

LIFE TIME FITNESS, INC.  
Form 10-K  
February 28, 2014  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$.02 par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

Large accelerated filer  Accelerated filer

Smaller reporting company

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Non-accelerated filer

(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 Act). Yes  No

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 28, 2013 was \$1,984,624,790, based on the closing sale price for the registrant's common stock on that date.

The number of shares outstanding of the registrant's common stock as of February 17, 2014 was 42,117,174.

**DOCUMENTS INCORPORATED BY REFERENCE**

Document

Proxy Statement for the 2014 Annual Meeting of Shareholders

Incorporated as to

Part II, Item 5 and Part III

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FORWARD-LOOKING STATEMENTS

This Annual Report contains “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can usually be identified by the use of terminology such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “evolve,” “expect,” “forecast,” “intend,” “looking ahead,” “may,” “opportunity,” “possible,” “potential,” “project,” “should,” “will” and similar words or expressions. Forward-looking statements are subject to certain risks and uncertainties that could cause the Company's actual results in the future to differ materially from its historical results and those presently anticipated or projected. Among these factors are attracting and retaining members, risks related to our debt levels and debt covenants, the ability to access our existing credit facility and obtain additional financing, strains on our business from continued and future growth, including potential acquisitions and other strategic initiatives, risks related to maintenance and security of our data, potential recognition of compensation expense related to performance-based stock grants, competition from other health and fitness centers, identifying and acquiring suitable sites for new centers, delays in opening new centers and other factors set forth in Part I, Section 1A of this Annual Report entitled “Risk Factors.” Consequently, no forward-looking statement can be guaranteed and actual results may vary materially.

We intend to take advantage of the protective provisions of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 regarding our forward-looking statement. We caution investors not to place undue reliance on any such forward-looking statements, which speak only as of the date on which such statements were made. We undertake no obligation to update such statements to reflect events or circumstances arising after such date.

PART I

Item 1. Business.

Company Overview

Life Time Fitness, Inc. ("Life Time") is The Healthy Way of Life Company. We help organizations, communities and individuals achieve their total health objectives, athletic aspirations and fitness goals by engaging in their areas of interest, or discovering new passions, both inside and outside of Life Time's distinctive, resort-like sports, professional fitness, family recreation and spa destinations, most of which operate 24 hours a day, seven days a week. Our Healthy Way of Life approach enables our customers to achieve success by providing the best places, people and programs of exceptional quality and value. As of February 28, 2014, we operated 109 centers under the LIFE TIME FITNESS® and LIFE TIME ATHLETIC® brands primarily in suburban locations in 29 major markets in the United States and Canada.

We believe our centers provide a desirable and unique experience for our members, resulting in a high number of memberships per center. We directly operate and manage all of our centers both to optimize and deliver the high-quality member experience we expect. Of our 109 centers, we consider 88 to be of our large format design. Among these 88 centers, we consider 64 to be of our current model design. Although the size and design of our centers may vary, our business strategy, member-focused approach and core operating processes generally remain consistent across our centers. Our current model centers target 6,500 to 10,500 memberships by offering, on average, 114,000 square feet of multi-use sports and athletic, professional fitness, family recreation, spa amenities and programs and services in a resort-like environment.

The breadth of our programs allows us to help members achieve their goals while connecting and engaging them in their areas of passion. By offering best-in-class programming - both inside and outside of our centers - along with a trained and certified team of Life Time employees who lead each program, we help members achieve their goals. Life Time programs include a wide range of interest areas, such as group fitness, yoga, swimming, running, racquetball, squash, tennis, Pilates, martial arts, kids activities and camps, adult activities and leagues, rock climbing, cycling, basketball, personal training, weight loss and nutrition initiatives, spa, medi-spa and chiropractic services. Life Time program offerings may vary by location.

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Our offerings also include our proprietary line of nutritional products and supplements, and our award-winning magazine, Experience Life®. We also operate an Athletic Events division, which offers more than 100 events each year, including running, cycling and triathlon events from entry-level to ultra-endurance. Additionally, we offer a portfolio of health programs and assessments to members at our centers as well as employees of corporate clients, along with partnerships with health insurance companies, with the goal of further extending our Healthy Way of Life products, programs, services and brand.

