LIFE TIME FITNESS INC
Form 10-Q
April 28, 2010

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, 2010

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 Chanhassen, Minnesota	**55317**
(Address of principal executive offices)	(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 þ No o

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 o 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (do not check if smaller reporting company)	Smaller reporting company o

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 23, 2010 was 41,752,604 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)

	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		

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.

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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	For the Three Months Ended March 31, 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.

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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.

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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, 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

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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

	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.

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.

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

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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)

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.

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 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.

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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.