

LIFE TIME FITNESS, INC.  
Form 10-Q  
October 30, 2014

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

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FORM 10-Q

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

For the quarterly period ended September 30, 2014

or

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

Commission File Number: 001-32230

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

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Minnesota  
(State or other jurisdiction of incorporation or  
organization)

41-1689746  
(I.R.S. Employer Identification No.)

2902 Corporate Place  
Chanhassen, Minnesota  
(Address of principal executive offices)

55317  
(Zip Code)

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 17, 2014 was 39,122,768 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,<br>2014 | December 31,<br>2013 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                                                |                       |                      |
| Current assets:                                                                                                                                                                              |                       |                      |
| Cash and cash equivalents                                                                                                                                                                    | \$9,622               | \$8,334              |
| Accounts receivable, net                                                                                                                                                                     | 10,103                | 8,298                |
| Center operating supplies and inventories                                                                                                                                                    | 36,703                | 32,778               |
| Prepaid expenses and other current assets                                                                                                                                                    | 27,804                | 25,802               |
| Deferred membership origination costs                                                                                                                                                        | 9,375                 | 9,945                |
| Deferred income taxes                                                                                                                                                                        | 6,069                 | 6,881                |
| Income tax receivable                                                                                                                                                                        | 88                    | 6,698                |
| Total current assets                                                                                                                                                                         | 99,764                | 98,736               |
| Property and equipment, net                                                                                                                                                                  | 2,335,498             | 2,105,077            |
| Restricted cash                                                                                                                                                                              | 890                   | 850                  |
| Deferred membership origination costs                                                                                                                                                        | 6,316                 | 5,210                |
| Goodwill                                                                                                                                                                                     | 57,478                | 49,195               |
| Intangible assets, net                                                                                                                                                                       | 43,868                | 29,299               |
| Other assets                                                                                                                                                                                 | 43,811                | 42,684               |
| Total assets                                                                                                                                                                                 | \$2,587,625           | \$2,331,051          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                                                                                  |                       |                      |
| Current liabilities:                                                                                                                                                                         |                       |                      |
| Current maturities of long-term debt                                                                                                                                                         | \$22,394              | \$24,505             |
| Accounts payable                                                                                                                                                                             | 35,709                | 28,645               |
| Construction accounts payable                                                                                                                                                                | 40,338                | 47,342               |
| Accrued expenses                                                                                                                                                                             | 67,626                | 67,435               |
| Deferred revenue                                                                                                                                                                             | 36,330                | 35,032               |
| Total current liabilities                                                                                                                                                                    | 202,397               | 202,959              |
| Long-term debt, net of current portion                                                                                                                                                       | 1,152,567             | 824,093              |
| Deferred rent liability                                                                                                                                                                      | 29,856                | 28,933               |
| Deferred income taxes                                                                                                                                                                        | 92,258                | 100,504              |
| Deferred revenue                                                                                                                                                                             | 6,369                 | 5,246                |
| Other liabilities                                                                                                                                                                            | 16,837                | 21,287               |
| Total liabilities                                                                                                                                                                            | 1,500,284             | 1,183,022            |
| Commitments and contingencies (Note 6)                                                                                                                                                       |                       |                      |
| Shareholders' equity:                                                                                                                                                                        |                       |                      |
| Preferred stock: 10,000,000 shares authorized; 100,000 shares of Series A Junior Participating Preferred Stock designated and no shares designated, respectively; none issued or outstanding | —                     | —                    |
| Common stock, \$.02 par value, 75,000,000 shares authorized; 39,123,068 and 42,115,549 shares issued and outstanding, respectively                                                           | 783                   | 843                  |
| Additional paid-in capital                                                                                                                                                                   | 249,478               | 402,147              |

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|                                                           |             |             |
|-----------------------------------------------------------|-------------|-------------|
| Retained earnings                                         | 843,174     | 750,654     |
| Accumulated other comprehensive loss                      | (6,094      | ) (5,615 )  |
| Total shareholders' equity                                | 1,087,341   | 1,148,029   |
| Total liabilities and shareholders' equity                | \$2,587,625 | \$2,331,051 |
| 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<br>September 30, |           | For the Nine Months Ended<br>September 30, |           |
|----------------------------------------------------------------|---------------------------------------------|-----------|--------------------------------------------|-----------|
|                                                                | 2014                                        | 2013      | 2014                                       | 2013      |
| Revenue:                                                       |                                             |           |                                            |           |
| Membership dues                                                | \$208,233                                   | \$195,657 | \$610,212                                  | \$576,847 |
| Enrollment fees                                                | 3,086                                       | 3,598     | 9,228                                      | 10,567    |
| In-center revenue                                              | 107,936                                     | 97,234    | 310,700                                    | 286,480   |
| Total center revenue                                           | 319,255                                     | 296,489   | 930,140                                    | 873,894   |
| Other revenue                                                  | 17,590                                      | 19,522    | 45,224                                     | 40,972    |
| Total revenue                                                  | 336,845                                     | 316,011   | 975,364                                    | 914,866   |
| Operating expenses:                                            |                                             |           |                                            |           |
| Center operations                                              | 193,032                                     | 180,431   | 570,155                                    | 527,191   |
| Advertising and marketing                                      | 9,611                                       | 9,758     | 31,683                                     | 30,346    |
| General and administrative                                     | 15,921                                      | 14,531    | 46,281                                     | 45,600    |
| Other operating                                                | 14,804                                      | 18,479    | 45,603                                     | 46,538    |
| Depreciation and amortization                                  | 36,654                                      | 29,956    | 103,252                                    | 89,235    |
| Total operating expenses                                       | 270,022                                     | 253,155   | 796,974                                    | 738,910   |
| Income from operations                                         | 66,823                                      | 62,856    | 178,390                                    | 175,956   |
| Other income (expense):                                        |                                             |           |                                            |           |
| Interest expense, net of interest income                       | (9,828)                                     | ) (6,436  | ) (26,331                                  | ) (18,999 |
| Equity in earnings of affiliate                                | 255                                         | 379       | 822                                        | 1,103     |
| Total other expense                                            | (9,573)                                     | ) (6,057  | ) (25,509                                  | ) (17,896 |
| Income before income taxes                                     | 57,250                                      | 56,799    | 152,881                                    | 158,060   |
| Provision for income taxes                                     | 22,849                                      | 22,413    | 60,361                                     | 62,386    |
| Net income                                                     | \$34,401                                    | \$34,386  | \$92,520                                   | \$95,674  |
| Basic earnings per common share                                | \$0.91                                      | \$0.83    | \$2.36                                     | \$2.31    |
| Diluted earnings per common share                              | \$0.91                                      | \$0.83    | \$2.35                                     | \$2.30    |
| Weighted average number of common shares outstanding – basic   | 37,755                                      | 41,307    | 39,165                                     | 41,353    |
| Weighted average number of common shares outstanding – diluted | 37,913                                      | 41,613    | 39,415                                     | 41,606    |

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<br>September 30, |          | For the Nine Months Ended<br>September 30, |          |
|-----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|----------|--------------------------------------------|----------|
|                                                                                                                             | 2014                                        | 2013     | 2014                                       | 2013     |
| Net income                                                                                                                  | \$34,401                                    | \$34,386 | \$92,520                                   | \$95,674 |
| Other comprehensive income (loss), net of income tax:                                                                       |                                             |          |                                            |          |
| Foreign currency translation adjustments, net of income taxes of \$526, \$(251), \$798 and \$872, respectively              | (797                                        | ) 349    | (1,188                                     | ) (1,357 |
| Unrealized gains (losses) on cash flow hedges, net of income taxes of \$(321), \$147, \$(473) and \$(778), 481 respectively |                                             | (221     | ) 709                                      | 1,167    |
| Other comprehensive income (loss), net of income tax:                                                                       | (316                                        | ) 128    | (479                                       | ) (190   |
| Comprehensive income                                                                                                        | \$34,085                                    | \$34,514 | \$92,041                                   | \$95,484 |

