share-Based Payment (SFAS 123(R)) 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, 2008 and 2007, was as follows:

	For the Three Months Ended March 31, 2008	For the Three Months Ended March 31, 2007
Share-based compensation expense related to stock options	$ 702	$ 929
Share-based compensation expense related to restricted shares	1,050	859
Share-based compensation expense related to ESPP	30	30
Total share-based compensation expense	$ 1,782	$ 1,818

Table of Contents

The following table summarizes the stock option transactions for the three months ended March 31, 2008:

Options	Shares	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2007	1,208,267	$21.17		
Granted				
Exercised	(31,470)	9.81		
Canceled				
Outstanding at March 31, 2008	1,176,797	$21.48	6.3	$11,451
Vested or Expected to Vest at March 31, 2008	1,144,150	$21.32	6.3	$11,313
Exercisable at March 31, 2008	833,147	$19.20	6.0	$10,003

No options were granted during the three months ended March 31, 2008. The weighted average grant date fair value of stock options granted during the three months ended March 31, 2007 was $20.35. The aggregate intrinsic value of options (the amount by which the market price of the stock on the date of exercise exceeded the exercise price of the option) exercised during the three months ended March 31, 2008 and 2007 was $0.9 million and $3.5 million, respectively. As of March 31, 2008, there was $3.4 million of unrecognized compensation expense related to stock options that is expected to be recognized over a weighted average period of 1.1 years.

The fair value of each stock option was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used: (1)

	For the Three Months Ended March 31, 2008	For the Three Months Ended March 31, 2007
Risk-free interest rate (2)		4.7%
Expected dividend yield		
Expected life in years (3)		5
Volatility (3)		36.9%

(1) Forfeitures are estimated based on historical experience and projected employee turnover.

(2) Based on the five-year Treasury constant

maturity interest rate with the term that is consistent with the expected life of our stock options.

(3) We estimate the expected life and volatility of stock options based on an average of the expected lives and volatilities reported by a peer group of publicly traded companies.

Net cash proceeds from the exercise of stock options were $0.3 million and $1.2 million for the three months ended March 31, 2008, and 2007, respectively. The actual income tax benefit realized from stock option exercises total $0.1 million and $0.9 million, respectively, for those same periods.

Table of Contents

A summary of restricted stock activity follows:

	Restricted Shares	Range of Market Price Per Share on Grant Date
Outstanding at December 31, 2007	302,345	$24.75-53.95
Granted	356,574	26.46
Canceled	(500)	51.15
Vested	(67,296)	24.75-53.95
Outstanding at March 31, 2008	591,123	$26.29-53.95

During the three months ended March 31, 2008 and 2007, we issued 356,574 and 134,450 shares of restricted stock, respectively, with an aggregate fair value of $9.4 million and $6.6 million, respectively. The grant date fair market value of restricted shares that vested during the three months ended March 31, 2008 was $2.9 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.

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 under the ESPP began January 1, 2008 and ends June 30, 2008. 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 quarter of 2008, we repurchased 13,700 shares for approximately $0.7 million. As of March 31, 2008, there were 465,165 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.

3. Earnings per Share

Basic earnings per common share (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 stock options and restricted stock awards during each period presented, which if exercised, would dilute EPS. Stock options and restricted shares 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 318,083 and 0 for the three months ended March 31, 2008 and 2007, respectively.

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

	For the Three Months Ended March 31, 2008	2007
Net income	$ 17,404	$ 14,134
Weighted average number of common shares outstanding basic	38,895	36,642
Effect of dilutive stock options	299	665
Effect of dilutive restricted stock awards	169	85
Weighted average number of common shares outstanding diluted	39,363	37,392

Basic earnings per common share	$ 0.45	$ 0.39
Diluted earnings per common share	$ 0.44	$ 0.38

Table of Contents

4. Operating Segments

Our operations are conducted mainly through our distinctive and large, multi-use sports and athletic, professional fitness, family recreation and resort and spa centers. We aggregate the activities of our centers and other ancillary businesses into one reportable segment as none of the centers or other ancillary businesses meet the quantitative thresholds for separate disclosure under SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. Each of the centers has similar expected economic characteristics, service and product offerings, customers and design. Each of the other ancillary businesses 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, 2008 and 2007:

	For the Three Months Ended March 31,	
	2008	**2007**
Membership dues	$ 119,648	$ 100,528
Enrollment fees	6,533	5,686
Personal training	28,581	21,887
Other in-center	26,684	22,010
Other	3,005	2,990
Total revenue	$ 184,451	$ 153,101

5. Income Taxes

We adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. No cumulative effect upon adoption of FIN 48 was recorded; however, certain amounts have been presented in our consolidated balance sheets in conformance with the requirements of the statement.

