

LIFE TIME FITNESS, INC.
Form 10-Q
October 25, 2013

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 September 30, 2013

or

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

Commission File Number: 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)

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

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 (§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 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"/>	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

The number of shares outstanding of the registrant's common stock as of October 18, 2013 was 42,639,353 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)
(Unaudited)

	September 30, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$19,719	\$16,499
Accounts receivable, net	9,834	9,272
Center operating supplies and inventories	30,691	27,240
Prepaid expenses and other current assets	25,545	26,826
Deferred membership origination costs	10,747	11,664
Deferred income taxes	4,037	8,813
Total current assets	100,573	100,314
PROPERTY AND EQUIPMENT, net	2,024,070	1,858,666
RESTRICTED CASH	734	2,087
DEFERRED MEMBERSHIP ORIGINATION COSTS	6,019	6,820
GOODWILL	49,256	37,176
OTHER ASSETS	73,138	67,111
TOTAL ASSETS	\$2,253,790	\$2,072,174
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$14,469	\$12,603
Accounts payable	28,890	32,140
Construction accounts payable	51,820	25,208
Accrued expenses	66,528	63,333
Deferred revenue	33,362	34,753
Total current liabilities	195,069	168,037
LONG-TERM DEBT, net of current portion	774,323	691,867
DEFERRED RENT LIABILITY	24,858	22,490
DEFERRED INCOME TAXES	91,232	95,509
DEFERRED REVENUE	6,057	6,840
OTHER LIABILITIES	21,216	14,514
Total liabilities	1,112,755	999,257
COMMITMENTS AND CONTINGENCIES (Note 6)		
SHAREHOLDERS' EQUITY:		
Undesignated preferred stock, 10,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$.02 par value, 75,000,000 shares authorized; 42,654,601 and 43,149,434 shares issued and outstanding, respectively	854	864
Additional paid-in capital	420,557	447,912
Retained earnings	724,616	628,942
Accumulated other comprehensive loss	(4,992)	(4,801)
Total shareholders' equity	1,141,035	1,072,917

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$2,253,790	\$2,072,174
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See notes to unaudited consolidated financial statements.

LIFE TIME FITNESS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
REVENUE:				
Membership dues	\$195,657	\$187,568	\$576,847	\$547,933
Enrollment fees	3,598	3,859	10,567	11,742
In-center revenue	97,234	90,543	286,480	265,277
Total center revenue	296,489	281,970	873,894	824,952
Other revenue	19,522	12,903	40,972	26,672
Total revenue	316,011	294,873	914,866	851,624
OPERATING EXPENSES:				
Center operations	180,431	169,521	527,191	496,790
Advertising and marketing	9,758	8,826	30,346	28,871
General and administrative	14,531	13,631	45,600	41,190
Other operating	18,479	14,091	46,538	35,243
Depreciation and amortization	29,956	29,396	89,235	85,217
Total operating expenses	253,155	235,465	738,910	687,311
Income from operations	62,856	59,408	175,956	164,313
OTHER INCOME (EXPENSE):				
Interest expense, net of interest income	(6,436)) (6,510)) (18,999)) (19,332)
Equity in earnings of affiliate	379	375	1,103	1,143
Total other income (expense)	(6,057)) (6,135)) (17,896)) (18,189)
INCOME BEFORE INCOME TAXES	56,799	53,273	158,060	146,124
PROVISION FOR INCOME TAXES	22,413	21,129	62,386	58,016
NET INCOME	\$34,386	\$32,144	\$95,674	\$88,108
BASIC EARNINGS PER COMMON SHARE	\$0.83	\$0.77	\$2.31	\$2.13
DILUTED EARNINGS PER COMMON SHARE	\$0.83	\$0.77	\$2.30	\$2.10
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	41,307	41,484	41,353	41,370
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – DILUTED	41,613	41,881	41,606	41,885

See notes to unaudited consolidated financial statements.

LIFE TIME FITNESS, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
NET INCOME	\$34,386	\$32,144	\$95,674	\$88,108
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net of taxes of \$(251), \$81, \$872 and \$69, respectively	\$349	\$(108)	\$(1,357)	\$(72)
Unrealized gains (losses) on cash flow hedges, net of taxes of \$147, \$434, \$(778) and \$1,416, respectively	(221)	(650)	1,167	(2,125)
Other comprehensive income (loss), net of tax:	128	(758)	(190)	(2,197)
COMPREHENSIVE INCOME	\$34,514	\$31,386	\$95,484	\$85,911

See notes to unaudited consolidated financial statements.

LIFE TIME FITNESS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For the Nine Months Ended September 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$95,674	\$88,108
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	89,235	85,217
Deferred income taxes	(583)	(4,387)
(Gain) loss on disposal of property and equipment, net	(100)	1,231
Gain on land held for sale	—	(196)
Amortization of deferred financing costs	1,635	1,504
Share-based compensation	9,410	10,862
Excess tax benefit related to share-based compensation	(6,575)	(9,138)
Changes in operating assets and liabilities	2,726	30,429
Other	(659)	(769)
Net cash provided by operating activities	190,763	202,861
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(224,542)	(164,556)
Acquisitions, net of cash acquired	(13,102)	(28,984)
Proceeds from sale of property and equipment	1,116	673
Proceeds from sale of land held for sale	—	1,758
Proceeds from property insurance settlements	177	901
Increase in other assets	(1,022)	(94)
Decrease in restricted cash	1,353	376
Net cash used in investing activities	(236,020)	(189,926)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings	125,000	—
Repayments of long-term borrowings	(31,773)	(5,094)
Repayments of revolving credit facility, net	(7,150)	(16,000)
Increase in deferred financing costs	(4,213)	(306)
Excess tax benefit related to share-based compensation	6,575	9,138
Proceeds from stock option exercises	1,563	2,088
Proceeds from employee stock purchase plan	1,074	999
Stock purchased for employee stock purchase plan	(1,309)	(1,290)
Repurchases of common stock	(40,272)	—
Net cash provided by (used in) financing activities	49,495	(10,465)
Effect of exchange rates on cash and cash equivalents	(1,018)	(1,332)
INCREASE IN CASH AND CASH EQUIVALENTS	3,220	1,138
CASH AND CASH EQUIVALENTS – Beginning of period	16,499	7,487
CASH AND CASH EQUIVALENTS – End of period	\$19,719	\$8,625
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, 2012.

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 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, 2013, there were 1,149,485 shares available for grant. The types of awards that may be granted under