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<br>September 30, |           |
|-----------------------------------------------------------------------------------|--------------------------------------------|-----------|
|                                                                                   | 2014                                       | 2013      |
| Cash flows from operating activities:                                             |                                            |           |
| Net income                                                                        | \$92,520                                   | \$95,674  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                            |           |
| Depreciation and amortization                                                     | 103,252                                    | 89,235    |
| Deferred income taxes                                                             | (7,804)                                    | (583)     |
| Gain on disposal of property and equipment, net                                   | (563)                                      | (100)     |
| Gain on land held for sale                                                        | (17)                                       | —         |
| Amortization of deferred financing costs                                          | 1,918                                      | 1,635     |
| Share-based compensation                                                          | 9,879                                      | 9,410     |
| Excess tax benefit related to share-based compensation                            | (1,073)                                    | (6,575)   |
| Changes in operating assets and liabilities                                       | (4,058)                                    | 2,726     |
| Other                                                                             | (4,744)                                    | (659)     |
| Net cash provided by operating activities                                         | 189,310                                    | 190,763   |
| Cash flows from investing activities:                                             |                                            |           |
| Purchases of property and equipment                                               | (338,365)                                  | (224,542) |
| Acquisitions, net of cash acquired                                                | (12,400)                                   | (13,102)  |
| Proceeds from sale of property and equipment                                      | 1,146                                      | 1,116     |
| Proceeds from sale of land held for sale                                          | 785                                        | —         |
| Proceeds from property insurance settlements                                      | —                                          | 177       |
| Decrease (increase) in other assets                                               | 1,906                                      | (1,022)   |
| (Increase) decrease in restricted cash                                            | (40)                                       | 1,353     |
| Net cash used in investing activities                                             | (346,968)                                  | (236,020) |
| Cash flows from financing activities:                                             |                                            |           |
| Proceeds from long-term borrowings                                                | 161,750                                    | 125,000   |
| Repayments of long-term borrowings                                                | (26,192)                                   | (31,773)  |
| Proceeds from (repayments of) credit facility, net                                | 191,500                                    | (7,150)   |
| Increase in deferred financing costs                                              | (4,684)                                    | (4,213)   |
| Excess tax benefit related to share-based compensation                            | 1,073                                      | 6,575     |
| Proceeds from stock option exercises                                              | 2,713                                      | 1,563     |
| Proceeds from employee stock purchase plan                                        | 1,278                                      | 1,074     |
| Stock purchased for employee stock purchase plan                                  | (1,531)                                    | (1,309)   |
| Repurchases of common stock                                                       | (166,878)                                  | (40,272)  |
| Net cash provided by financing activities                                         | 159,029                                    | 49,495    |
| Effect of exchange rates on cash and cash equivalents                             | (83)                                       | (1,018)   |
| Increase in cash and cash equivalents                                             | 1,288                                      | 3,220     |
| Cash and cash equivalents – beginning of period                                   | 8,334                                      | 16,499    |
| Cash and cash equivalents – end of period                                         | \$9,622                                    | \$19,719  |
| 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 our consolidated 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, 2013.

## 2. Share-Based Compensation

## Stock Option and Incentive Plans

We have three share-based compensation plans: 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 2004 Plan. There are 2,500,000 shares of common stock reserved for grant under the 2011 Plan and, as of September 30, 2014, there were 898,925 shares available for grant. The types of awards that may be granted under the 2011 Plan include incentive and non-qualified options to purchase shares of common stock, stock appreciation rights, restricted shares, restricted share units, performance awards and other types of share-based awards.

As of September 30, 2014, we had granted a total of 1,929,665 options to purchase common stock under all of the share-based compensation plans, of which options to purchase 76,277 shares were outstanding and vested, and a total of 5,193,223 restricted shares were granted, of which 1,435,642 restricted shares were outstanding and unvested. We use the term "restricted shares" to define unvested shares granted to employees and non-employee directors. We use the term "vest" to define the lapse of vesting restrictions on restricted shares.

Total share-based compensation expense included in our consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013, was as follows:

|                                                               | For the Three Months Ended<br>September 30, |         | For the Nine Months Ended<br>September 30, |         |
|---------------------------------------------------------------|---------------------------------------------|---------|--------------------------------------------|---------|
|                                                               | 2014                                        | 2013    | 2014                                       | 2013    |
| Share-based compensation expense related to restricted shares | \$3,072                                     | \$3,094 | \$9,789                                    | \$9,320 |
| Share-based compensation expense related to ESPP              | 30                                          | 30      | 90                                         | 90      |
| Total share-based compensation expense                        | \$3,102                                     | \$3,124 | \$9,879                                    | \$9,410 |

LIFE TIME FITNESS, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(Table amounts in thousands, except share and per share data)

## Summary of Restricted Stock Activity

|                                   | Shares    | Weighted<br>Average Grant<br>Date Fair Value |
|-----------------------------------|-----------|----------------------------------------------|
| Outstanding at December 31, 2013  | 1,429,730 | \$44.19                                      |
| Granted                           | 452,652   | \$45.16                                      |
| Canceled                          | (117,040) | ) \$45.30                                    |
| Vested                            | (329,700) | ) \$40.64                                    |
| Outstanding at September 30, 2014 | 1,435,642 | \$45.22                                      |

During the nine months ended September 30, 2014 and 2013, we issued 452,652 and 363,106 shares of restricted stock, respectively, with an aggregate grant date fair value of \$20.4 million and \$15.4 million, respectively. The grant date fair value of restricted shares that vested during the nine months ended September 30, 2014 and 2013 was \$13.4 million and \$21.7 million, respectively. The total value of each restricted stock grant, based on the fair 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 September 30, 2014, there was \$28.5 million of unrecognized compensation expense related to restricted stock that is expected to vest. We plan to recognize this amount over a weighted average period of 2.5 years.

## Special 2012 Long-Term Performance-Based Restricted Stock Grant

In May, July and August 2012, the Compensation Committee of our Board of Directors approved the grant of a total of 658,500 shares of long-term performance-based restricted stock to serve as an incentive to our senior management team to achieve certain cumulative diluted earnings per share ("EPS") and return on invested capital ("ROIC") targets during performance periods that end on December 31, 2015 and December 31, 2016. On September 30, 2014, 565,500 shares remained outstanding under this grant.

The Compensation Committee set the cumulative diluted EPS targets at 1.5 times the compound annual growth rate under our then-current long range plan and the ROIC targets at 1.1 times the ROIC under our then-current long range plan. The following are the performance metrics underlying the targets:

|                                                           | Cumulative Diluted EPS<br>Measurement<br>Period | EPS<br>Target | ROIC<br>Measurement<br>Period | ROIC<br>Target |   |
|-----------------------------------------------------------|-------------------------------------------------|---------------|-------------------------------|----------------|---|
| 2015 Performance Period                                   | 4/1/2012                                        |               | 1/1/2015                      |                |   |
| 50% vest if we achieve both performance targets           | through<br>12/31/2015                           | \$ 13.68      | through<br>12/31/2015         | 8.9            | % |
| 2016 Performance Period                                   | 4/1/2012                                        |               | 1/1/2016                      |                |   |
| All/remaining vest if we achieve both performance targets | through<br>12/31/2016                           | \$ 18.96      | through<br>12/31/2016         | 9.0            | % |

A maximum of \$26.0 million could be recognized as compensation expense under this grant if all cumulative diluted EPS and ROIC targets are met. We do not believe that achievement of either the cumulative diluted EPS or the ROIC targets is currently probable, and, therefore, we have not recognized any compensation expense associated with the grant.

If it becomes probable that the cumulative diluted EPS and ROIC performance targets will be achieved, a cumulative adjustment will be recorded and the remaining compensation expense will be recognized over the remaining performance period. If all of the targets had been considered probable at September 30, 2014, we would have recognized \$15.2 million of non-cash performance share-based compensation expense during the period ended



## LIFE TIME FITNESS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

September 30, 2014. The probability of reaching the targets is evaluated each reporting period. If we later determined that it is no longer probable that the minimum cumulative diluted EPS and ROIC performance targets for the grants will be met, no further compensation expense would be recognized and any previously recognized compensation expense would be reversed. In the event that we do not achieve the specified cumulative diluted EPS and ROIC targets for the performance period ending December 31, 2016, the restricted shares will be forfeited. None of these shares were included in our diluted common shares outstanding at September 30, 2014 or 2013.

## Summary of Stock Option Activity

|                                   | Shares    | Weighted<br>Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual Term<br>(Years) | Aggregate<br>Intrinsic Value |
|-----------------------------------|-----------|---------------------------------------|--------------------------------------------------------------|------------------------------|
| Outstanding at December 31, 2013  | 215,668   | \$25.64                               | 1.1                                                          | \$4,616                      |
| Exercised                         | (134,352) | ) \$20.20                             |                                                              |                              |
| Canceled                          | (5,039)   | ) \$44.66                             |                                                              |                              |
| Outstanding at September 30, 2014 | 76,277    | \$33.97                               | 1.0                                                          | \$1,257                      |
| Vested at September 30, 2014      | 76,277    | \$33.97                               | 1.0                                                          | \$1,257                      |

No stock options have been granted since 2007. As of September 30, 2014, there was no unrecognized compensation expense related to stock options.