At December 31, 2007 and March 31, 2008, we provided a liability for $12.9 million and $13.9 million, respectively, included in other long-term liabilities on our consolidated balance sheets, for unrecognized tax benefits related to various federal and state income tax matters. Included in the FIN 48 liability at December 31, 2007 and March 31, 2008, we provided $1.4 million and $1.5 million, respectively, that if reversed, would affect our effective tax rate if recognized. These amounts include related interest and penalties and are net of tax benefits of $0.3 million.

We recognize interest accrued related to unrecognized tax benefits and penalties as income tax expense. Related to the uncertain tax benefits noted above, we accrued penalties and interest in total, as of December 31, 2007, of $0.8 million, which is net of $0.5 million of tax benefits. The liability for the payment of interest and penalties did not materially change during the three months ended March 31, 2008.

In addition, we believe that it is reasonably possible that approximately $3.6 million of our currently remaining unrecognized tax positions, of which $3.1 million relates to depreciation related to property and equipment lives, may be recognized by the end of 2008 as a result of a lapse of the statute of limitations.

We are subject to taxation in the U.S. and various states. Our tax years 2004, 2005 and 2006 are subject to examination by the tax authorities. With few exceptions, we are no longer subject to U.S. federal, state or local examinations by tax authorities for years before 2004.

Table of Contents

6. 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,	
	2008	2007
Accounts receivable	$ 1,167	$ 32
Income tax receivable	5,879	1,013
Inventories	382	(2,480)
Prepaid expenses and other current assets	2,790	(2,574)
Deferred membership origination costs	(1,918)	(2,958)
Accounts payable	(4,704)	(219)
Accrued expenses	1,126	10,527
Deferred revenue	4,421	5,561
Deferred rent	301	(54)
Other liabilities	124	
Changes in operating assets and liabilities	$ 9,568	$ 8,848

7. Subsequent Event

On January 24, 2008, we amended our credit facility with U.S. Bank National Association to increase the amount of the accordion feature from $25.0 million to $200.0 million and increase the senior secured operating company leverage ratio from not more than 2.50 to 1.00 to not more than 3.25 to 1.00. The amendment also allows for the issuance of additional senior debt and sharing of related collateral with lenders other than the existing bank syndicate. On April 9, 2008 we exercised $21.0 million of the accordion feature bringing the committed amount of the facility to $421.0 million. This reduced the remaining accordion to $179.0 million.

8. Commitments and Contingencies

Litigation We are engaged in legal 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.

9. New Accounting Pronouncements

In September 2006, the FASB issued Statement SFAS No. 157, Fair Value Measurements (SFAS 157). This accounting standard defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standard applies under other accounting pronouncements that require or permit fair value measurements with certain exceptions. SFAS 157 was effective for us January 1, 2008. The adoption of SFAS 157 did not have a material effect on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). This accounting standard permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The standard also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. As allowed under SFAS 159, we elected to not adopt any of the provisions of SFAS 159 for the first quarter of 2008.

In December 2007, the FASB issued a revision of SFAS No. 141, Business Combinations (SFAS 141(R)). This accounting standard requires an acquirer to recognize and measure the assets acquired, liabilities assumed and any noncontrolling interests in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exception. In addition, SFAS 141(R) requires that acquisition-related costs will be generally expensed as incurred. SFAS 141(R) also expands the disclosure requirements for business combinations. SFAS 141(R) will be effective for us on January 1, 2009. We are currently evaluating the effects of the adoption of SFAS 141(R).

In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities an amendment of SFAS No. 133 (SFAS 161). SFAS 161 requires enhanced disclosures about an entity s derivative and hedging activities including how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS 161 will be effective for us on January 1, 2009. We are currently evaluating the effects of the adoption of SFAS 161.

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, 2007. 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, 2007.

Overview

We operate distinctive and large, multi-use sports and athletic, professional fitness, family recreation and resort and spa centers under the LIFE TIME FITNESS® brand. We design, develop and operate our own centers and we focus on providing our members and customers with products and services at a high quality and compelling value in the areas of education, exercise and nutrition.

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 comparable 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 comparable 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 comparable center revenue may be lower in future periods than in the past. Of the eleven new centers we plan to open in 2008, we expect that eight 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. Another result of opening new centers, as well as the assumption of operations of seven leased facilities in 2006 and the assumption of operations of one leased facility in 2007, is that our center operating margins may be lower than they have been historically while the centers build membership base. We expect both the addition of pre-opening expenses and the lower revenue volumes characteristic of newly-opened centers, as well as the facility costs for the eight leased centers, to affect our center operating margins at these new centers and on a consolidated basis. Our categories of new centers and existing centers do not include the center owned by

Table of Contents

Bloomingdale LIFE TIME Fitness, L.L.C. because it 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 average revenue per membership, including membership dues and enrollment fees, average in-center revenue per membership and center operating expenses, with an em