Our corporate headquarters are located at 2902 Corporate Place, Chanhassen, Minnesota 55317, and our telephone number is (952) 947-0000. Our principal website is [lifetimefitness.com](http://lifetimefitness.com). The information contained on our websites is not a part of this annual report.

### Our History

Our Chairman, President and Chief Executive Officer, Bahram Akradi, opened the first Life Time Fitness center in 1992 with an unwavering commitment to our members and their experiences with us. From the design of our centers, to the amenities and services we provide, to the sheer breadth of programming and events we deliver, everything we do is driven from the member point of view. For example, our company has never required long-term member contracts, instead preferring to offer month-to-month agreements that provide members flexibility, while maintaining clear focus on delivering unparalleled programs and value in an effort to earn their business each and every day.

At Life Time, our mission is clear. We provide an educational, entertaining, friendly and inviting, functional and innovative experience that meets the health and fitness needs of the entire family. Over the course of more than two decades, Life Time has raised the standards in the health club industry significantly while also pioneering the creation of a new comprehensive health and wellness industry we call Healthy Way of Life. Through this, we aim to deliver best-in-class programs that help organizations, communities and individuals achieve their total health objectives, athletic aspirations and fitness goals by engaging in their areas of passion. Life Time is well positioned to help them do so by providing the best programs, best people and best places to deliver exceptional experiences, quality and value.

We were incorporated in 1990 as a Minnesota corporation under the name FCA, Ltd., and subsequently registered to use the name of Life Time Fitness in 1992. We then officially changed our corporate name to Life Time Fitness, Inc. in 1998. In 2004, we completed our initial public offering. Our stock is listed on the New York Stock Exchange (Ticker: LTM).

### Our Competitive Strengths

We offer comprehensive programs and services.

The breadth of our programs allows us to connect and engage members in their areas of passion. Unlike many traditional health clubs or gyms, which typically offer little more than rooms with equipment, most Life Time destinations offer an expansive selection of premium amenities and services; comprehensive programming with dedicated spaces; a large team of certified professionals, service and operations employees; and hundreds of pieces of best-in-class cardiovascular and resistance equipment and free-weights. Many of the premium amenities and services are included in the standard membership dues.

We offer a value proposition that encourages membership loyalty.

The broad range of amenities, programs and services we offer exceeds that of most other health and fitness center alternatives available to consumers. We offer different types of membership plans for individuals, couples and families including Access and Non-Access memberships. Our Non-Access membership option is for members who do not access the center, but still want to maintain certain member benefits. Our typical monthly Access membership dues range from \$45 to \$160 per month for an individual membership and from \$75 to \$340 per month for a couple or family membership. Our typical Non-Access dues are \$10 to \$20 per month for an individual, couple or family membership. The majority of our memberships include the primary member's children under the age of 12 at a

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modest per child monthly cost. In addition, we have added a new offering also for children under the age of 12 -- Life Time Kids Academy -- which includes more in-depth, skills-based programming focused on activity, learning and fitness. This program was added in five clubs in 2013, and offers monthly dues between \$20 and \$90 per month. We provide the majority of our members with a variety of services with their membership, including group fitness classes and fitness assessments, towel and locker service and an online subscription to our award-winning magazine, Experience Life®. Our membership plans include initial 14-day money back guarantees and are month-to-month, cancelable by giving up to 60 days advance notice. We believe our value proposition and member-focused approach creates loyalty among our members.

We offer a product that is convenient for our members.

Our centers generally are situated in easily accessible areas and centrally located among the residential, business and shopping districts of the surrounding community. Many members have access to more than one center in markets where we operate more than one location, as well as across our network of centers in the U.S. and Canada. We design, build and operate our centers to accommodate a large and active membership base by generally providing access to the centers 24 hours a day, seven days a week. In addition, we provide sufficient parking spaces, lockers and equipment to allow our members to use our centers with little or no waiting time, even at peak hours and when centers are at targeted capacity. Our child center services are available to the majority of our members for a modest monthly fee per child for up to two hours per day. Most of our centers offer the convenience of spa and café services.