The aggregate intrinsic values in the table above represent the total pretax intrinsic values (the differences between our closing stock price 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 that date. This amount changes based on the fair market value of our stock. Total intrinsic value of options exercised during the nine months ended September 30, 2014 and 2013 was \$3.8 million and \$1.6 million, respectively.

Our net cash proceeds from the exercise of stock options were \$2.7 million and \$1.6 million for the nine months ended September 30, 2014 and 2013, respectively. The excess income tax benefit realized from stock option exercises and restricted stock vesting was \$1.1 million and \$6.6 million, respectively, for those same periods. In accordance with the related accounting guidance, this tax benefit is presented as a financing cash inflow. There is a corresponding cash outflow included in cash flows from operating activities.

## Employee Stock Purchase Plan

Our ESPP provides for the sale of up to 1,500,000 shares 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 July 1, 2014 and ends December 31, 2014. Compensation expense under the ESPP is estimated based on the discount of 10% at the end of the purchase period. During the nine months ended September 30, 2014, \$1.3 million was withheld from employees for the purpose of purchasing shares under the ESPP. There were 1,228,549 shares of common stock available for purchase under the ESPP as of September 30, 2014.

## Share Repurchase Plans

In June 2006, our Board of Directors authorized the repurchase of up to 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 issued under our ESPP. During the nine months ended September 30, 2014, we repurchased 32,178 shares under this authorization for \$1.5 million. As of September 30, 2014, there were 228,549 remaining shares authorized to be repurchased for this purpose.

In August 2013, our Board of Directors authorized the repurchase of up to \$200.0 million of our outstanding common stock from time to time. During the nine months ended September 30, 2014, we repurchased 3,462,445



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

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

shares under this program for \$166.9 million. This authorization terminated on July 22, 2014 with the authorization of a new share repurchase program.

In July 2014, our Board of Directors authorized the repurchase of up to \$200.0 million of our outstanding common stock from time to time through open market or privately negotiated transactions. The authorization to repurchase shares terminates when the aggregate repurchase amount totals \$200.0 million or at the close of business on June 30, 2016, whichever occurs first. The share repurchase program does not obligate us to repurchase any dollar amount or number of shares of our common stock and the program may be extended, modified, suspended or discontinued at any time. During the nine months ended September 30, 2014, we did not repurchase any shares under this program. As of September 30, 2014, there was \$200.0 million remaining authorized under this program.

### 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 year. Diluted EPS is computed similarly to basic EPS, except that the denominator is increased for the conversion of any dilutive common stock equivalents, the assumed exercise of dilutive stock options using the treasury stock method and unvested restricted stock awards using the treasury stock method. Stock options excluded from the calculation of diluted EPS because the option exercise price was greater than the average market price of the common share were 15,540 and 0 for the three months ended September 30, 2014 and 2013, respectively and 15,540 and 2,477 for the nine months ended September 30, 2014 and 2013, respectively.

The basic and diluted EPS calculations are shown below:

|                                                                | For the Three Months Ended<br>September 30, |          | For the Nine Months Ended<br>September 30, |          |
|----------------------------------------------------------------|---------------------------------------------|----------|--------------------------------------------|----------|
|                                                                | 2014                                        | 2013     | 2014                                       | 2013     |
| Net income                                                     | \$34,401                                    | \$34,386 | \$92,520                                   | \$95,674 |
| Weighted average number of common shares outstanding – basic   | 37,755                                      | 41,307   | 39,165                                     | 41,353   |
| Effect of dilutive stock options                               | 19                                          | 95       | 16                                         | 87       |
| Effect of dilutive restricted stock awards                     | 139                                         | 211      | 234                                        | 166      |
| Weighted average number of common shares outstanding – diluted | 37,913                                      | 41,613   | 39,415                                     | 41,606   |
| Basic earnings per common share                                | \$0.91                                      | \$0.83   | \$2.36                                     | \$2.31   |
| Diluted earnings per common share                              | \$0.91                                      | \$0.83   | \$2.35                                     | \$2.30   |

### 4. Operating Segment

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. Each of the centers has similar economic characteristics, services, product offerings and customers, and in-center revenues are derived primarily from services to our members. Each of the other ancillary products and services either directly or indirectly, through advertising or branding, complement the operations of the centers. Our chief operating decision maker uses EBITDA (a non-GAAP, non-cash measure which consists of net income plus interest expense, net, provision for income taxes and depreciation and amortization) as the primary measure of operating segment performance. Our chief operating decision maker is our Chief Executive Officer.

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The following table presents revenue for the three and nine months ended September 30, 2014 and 2013:

|                         | For the Three Months Ended<br>September 30, |           | For the Nine Months Ended<br>September 30, |           |
|-------------------------|---------------------------------------------|-----------|--------------------------------------------|-----------|
|                         | 2014                                        | 2013      | 2014                                       | 2013      |
| Membership dues         | \$208,233                                   | \$195,657 | \$610,212                                  | \$576,847 |
| Enrollment fees         | 3,086                                       | 3,598     | 9,228                                      | 10,567    |
| Personal training       | 50,680                                      | 46,095    | 149,228                                    | 138,903   |
| Other in-center revenue | 57,256                                      | 51,139    | 161,472                                    | 147,577   |
| Total center revenue    | 319,255                                     | 296,489   | 930,140                                    | 873,894   |
| Other revenue           | 17,590                                      | 19,522    | 45,224                                     | 40,972    |
| Total revenue           | \$336,845                                   | \$316,011 | \$975,364                                  | \$914,866 |

5. Supplemental Cash Flow Information

Decreases (increases) in operating assets and increases (decreases) in operating liabilities are as follows:

|                                             | For the Nine Months Ended<br>September 30, |         |
|---------------------------------------------|--------------------------------------------|---------|
|                                             | 2014                                       | 2013    |
| Accounts receivable, net                    | \$(1,944)                                  | \$(657) |
| Center operating supplies and inventories   | (3,935)                                    | (3,458) |
| Prepaid expenses and other current assets   | (2,729)                                    | 4,180   |
| Deferred membership origination costs       | 6,610                                      | 1,718   |
| Income tax receivable                       | (536)                                      | —       |
| Accounts payable                            | (2,654)                                    | (3,585) |
| Accrued expenses                            | 1,189                                      | 8,604   |
| Deferred revenue                            | (1,176)                                    | (6,762) |
| Deferred rent liability                     | 936                                        | 2,384   |
| Other liabilities                           | 181                                        | 302     |
| Changes in operating assets and liabilities | \$(4,058)                                  | \$2,726 |

We made cash payments for income taxes of \$59.2 million and \$54.3 million for the nine months ended September 30, 2014 and 2013, respectively.

We made cash payments for interest, net of capitalized interest, of \$23.8 million and \$16.9 million for the nine months ended September 30, 2014 and 2013, respectively. Capitalized interest was \$2.0 million for both periods.

Construction accounts payable was \$40.3 million and \$51.8 million at September 30, 2014 and 2013, respectively.

6. Commitments and Contingencies

TCPA Litigation — On April 17, 2014, a putative class action was filed against LTF Club Operations Company, Inc., a wholly-owned subsidiary of Life Time Fitness, Inc., in the Circuit Court of St. Louis County, Missouri. On June 13, 2014, LTF Club Operations Company, Inc. removed this action to the United States District Court for the Eastern District of Missouri, Eastern Division. On April 23, 2014, a second putative class action was filed against Life Time Fitness, Inc. in the U.S. District Court for the District of Minnesota. On April 23, 2014, a third putative class action was filed against Life Time Fitness, Inc. in the U.S. District Court for the Northern District of Illinois, Eastern

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Division. On July 1, 2014, a fourth putative class action was filed against Life Time Fitness, Inc. in the United States District Court for the District of Minnesota. These actions are collectively referred to as the "TCPA Actions" or "TCPA Litigation."

The TCPA Actions allege that we violated the federal Telephone Consumer Protection Act ("TCPA") when we, or a third party on our behalf, sent marketing text messages to plaintiffs' cellular telephones using an automatic telephone dialing system without plaintiffs' consent. We deny the allegations.

On October 15, 2014, the United States Judicial Panel on Multidistrict Litigation granted our motion to transfer the TCPA Actions to the United States District Court for the District of Minnesota for coordinated or consolidated pretrial proceedings.

We have not recorded an expense related to damages in connection with the TCPA Actions because any potential material loss is not currently probable or reasonably estimable under U.S. generally accepted accounting principles.

Additionally, we cannot reasonably estimate the range of loss, if any, that may result from the TCPA Actions.

Other Litigation — We are also engaged in other 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 will establish reserves for matters that are probable and estimable in amounts we believe are adequate to cover reasonable adverse judgments. 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 our consolidated financial position, results of operations or cash flows. Such matters are subject to many uncertainties, and the outcomes of individual matters are not predictable with assurance.

#### 7. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for us in 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We are in the process of selecting a transition method and determining the effect of the standard on our ongoing financial reporting.

#### 8. Derivative Instruments

As part of our financial 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.

In August 2011, we entered into an interest rate swap contract that effectively fixed the rates paid on a total of \$200.0 million of variable rate borrowings at 1.32% plus the applicable spread (which depends on our EBITDAR leverage ratio) until June 2016. EBITDAR is a non-GAAP, non-cash measure which consists of net income plus interest expense, net, provision for income taxes, depreciation and amortization and rent expense. We pay 1.32% and receive LIBOR on the notional amount of \$200.0 million. The contract has been designated a cash flow hedge against interest rate volatility. In accordance with applicable accounting guidance, changes in the fair value of the swap contract are recorded in accumulated other comprehensive loss, net of tax. As of September 30, 2014, the \$1.5 million fair 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 \$2.6 million gross fair value of the swap contract was included in long-term debt.



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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. No ineffectiveness was experienced in the interest rate swap during the nine months ended September 30, 2014 or September 30, 2013. 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.

For more information on the swap contract, see Notes 9 and 10.

#### 9. Fair Value Measurements

The accounting guidance establishes 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.

#### Fair Value Measurements on a Recurring Basis

The fair value of the interest rate swap is determined using observable current market information such as the prevailing Eurodollar interest rates, Eurodollar yield curve rates and current fair values as quoted by recognized dealers, and also includes consideration of counterparty credit risk. The following table presents the fair value of our derivative financial instrument as of September 30, 2014 and December 31, 2013:

|                                                          |                        | Fair Value Measurements Using:                                          |                                                        |                                                    |
|----------------------------------------------------------|------------------------|-------------------------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------|
|                                                          | Total<br>Fair<br>Value | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Interest rate swap liability as of<br>September 30, 2014 | \$2,580                | \$—                                                                     | \$2,580                                                | \$—                                                |
| Interest rate swap liability as of<br>December 31, 2013  | \$3,762                | \$—                                                                     | \$3,762                                                | \$—                                                |

#### Fair Value Measurements on a Nonrecurring Basis

Assets and liabilities that are measured at fair value on a nonrecurring basis relate primarily to our tangible fixed assets, goodwill and intangible assets, which are remeasured when the derived fair value is below carrying value on our consolidated balance sheets. For these assets, we do not periodically adjust carrying value to fair value except in the event of impairment. If we determine that impairment has occurred, the carrying value of the asset would be reduced to fair value and the difference would be recorded as a loss within operating income in our consolidated statements of operations.

We had no remeasurements of such assets or liabilities to fair value during the nine months ended September 30, 2014 or September 30, 2013.

## LIFE TIME FITNESS, INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

## Financial Assets and Liabilities Not Measured at Fair Value

The carrying amounts related to cash and cash equivalents (Level 1), accounts receivable, income tax 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. For variable rate loans that re-price frequently, fair values are based on carrying values. The fair value of fixed rate loans is estimated based on the discounted cash flows of the loans using current market rates, which are estimated based on recent financing transactions (Level 3). The fair value estimates presented are based on information available to us as of September 30, 2014. 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:

|                                  | September 30, 2014 |                      | December 31, 2013 |                      |
|----------------------------------|--------------------|----------------------|-------------------|----------------------|
|                                  | Carrying Value     | Estimated Fair Value | Carrying Value    | Estimated Fair Value |
| Fixed-rate debt                  | \$634,354          | \$635,390            | \$487,556         | \$488,441            |
| Obligations under capital leases | 4,832              | 5,070                | 14,965            | 15,150               |
| Floating-rate debt               | 535,775            | 535,775              | 346,077           | 346,077              |
| Total                            | \$1,174,961        | \$1,176,235          | \$848,598         | \$849,668            |

## 10. Changes in Accumulated Other Comprehensive Income (Loss) by Component

The following table presents information about accumulated other comprehensive income (loss) by component (net of tax):

|                                   | Gains (Losses) on Cash Flows Hedge | Foreign Currency Translation Adjustments | Accumulated Other Comprehensive Loss |
|-----------------------------------|------------------------------------|------------------------------------------|--------------------------------------|
| Balance at December 31, 2013      | \$(2,257)                          | \$(3,358)                                | \$(5,615)                            |
| Other comprehensive income (loss) | 215                                | (884)                                    | (669)                                |
| Balance at March 31, 2014         | (2,042)                            | (4,242)                                  | (6,284)                              |
| Other comprehensive income        | 13                                 | 493                                      | 506                                  |
| Balance at June 30, 2014          | (2,029)                            | (3,749)                                  | (5,778)                              |
| Other comprehensive income (loss) | 481                                | (797)                                    | (316)                                |
| Balance at September 30, 2014     | \$(1,548)                          | \$(4,546)                                | \$(6,094)                            |

## 11. Long-Term Debt

In May 2014, we amended and extended our Third Amended and Restated Credit Agreement (the "Credit Agreement") with U.S. Bank National Association, as administrative agent and lender, and other lenders from time to time a party thereto. The material amendments to the Credit Agreement are (i) an increase to the amount of the facility from \$860.0 million to \$1.20 billion; and (ii) an extension of the maturity of the facility to May 30, 2019. After giving effect to the amendments, the facility consists of a \$100.0 million term loan and a \$1.10 billion revolving credit facility ("credit facility"), which term loan amortizes at the rate of 5.0% on an annual basis. The credit facility may also be increased by an additional \$500.0 million upon the exercise of an accordion feature if one

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or more lenders commit the additional \$500.0 million. The spreads under the leverage-based pricing grid in the credit facility remain unchanged, as do the financial covenant ratio thresholds.

In January 2014, a wholly owned subsidiary obtained a mortgage loan in the original principal amount of \$80.0 million from Well Fargo Bank, N.A. pursuant to a promissory note and related agreements dated January 28, 2014. The mortgage financing is secured by mortgages on five properties and matures in February 2024. Interest on the amounts borrowed is 5.06% per annum, with a constant monthly debt service payment of \$0.5 million.

In July 2014, a wholly owned subsidiary obtained a mortgage loan in the original principal amount of \$78.0 million from ING Life Insurance and Annuity Company pursuant to a promissory note and related agreements dated July 29, 2014. The mortgage financing is secured by five properties and matures in August 2027. Interest on the amounts borrowed is 4.70% per annum, with a constant monthly debt service payment of \$0.7 million.

#### 12. Goodwill and Intangible Assets

The change in the gross amount of goodwill is as follows:

|                               |          |
|-------------------------------|----------|
| Balance at December 31, 2013  | \$49,195 |
| Goodwill acquired             | 8,283    |
| Balance at September 30, 2014 | \$57,478 |

The following table summarizes the changes in our gross intangibles balance:

|                                 |          |
|---------------------------------|----------|
| Balance at December 31, 2013    | \$33,978 |
| Trade/brand names acquired      | 5,716    |
| Customer relationships acquired | 1,925    |
| Leasehold rights acquired       | 9,759    |
| Balance at September 30, 2014   | \$51,378 |

The goodwill and intangible assets acquired during the nine months ended September 30, 2014 are related to the acquisition of certain athletic events and a ground lease for a club expected to open in 2015.

At September 30, 2014, intangible assets consisted of the following:

|                                              | Gross    | Accumulated<br>Amortization | Net      |
|----------------------------------------------|----------|-----------------------------|----------|
| Leasehold rights                             | \$16,151 | \$1,766                     | \$14,385 |
| Trade/brand names                            | 21,195   | 2,543                       | 18,652   |
| Curriculum- and technology-based intangibles | 6,695    | 1,719                       | 4,976    |
| Customer relationships                       | 7,337    | 1,482                       | 5,855    |
| Total intangible assets                      | \$51,378 | \$7,510                     | \$43,868 |

The trade/brand names acquired during the nine months ended September 30, 2014 have a weighted average useful life of approximately 8 years. The customer relationships intangible acquired has a useful life of 10 years. The leasehold rights acquired have a useful life of 49 years based on the term of the related land lease. Amortization expense for intangible assets was \$2.8 million and \$1.5 million for the nine months ended September 30, 2014 and 2013, respectively.