We have an established and profitable economic model.

Our center-level economic model has been regularly refined and is both based and dependent on driving membership growth by ramping memberships and optimizing membership mix and pricing after a new center is opened, as well as retaining the dues stream and maintaining tight expense control once the center matures. Since our first center opened in 1992, we have opened and operated over 100 centers, each of which utilizes this economic model. In 2013, this economic model resulted in revenue growth of 7.0%, with revenue of \$1.2 billion; EBITDA growth of 6.2%, with EBITDA of \$345.0 million and an EBITDA margin of 28.6%; and net income growth of 9.1%, with net income of \$121.7 million. EBITDA is a non-GAAP, non-cash measure which consists of net income plus interest expense, net, provision for income taxes and depreciation and amortization. Additional details related to EBITDA are provided in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures.”

We have a disciplined and sophisticated site selection and development process.

We have developed a disciplined and sophisticated process to evaluate metropolitan markets in which to build or lease new centers, as well as evaluate specific sites for potential centers within those markets. This multi-step process is based upon applying our proven successful experience and analysis generated from profiles of our existing centers to the market's potential base, including physical geography, drive patterns, demographics, cultural and competitive information. We continue to modify the analysis based upon the performance of our centers including newer centers as they mature. A formal business plan is developed for each proposed new center and the plan must pass multiple stages of approval by our management and Finance Committee of the Board of Directors. By utilizing a wholly owned construction subsidiary, LTF Construction Company, LLC (“Life Time Construction”), formerly known as FCA Construction, that builds and remodels our centers as well as an in-house architectural team that designs and produces construction drawings, we maintain maximum flexibility over the design process of our centers as well as control over the cost and timing of the construction process.

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## Our Growth Strategy

Our growth strategy is driven by three primary elements:

Build and acquire new centers.

We intend to expand our base of centers, primarily through new center development as well as opportunistic acquisition. Our new center expansion will focus on strategic locations which we believe will generate higher average dues and higher in-center revenue per membership. These locations typically represent our Life Time Athletic centers, which include our Onyx and Diamond membership plans. In 2013, we opened three large format centers that we designed and constructed, two of which are Life Time Athletic centers. We expect to open six centers in 2014, five of which are Life Time Athletic centers. One of these centers opened in February and the others are currently under construction. A rollforward of our center growth is as follows:

	For the Year Ended December 31,				
	2013	2012	2011	2010	2009
Total centers, beginning of year	105	101	89	84	81
New centers – constructed	3	3	3	3	3
New centers – remodel of existing space	—	—	—	2	—
Acquired centers (1)	—	1	9	1	—
Closed center (2)	—	—	—	(1	) —
Total centers, end of year	108	105	101	89	84

(1) In January 2012, we acquired the Racquet Club of the South, a tennis facility in the Atlanta market, which we rebranded as Life Time Athletic Peachtree Corners. In December 2011, we acquired nine centers from Lifestyle Family Fitness ("LFF") in Indiana, North Carolina and Ohio. In May 2010, we acquired one center in Texas.

(2) In 2010, the lease expired on our 85,630 square foot center in St. Paul, Minnesota which opened in 1997. We closed the center and transferred its memberships to our surrounding locations.

Grow membership dues and in-center revenue.

We focus on growing our membership dues by optimizing price and mix and adding new memberships. We expect to continue driving in-center revenue both by introducing new products and services and by expanding our marketing and affinity programs to introduce more members to our products and services.

Grow membership dues. Of our 108 open centers at December 31, 2013, 89 had reached maturity, which we define as the 37<sup>th</sup> month of operations. We had 19 centers that had not yet reached maturity, nine of which were greenfield expansion centers and 10 of which were acquired centers. In total, these 19 centers averaged 57% of targeted membership capacity at December 31, 2013; our nine greenfield centers averaged 60% of targeted membership capacity and the 10 acquired centers averaged 51% of targeted membership capacity. We expect the continuing increase in memberships at all 19 centers to contribute to our future growth.

We also focus on optimizing our membership dues through price increases and by improving the mix of our memberships. Our membership dues mix can be improved by increasing the number of members covered under a membership (for instance, an individual to a couple membership, or a couple to a family membership). A member may also upgrade a membership to a higher plan level (for example, from Gold to Platinum).