LIFE TIME FITNESS, INC. AND SUBSIDIARIES

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

13. Potential Spin-Off of Real Estate Assets through a Real Estate Investment Trust

On August 25, 2014, we announced that our Board of Directors and senior management team have initiated a process to explore a potential conversion of real estate assets into a Real Estate Investment Trust (REIT).

In connection with our evaluation of a REIT conversion, our Board of Directors adopted a shareholder rights plan to prohibit ownership of more than 9.8% of our outstanding shares. The rights will expire upon the earlier of August 21, 2015, or the first business day after the closing of the proposed REIT conversion.

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This discussion 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," "opinion," "plan," "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, unanticipated expenses relating to regulatory matters or litigation, the ability to convert our real estate assets into a REIT, the potential advantages, benefits and impact of, and opportunities created by, converting our real estate assets into a REIT, including potential tax benefits, and other factors set forth in the risk factor section of the Company's annual report on Form 10-K filed with the SEC. 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.

Overview

We operate distinctive and large, multi-use sports and athletic, professional fitness, family recreation and spa centers in a resort-like environment. As of October 30, 2014, we operated 112 centers in 25 states and one Canadian province 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.

Our new center expansion focuses on strategic locations which we believe will generate higher average dues, higher in-center revenue per membership and higher revenue per square foot. These locations typically represent our Life Time Athletic centers, which include all centers under our Onyx and Diamond membership plans, and will be located in areas with higher demographic profiles. All six of the new centers we plan to open in 2014, five of which are already open, are Life Time Athletic centers.



As we grow our presence in existing markets by opening new centers, we anticipate attracting some memberships away from our other existing centers in those markets, reducing revenue and initially lowering the memberships of those existing centers. However, based on the strategic locations of the new Life Time Athletic centers in existing markets, we expect most of the new Athletic center memberships will be new Life Time members.

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 six new centers we plan to open in 2014, five of which are already open, four are in existing markets. We do not expect operating costs of our planned new centers to be significantly higher than current centers, and we also do not expect the new centers to have a material adverse effect on the overall financial condition or results of operations of existing centers.

Although our overall membership growth rate may be less than in prior years, we expect our average dues and in-center revenue per membership to increase as a result of our focus on increasing our number of Life Time Athletic centers.

Our categories of new centers and existing centers do not include the center owned by Bloomingdale LIFE TIME FITNESS, L.L.C. ("Bloomingdale LLC") 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 member satisfaction ratings, return on invested capital, average revenue per membership, average in-center revenue per membership and center operating expenses, with an emphasis on payroll, as a percentage of sales and same-center revenue growth. We use membership dues, total center revenue, average revenue per Access membership, EBITDA and EBITDA margins to evaluate overall performance and profitability on an individual center basis. In addition, we focus on several membership statistics on a center level and total center basis. These metrics include change in center Access membership levels and growth of total center memberships; percentage center Access membership to target capacity; center Access membership usage; and center attrition rates. In addition to our Access membership, we also offer a Non-Access membership option, which is for members who do not access the center, but still want to maintain certain member benefits.

Same-center revenue growth for mature centers (centers open 37 months or longer) for the three months ended September 30, 2014 was (0.9)% compared to 3.4% for the three months ended September 30, 2013. Same-center revenue growth for mature centers for the nine months ended September 30, 2014 was (0.3)% compared to 3.4% for the nine months ended September 30, 2013. These changes are driven primarily by a decrease in membership dues at some of our mature centers and lower average enrollment fees.

Attrition for the three months ended September 30, 2014 was 9.4% compared to 9.5% for the three months ended September 30, 2013. Attrition for the trailing 12-months ended September 30, 2014, was 35.7% compared to 35.0% for the trailing 12-months ended September 30, 2013. The increase in the trailing 12-months attrition rate was driven primarily by growth in Non-Access membership terminations and the impact of membership pricing adjustments.

We have three primary sources of revenue:

First, our largest source of revenue is membership dues (62.6% of total revenue for the nine months ended September 30, 2014, compared to 63.1% for the nine months ended September 30, 2013) and enrollment fees (0.9% of total revenue for the nine months ended September 30, 2014, down from 1.1% for the nine months ended September 30, 2013).

Second, we generate revenue within a center, which we refer to as in-center revenue or in-center businesses (31.9% of total revenue for the nine months ended September 30, 2014, compared to 31.3% for the nine months ended September 30, 2013), including fees for personal training, registered dietitians, group fitness training and other member activities, sales of products at our cafés, sales of products and services offered at our spas and tennis programs.

Third, we have expanded the LIFE TIME FITNESS® brand into two other offerings: health, and events and media. These offerings generate revenue, which we refer to as other revenue or ancillary businesses (4.6% of total revenue for the nine months ended September 30, 2014, up from 4.5% for the nine months ended September 30, 2013). Our health offering includes health promotion programs for members, non-members and corporations. Our events and media offerings include athletic events and related services, which includes our race registration and timing businesses, and media which includes our magazine, Experience Life®.

We have five primary sources of operating expenses:

Center operations expenses (58.5% of total revenue for the nine months ended September 30, 2014, up from 57.6% for the nine months ended September 30, 2013) consist primarily of salaries, commissions, payroll taxes, benefits, real estate taxes and other occupancy costs, utilities, repairs and maintenance, supplies, administrative support and communications to operate our centers.

Advertising and marketing expenses (3.2% of total revenue for the nine months ended September 30, 2014, compared to 3.3% for the nine months ended September 30, 2013) consist of our marketing department costs and media and advertising costs to support and grow center membership levels, in-center businesses, new center openings and our ancillary businesses.

General and administrative expenses (4.7% of total revenue for the nine months ended September 30, 2014, down from 5.0% for the nine months ended September 30, 2013) include costs relating to our centralized support functions, such as accounting, information systems, procurement, real estate and development and member relations.

Other operating expenses (4.7% of total revenue for the nine months ended September 30, 2014, down from 5.1% for the nine months ended September 30, 2013) include the costs associated with our health and our events and media businesses and other corporate expenses, as well as gains or losses on our disposal of assets.

Depreciation and amortization (10.6% of total revenue for the nine months ended September 30, 2014, up from 9.8% for the nine months ended September 30, 2013) are computed primarily using the straight-line method over estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the improvement.

Our total operating expenses may vary from period to period depending on the number of new centers opened during that period, the number of centers engaged in pre-opening activities and the performance of our in-center and ancillary businesses.

Our primary capital expenditures relate to the construction of new centers and updating and maintaining our existing centers. The land acquisition, construction and equipment costs for a current model center can vary considerably based on location, variability in land cost, the cost of construction labor and the size or amenities of the center, including the addition of tennis facilities, an expanded gymnasium or other facilities. We perform maintenance and make improvements on our centers and equipment throughout each year. We conduct a more thorough remodeling project at each center approximately every four to six years.

#### Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S., or GAAP, requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates. In recording transactions and balances resulting from business operations, we use estimates based on the best information available. We use estimates for such items as depreciable lives, probability of meeting certain performance targets, tax provisions and deferred personal training revenue. We also use estimates for calculating the amortization period

for deferred enrollment fee revenue and associated direct costs, which are based on the historical estimated average membership life. We revise the recorded estimates when better information is available, facts change or we can determine actual amounts. These revisions can affect operating results.

Our critical accounting policies and use of estimates are discussed in and 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 our three fiscal years ended December 31, 2013.

## Results of Operations

The following table sets forth our statements of operations data as a percentage of total revenue and also sets forth other financial and operating data:

|                                                           | For the Three Months Ended<br>September 30, |               | For the Nine Months Ended<br>September 30, |               |          |
|-----------------------------------------------------------|---------------------------------------------|---------------|--------------------------------------------|---------------|----------|
|                                                           | 2014                                        | 2013          | 2014                                       | 2013          |          |
| <b>REVENUE:</b>                                           |                                             |               |                                            |               |          |
| Membership dues                                           | 61.9                                        | % 61.9        | % 62.6                                     | % 63.1        | %        |
| Enrollment fees                                           | 0.9                                         | 1.1           | 0.9                                        | 1.1           |          |
| In-center revenue                                         | 32.0                                        | 30.8          | 31.9                                       | 31.3          |          |
| Total center revenue                                      | 94.8                                        | 93.8          | 95.4                                       | 95.5          |          |
| Other revenue                                             | 5.2                                         | 6.2           | 4.6                                        | 4.5           |          |
| Total revenue                                             | 100.0                                       | 100.0         | 100.0                                      | 100.0         |          |
| <b>OPERATING EXPENSES:</b>                                |                                             |               |                                            |               |          |
| Center operations                                         | 57.3                                        | 57.1          | 58.5                                       | 57.6          |          |
| Advertising and marketing                                 | 2.9                                         | 3.1           | 3.2                                        | 3.3           |          |
| General and administrative                                | 4.7                                         | 4.6           | 4.7                                        | 5.0           |          |
| Other operating                                           | 4.4                                         | 5.8           | 4.7                                        | 5.1           |          |
| Depreciation and amortization                             | 10.9                                        | 9.5           | 10.6                                       | 9.8           |          |
| Total operating expenses                                  | 80.2                                        | 80.1          | 81.7                                       | 80.8          |          |
| Income from operations (operating profit)                 | 19.8                                        | 19.9          | 18.3                                       | 19.2          |          |
| <b>OTHER INCOME (EXPENSE):</b>                            |                                             |               |                                            |               |          |
| Interest expense, net                                     | (2.9                                        | ) (2.0        | ) (2.7                                     | ) (2.1        | )        |
| Equity in earnings of affiliate                           | 0.1                                         | 0.1           | 0.1                                        | 0.1           |          |
| Total other expense                                       | (2.8                                        | ) (1.9        | ) (2.6                                     | ) (2.0        | )        |
| <b>INCOME BEFORE INCOME TAXES</b>                         | <b>17.0</b>                                 | <b>18.0</b>   | <b>15.7</b>                                | <b>17.2</b>   |          |
| <b>PROVISION FOR INCOME TAXES</b>                         | <b>6.8</b>                                  | <b>7.1</b>    | <b>6.2</b>                                 | <b>6.8</b>    |          |
| <b>NET INCOME</b>                                         | <b>10.2</b>                                 | <b>% 10.9</b> | <b>% 9.5</b>                               | <b>% 10.4</b> | <b>%</b> |
| <b>Other financial data:</b>                              |                                             |               |                                            |               |          |
| Same-center revenue growth (open 13 months or longer) (1) | (0.5                                        | )% 4.2        | % 0.1                                      | % 4.2         | %        |
| Same-center revenue growth (open 37 months or longer) (1) | (0.9                                        | )% 3.4        | % (0.3                                     | )% 3.4        | %        |
| Average center revenue per Access membership (2)          | \$452                                       | \$421         | \$1,325                                    | \$1,243       |          |
| Average in-center revenue per Access membership (3)       | \$155                                       | \$140         | \$449                                      | \$412         |          |
| Trailing 12-month attrition rate (4)                      | 35.7                                        | % 35.0        | % 35.7                                     | % 35.0        | %        |
| Quarterly attrition rate (5)                              | 9.4                                         | % 9.5         | % N/A                                      | N/A           |          |
| EBITDA (in thousands) (6)                                 | \$103,732                                   | \$93,191      | \$282,464                                  | \$266,294     |          |
| EBITDA margin (7)                                         | 30.8                                        | % 29.5        | % 29.0                                     | % 29.1        | %        |
| EBITDAR (in thousands) (6)                                | \$113,481                                   | \$103,497     | \$313,304                                  | \$296,027     |          |
| EBITDAR margin (8)                                        | 33.7                                        | % 32.8        | % 32.1                                     | % 32.4        | %        |
| Capital expenditures (in thousands) (9)                   | \$84,954                                    | \$87,109      | \$338,365                                  | \$224,542     |          |

| Results of Operations (continued) | As of September 30, |            |
|-----------------------------------|---------------------|------------|
|                                   | 2014                | 2013       |
| Operating data (10):              |                     |            |
| Centers open (11)                 | 112                 | 107        |
| Center square footage (12)        | 10,713,505          | 10,119,196 |
| Memberships:                      |                     |            |
| Access memberships                | 697,167             | 695,923    |
| Non-Access memberships            | 120,333             | 105,928    |
| Total memberships                 | 817,500             | 801,851    |

Membership dues, enrollment fees and in-center revenue for a center are included in same-center revenue growth – 13 month beginning on the first day of the thirteenth full calendar month of the center’s operation and are included (1) in same-center revenue growth – 37 month beginning on the first day of the thirty-seventh full calendar month of the center’s operation.

Average center revenue per Access membership is total center revenue derived from Access memberships for the period divided by the average number of Access memberships for the period, where the average number of Access (2) memberships for the period is an average derived from dividing the sum of the total Access memberships outstanding at the beginning of the period and at the end of each month during the period by one plus the number of months in each period.

Average in-center revenue per Access membership is total in-center revenue derived from Access memberships for the period divided by the average number of Access memberships for the period, where the average number of (3) Access memberships for the period is an average derived from dividing the sum of the total Access memberships outstanding at the beginning of the period and at the end of each month during the period by one plus the number of months in each period.

Trailing 12-month attrition rate (or annual attrition rate) is calculated as follows: total membership terminations (4) (Access and Non-Access) for the trailing 12 months divided into the average beginning month total membership (Access and Non-Access) balance for the trailing 12 months.

Quarterly attrition rate is calculated as follows: total membership terminations (Access and Non-Access) for the (5) quarter divided into the average beginning month total membership (Access and Non-Access) balance for the quarter.

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. EBITDAR adds rent expense to EBITDA. These terms, as we define them, may not be comparable to similarly titled measures used by other companies and are not measures of (6) performance presented in accordance with GAAP. We use EBITDA and EBITDAR as measures of operating performance. EBITDA or EBITDAR should not be considered as a substitute for net income, cash flows provided by operating activities or other income or cash flow data prepared in accordance with GAAP. The funds depicted by EBITDA and EBITDAR are not necessarily available for discretionary use if they are reserved for particular capital purposes, to maintain debt covenants, to service debt or to pay taxes.

The following table provides a reconciliation of net income, the most directly comparable GAAP measure, to EBITDA and EBITDAR (in thousands):

|                               | For the Three Months Ended<br>September 30, |           | For the Nine Months Ended<br>September 30, |           |
|-------------------------------|---------------------------------------------|-----------|--------------------------------------------|-----------|
|                               | 2014                                        | 2013      | 2014                                       | 2013      |
| Net income                    | \$34,401                                    | \$34,386  | \$92,520                                   | \$95,674  |
| Interest expense, net         | 9,828                                       | 6,436     | 26,331                                     | 18,999    |
| Provision for income taxes    | 22,849                                      | 22,413    | 60,361                                     | 62,386    |
| Depreciation and amortization | 36,654                                      | 29,956    | 103,252                                    | 89,235    |
| EBITDA                        | \$103,732                                   | \$93,191  | \$282,464                                  | \$266,294 |
| Rent expense                  | 9,749                                       | 10,306    | 30,840                                     | 29,733    |
| EBITDAR                       | \$113,481                                   | \$103,497 | \$313,304                                  | \$296,027 |

(7) EBITDA margin is the ratio of EBITDA to total revenue.

(8) EBITDAR margin is the ratio of EBITDAR to total revenue.

Capital expenditures represent investments in our new centers, costs related to updating and maintaining our existing centers and other infrastructure investments. For purposes of deriving capital expenditures from our cash flows statement, capital expenditures include our purchases of property and equipment, excluding purchases of property and equipment in accounts payable at period-end; property and equipment purchases financed through notes payable and capital lease obligations; and non-cash share-based compensation capitalized to projects under development.

The operating data presented in these items includes the center owned by Bloomingdale LLC, which is jointly-owned with two unrelated organizations. The data presented elsewhere in this section excludes the center owned by Bloomingdale LLC.

During the first quarter of 2014, we closed one small, leased Minneapolis center and transferred all member programming and equipment to our other Minneapolis centers.

The square footage presented in this table reflects fitness square footage, which we believe is the best metric for the efficiencies of a facility. We exclude outdoor swimming pools, outdoor play areas, tennis courts and satellite facility square footage. These figures are approximations.

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

Total revenue. Total revenue increased \$20.8 million, or 6.6%, to \$336.8 million for the three months ended September 30, 2014 from \$316.0 million for the three months ended September 30, 2013.

Total center revenue grew \$22.8 million, or 7.7%, to \$319.3 million for the three months ended September 30, 2014 from \$296.5 million for the three months ended September 30, 2013. Of the \$22.8 million increase in total center revenue,

55.2% was from membership dues, which increased \$12.5 million, or 6.4%, due primarily to higher average dues. Our number of Access memberships increased 0.2% to 697,167 at September 30, 2014, from 695,923 at September 30, 2013.