In order to achieve and maintain our membership and dues goals, we focus on demographics, center usage and membership trends, and employ marketing programs to effectively communicate our value proposition to existing and prospective members. We also offer a subscription option, referred to as a Non-Access membership, for members who do not access the center, but still want to maintain certain member benefits.

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Grow in-center revenue. In 2013, revenue from the sale of in-center products, programming and services grew \$27.3 million, or 7.8%, to \$375.5 million and we increased in-center revenue per membership from \$507 to \$545. Our programming and services including personal training, spa, café and other member offerings. We focus on growing in-center revenues by getting more members involved in or using our current product and service portfolio, continually introducing new products and services and by marketing our in-center businesses.

Grow ancillary businesses revenue.

Our ancillary businesses include athletic events, media and health programs. These businesses help build the LIFE TIME FITNESS® brand, differentiate our program offerings and support our membership base.

We produce athletic events for members and non-members, both inside and outside our centers. The primary focus has been on endurance activities, including running, cycling and triathlon. Our events range from entry level to ultra endurance events and draw from local, regional, national and international markets. We also acquired and operate a race registration and timing business.

Through our media business, we provide our partners with reach to sought-after consumers through a range of print and digital media, including our award-winning Experience Life® magazine and event sponsorships.

Our health and weight loss programs are expanding as we seek to serve both businesses and individuals with an array of differentiated health, wellness, fitness, weight loss and nutrition solutions. As we do so, we also are creating opportunities to expand the reach of our destinations, programs and services to new members, while also growing our subscription-based model to include new types of memberships with limited or no regular center access.

Revenue from ancillary businesses grew \$13.9 million, or 38.8%, to \$49.6 million, which was due primarily to the full year impact of our April 2012 acquisition of the race registration and timing business and other athletic events.

Our Sports and Athletic, Professional Fitness, Family Recreation and Spa Centers

Size and Location

Our centers have evolved since inception. All centers are centrally located in areas that offer convenient access from residential, business and shopping districts of the surrounding community, and generally provide free and ample parking.

Of our 108 centers as of December 31, 2013, 87 are of our large format design and 63 of those conform to our current model center design. Our distinctive format is designed to provide efficient and inviting spaces that are conducive to the wide range of healthy way of life programming we deliver and that accommodate each center's targeted capacity. Our current model centers generally target 6,500 to 10,500 memberships and our other large format centers generally target 3,500 to 10,500 memberships. This targeted capacity is designed to maximize the member experience based upon our historical understanding of membership usage, facility layout, the number of individual, couple and family memberships and pricing.

Generally, the main differences between our large format centers and those that are of the current model design are that our current model centers generally include an outdoor aquatics park, larger indoor aquatics area, larger gymnasium, up to three additional studios and enhanced spa and café spaces. We believe that all of our large format centers serve as all-in-one sports and athletic, professional fitness, family recreation and spa destinations. The following table provides the number and average square footage of our large format centers:



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	As of December 31,				
	2013	2012	2011	2010	2009
Large format centers – current model					
Number of centers	63	60	57	54	51
Average square feet	114,000	114,000	113,000	113,000	113,000
Large format centers – other					
Number of centers	24	24	24	24	24
Average square feet	95,000	95,000	95,000	95,000	95,000

## Center Environment

Our centers generally combine modern architecture and decor with best-in-class amenities. Most of our current model and large format centers are freestanding buildings designed with open architecture and naturally illuminated atriums that create a spacious, inviting atmosphere. With finishes such as limestone floors, wood lockers and granite countertops, our centers are carefully designed to create an appealing and luxurious environment that attracts and retains members and encourages them to visit the center. Moreover, we have specific staff members who are responsible for maintaining the cleanliness of the entire center. We regularly update and refurbish our centers to maintain a high-quality experience. Our commitment to quality and detail provides a similar look and feel at each of our large format centers.

The table below displays the wide assortment of amenities, services, activities and events typically found at our large format centers, including our current model centers:

Amenities	Services	Activities and Events
Cardiovascular Equipment	24-Hour Availability	