47.0% was from in-center revenue, which increased \$10.7 million, or 11.0%, primarily as a result of a \$4.6 million increase in personal training revenue, a \$2.3 million increase in our member activities revenue and a \$2.1 million increase in sales of our café products. Average in-center revenue per Access membership increased to \$155 for the three months ended September 30, 2014 from \$140 for the three months ended September 30, 2013.

(2.2)% was from enrollment fees, which declined \$0.5 million to \$3.1 million. Enrollment fees are deferred until a center opens and recognized on a straight-line basis over our estimated average membership life of 33

months. The revenue recognized from enrollment fees was lower in the third quarter of 2014 as compared to the third quarter of 2013 primarily due to lower average enrollment fees over the deferral period.

Other revenue decreased \$1.9 million, or 9.9%, to \$17.6 million for the three months ended September 30, 2014 from \$19.5 million for the three months ended September 30, 2013. This decrease was primarily due to the timing of certain contract revenue recognized in our health business.

Center operations expenses. Center operations expenses totaled \$193.0 million, or 60.5% of total center revenue (or 57.3% of total revenue), for the three months ended September 30, 2014 compared to \$180.4 million, or 60.9% of total center revenue (or 57.1% of total revenue), for the three months ended September 30, 2013. This \$12.6 million increase primarily consisted of an increase of \$6.9 million in additional payroll-related costs, primarily for the two centers which opened in the second half of 2013 and the five centers which opened in the first nine months of 2014. The increase in center operations expenses as a percent of total revenue was due primarily to centers under one year old operating at lower margins as they build their membership base.

Advertising and marketing expenses. Advertising and marketing expenses were \$9.6 million, or 2.9% of total revenue, for the three months ended September 30, 2014 compared to \$9.8 million, or 3.1% of total revenue, for the three months ended September 30, 2013.

General and administrative expenses. General and administrative expenses were \$15.9 million, or 4.7% of total revenue, for the three months ended September 30, 2014 compared to \$14.5 million, or 4.6% of total revenue, for the three months ended September 30, 2013. This increase is primarily due to costs of \$1.9 million associated with our exploration of a conversion of our real estate assets into a REIT incurred in the three months ended September 30, 2014.

Other operating expenses. Other operating expenses were \$14.8 million for the three months ended September 30, 2014 compared to \$18.5 million for the three months ended September 30, 2013. This decrease is primarily due to a \$4.1 million reduction of a contingent consideration liability associated with a prior acquisition taken in the third quarter of 2014.

Depreciation and amortization. Depreciation and amortization was \$36.7 million for the three months ended September 30, 2014 compared to \$30.0 million for the three months ended September 30, 2013. This increase was primarily due to the depreciation on the two new facilities opened in the second half of 2013 and the five new facilities opened in the first nine months of 2014.

Interest expense, net. Interest expense, net of interest income, was \$9.8 million for the three months ended September 30, 2014 compared to \$6.4 million for the three months ended September 30, 2013. This \$3.4 million increase was primarily a result of an increase in debt levels during 2013 and 2014 to fund future center expansion, other growth initiatives and share repurchases.

Provision for income taxes. The provision for income taxes was \$22.8 million for the three months ended September 30, 2014 compared to \$22.4 million for the three months ended September 30, 2013. The effective tax rate for the three months ended September 30, 2014 was 39.9% compared to 39.5% for the three months ended September 30, 2013.

Net income. As a result of the factors described above, net income was \$34.4 million, or 10.2% of total revenue, for the three months ended September 30, 2014 compared to \$34.4 million, or 10.9% of total revenue, for the three months ended September 30, 2013.

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

Total revenue. Total revenue increased \$60.5 million, or 6.6%, to \$975.4 million for the nine months ended September 30, 2014 from \$914.9 million for the nine months ended September 30, 2013.

Total center revenue grew \$56.2 million, or 6.4%, to \$930.1 million for the nine months ended September 30, 2014 from \$873.9 million for the nine months ended September 30, 2013. Of the \$56.2 million increase in total center revenue,

59.3% was from membership dues, which increased \$33.4 million, or 5.8%, due primarily to higher average dues. Our number of Access memberships increased 0.2% to 697,167 at September 30, 2014, from 695,923 at September 30, 2013.

43.1% was from in-center revenue, which increased \$24.2 million, or 8.5%, primarily as a result of a \$10.3 million increase in personal training revenue, a \$5.5 million increase in sales of our café products and a \$4.3 million increase in our member activities revenue. Average in-center revenue per Access membership increased to \$449 for the nine months ended September 30, 2014 from \$412 for the nine months ended September 30, 2013.

(2.4)% was from enrollment fees, which declined \$1.3 million to \$9.2 million. Enrollment fees are deferred until a center opens and recognized on a straight-line basis over our estimated average membership life. The estimated average membership life is 33 months. The revenue recognized from enrollment fees was lower in the first nine months of 2014 as compared to the first nine months of 2013 primarily due to lower average enrollment fees over the deferral period.

Other revenue increased \$4.2 million, or 10.4%, to \$45.2 million for the nine months ended September 30, 2014 from \$41.0 million for the nine months ended September 30, 2013. This increase was primarily due to athletic events acquired during the first quarter of 2014.

Center operations expenses. Center operations expenses totaled \$570.2 million, or 61.3% of total center revenue (or 58.5% of total revenue), for the nine months ended September 30, 2014 compared to \$527.2 million, or 60.3% of total center revenue (or 57.6% of total revenue), for the nine months ended September 30, 2013. This \$43.0 million increase primarily consisted of an increase of \$24.9 million in additional payroll-related costs, primarily for the three centers which opened in 2013 and the five centers which opened in the first nine months of 2014 and a \$1.5 million increase in pre-opening center related costs. The increase in center operations expenses as a percent of total revenue was due primarily to centers under one year old operating at lower margins as they build their membership base.

Advertising and marketing expenses. Advertising and marketing expenses were \$31.7 million, or 3.2% of total revenue, for the nine months ended September 30, 2014 compared to \$30.3 million, or 3.3% of total revenue, for the nine months ended September 30, 2013. These expenses increased primarily due to increased marketing activity to drive memberships and athletic events businesses.

General and administrative expenses. General and administrative expenses were \$46.3 million, or 4.7% of total revenue, for the nine months ended September 30, 2014 compared to \$45.6 million, or 5.0% of total revenue, for the nine months ended September 30, 2013. This increase is primarily due to costs of \$1.9 million associated with our exploration of a conversion of our real estate assets into a REIT incurred in the third quarter 2014.

Other operating expenses. Other operating expenses were \$45.6 million for the nine months ended September 30, 2014 compared to \$46.5 million for the nine months ended September 30, 2013. This decrease is primarily due to a \$4.1 million reduction of a contingent consideration liability associated with a prior acquisition taken in the third quarter of 2014, partially offset by a \$6.5 million increase in costs to support the athletic events acquired during the first quarter of 2014.

Depreciation and amortization. Depreciation and amortization was \$103.3 million for the nine months ended September 30, 2014 compared to \$89.2 million for the nine months ended September 30, 2013. This increase was primarily due to the depreciation on the three new facilities opened in 2013 and five new facilities opened in the first nine months of 2014.

Interest expense, net. Interest expense, net of interest income, was \$26.3 million for the nine months ended September 30, 2014 compared to \$19.0 million for the nine months ended September 30, 2013. This \$7.3 million increase was primarily a result of an increase in debt levels during 2013 and 2014 to fund future center expansion, other growth initiatives and share repurchases.

Provision for income taxes. The provision for income taxes was \$60.4 million for the nine months ended September 30, 2014 compared to \$62.4 million for the nine months ended September 30, 2013. The effective tax rate was 39.5% for both periods.

Net income. As a result of the factors described above, net income was \$92.5 million, or 9.5% of total revenue, for the nine months ended September 30, 2014 compared to \$95.7 million, or 10.4% of total revenue, for the nine months ended September 30, 2013.

#### Liquidity and Capital Resources

##### Liquidity

Historically, we have satisfied our liquidity needs through cash flow provided by operations, various debt arrangements and sales of equity. Our principal liquidity needs have included the development of new centers, debt service requirements, share repurchases and expenditures necessary to maintain and update our existing centers and associated fitness equipment and may include the acquisition and remodeling of centers we acquire from time to time, as well as acquisitions to support our in-center and ancillary businesses. We believe that we can satisfy our current and longer-term debt service obligations and capital expenditure requirements primarily with cash flow from operations, with existing available capacity of our revolver, by the extension of the terms of or refinancing our existing debt facilities, through sale-leaseback transactions and by continuing to raise long-term debt or equity capital, although there can be no assurance that such actions can or will be completed.

In July 2014, we obtained a mortgage loan in the original principal amount of \$78.0 million on five of our facilities. In May 2014, we amended, enlarged and extended our credit facility, previously scheduled to mature in July 2018, now scheduled to mature in May 2019. In January 2014, we obtained a mortgage loan in the original principal amount of \$80.0 million on five of our facilities. We expect to use the proceeds from the amended credit facility and the mortgage financings for general corporate purposes, future center expansion and to help fund other growth initiatives. Our business model operates with negative working capital primarily for two reasons. First, we carry minimal accounts receivable due to our members' monthly membership dues paid by electronic draft. Second, we fund the construction of our new centers under standard arrangements with our vendors that are paid with cash flows from operations or the credit facility.

As of September 30, 2014, we had total cash and cash equivalents of \$9.6 million. We also had \$481.6 million available under the existing terms of our credit facility as of September 30, 2014.

The following table summarizes our capital structure as of September 30, 2014 and December 31, 2013.

|                                      | September 30,<br>2014 | December 31,<br>2013 |
|--------------------------------------|-----------------------|----------------------|
|                                      | (In thousands)        |                      |
| Long-term debt                       | \$1,152,567           | \$824,093            |
| Current maturities of long-term debt | 22,394                | 24,505               |
| Total debt                           | 1,174,961             | 848,598              |
| Total shareholders' equity           | 1,087,341             | 1,148,029            |
| Total capitalization                 | \$2,262,302           | \$1,996,627          |

##### Operating Activities

Net cash provided by operating activities was \$189.3 million for the nine months ended September 30, 2014, compared to \$190.8 million for the nine months ended September 30, 2013. This change is primarily due to a decrease of \$7.2 million in deferred income taxes and a decrease of \$6.8 million in working capital, partially offset by a \$14.0 million increase in depreciation and amortization expense.

##### Investing Activities

Investing activities consist primarily of purchasing real property, constructing new centers, acquisitions and purchasing new fitness equipment. In addition, we invest in capital expenditures to maintain and update our existing

centers. We finance the purchase of our property and equipment by cash payments or by financing through notes payable or capital lease obligations.

Net cash used in investing activities was \$347.0 million for the nine months ended September 30, 2014, compared to \$236.0 million for the nine months ended September 30, 2013. The increase of \$110.9 million was primarily due to an increase in capital expenditures related to new center construction and the purchase of two of our centers previously sold in a sale leaseback transaction in 2003.

Our capital expenditures were as follows:

|                                                  | For the Nine Months Ended<br>September 30, |           |
|--------------------------------------------------|--------------------------------------------|-----------|
|                                                  | 2014                                       | 2013      |
|                                                  | (In thousands)                             |           |
| Cash purchases of property and equipment         | \$338,365                                  | \$224,542 |
| Non-cash change in construction accounts payable | (7,004)                                    | ) 26,612  |
| Other non-cash changes to property and equipment | 3,331                                      | 2,195     |
| Total capital expenditures                       | \$334,692                                  | \$253,349 |

The following schedule reflects capital expenditures by type of expenditure:

|                                                                                                                                                  | For the Nine Months Ended<br>September 30, |           |
|--------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|-----------|
|                                                                                                                                                  | 2014                                       | 2013      |
|                                                                                                                                                  | (In thousands)                             |           |
| New center land and construction, growth initiatives, major remodels, remodels of acquired centers and the purchase of previously leased centers | \$262,174                                  | \$192,641 |
| Maintenance of existing facilities and corporate capital expenditures                                                                            | 72,518                                     | 60,708    |
| Total capital expenditures                                                                                                                       | \$334,692                                  | \$253,349 |

At September 30, 2014, we had purchased the real property for three centers we plan to open in 2014, two of which have opened, and five centers we plan to open after 2014. We had also entered into a ground lease for one center and leases for two centers that we opened during 2014, and three ground leases for centers we plan to open after 2014. Construction in progress, including land purchased for future development, totaled \$168.4 million and \$202.8 million at September 30, 2014 and December 31, 2013, respectively.

During the nine month period ended September 30, 2014, we spent \$16.0 million to acquire several major-market athletic events.

We expect our cash capital expenditures to be approximately \$425 million to \$445 million in 2014, including approximately \$87 million to \$107 million in the remaining three months of 2014. Of this approximately \$87 million to \$107 million, we expect to incur approximately \$80 million to \$90 million for new center construction and approximately \$7 million to \$17 million for the updating of existing centers and corporate infrastructure. The second quarter 2014 purchase of two of our centers previously sold in a sale leaseback transaction is included in the total 2014 capital expenditures expectation above. We plan to fund these capital expenditures primarily with cash flow from operations and our credit facility.

#### Financing Activities

Financing activities consist primarily of proceeds from long-term debt, repayments of and proceeds from our credit facility, payments on debt obligations and repurchases of common stock.

Net cash provided by financing activities was \$159.0 million for the nine months ended September 30, 2014 compared to \$49.5 million for the nine months ended September 30, 2013. This change of \$109.5 million was primarily due to an increase of \$198.7 million in proceeds from our credit facility, net and an increase of \$36.8 million in other long-term debt. These proceeds funded the increase in capital expenditures and an increase of \$126.6 million in share repurchases.

Long-term debt consisted of the following:

|                                                                                                                                                            | September 30,<br>2014 | December 31,<br>2013 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
|                                                                                                                                                            | (In thousands)        |                      |
| Credit facility, interest only due monthly at interest rates ranging from LIBOR plus 1.25% to 2.25% or base plus 0.25% to 1.25%, facility expires May 2019 | \$702,000             | \$510,500            |
| Mortgage notes payable with monthly interest and principal payments totaling \$632 including interest at 6.03% to February 2017                            | 93,865                | 95,207               |
| Mortgage notes payable with monthly interest and principal payments totaling \$531 including interest at 5.06% to February 2024                            | 78,652                | —                    |
| Mortgage notes payable with monthly interest and principal payments totaling \$669 including interest at 4.70% to August 2027                              | 77,636                | —                    |
| Mortgage notes payable with monthly interest and principal payments totaling \$775 including interest at 4.45% to March 2023                               | 65,760                | 70,457               |
| Mortgage notes payable with monthly interest and principal payments totaling \$503 including interest at 5.75% to December 2016                            | 66,596                | 68,173               |
| Mortgage notes payable with monthly interest and principal payments totaling \$423 including interest at 4.48% to September 2026                           | 47,100                | 49,287               |
| Other                                                                                                                                                      | 38,520                | 40,009               |
| Total debt (excluding obligations under capital leases)                                                                                                    | 1,170,129             | 833,633              |
| Obligations under capital leases                                                                                                                           | 4,832                 | 14,965               |
| Total debt                                                                                                                                                 | 1,174,961             | 848,598              |
| Less current maturities                                                                                                                                    | 22,394                | 24,505               |
| Total long-term debt                                                                                                                                       | \$1,152,567           | \$824,093            |
| Credit Facility                                                                                                                                            |                       |                      |

In May 2014, we amended, enlarged and extended our credit facility. The amount of our credit facility was increased from \$860.0 million to \$1.20 billion. We may increase the facility by an additional \$500.0 million through the exercise of an accordion feature if one or more lenders commit the additional \$500.0 million. The term of the facility was extended to May 2019.

As of September 30, 2014, \$702.0 million was outstanding on the credit facility at a weighted average interest rate of 2.4%, plus \$13.9 million related to letters of credit, leaving \$481.6 million available for additional borrowing under the credit facility. The weighted average interest rate and debt outstanding under the credit facility for the nine months ended September 30, 2014 was 2.4% and \$567.5 million, respectively. The maximum month-end balance during the nine months ended September 30, 2014 was \$715.2 million.

As of September 30, 2013, \$446.9 million was outstanding on the credit facility at a weighted average interest rate of 2.4%. The weighted average interest rate and debt outstanding under the credit facility for the nine months ended September 30, 2013 was 2.4% and \$399.1 million, respectively. The maximum month-end balance during the nine months ended September 30, 2013 was \$479.6 million.

### Other Financing

In July 2014, a wholly owned subsidiary obtained a mortgage loan in the original principal amount of \$78.0 million from ING Life Insurance and Annuity Company pursuant to a promissory note and related agreements. The mortgage financing is secured by five properties and matures in August 2027. Interest on the amounts borrowed is 4.70% per annum, with a constant monthly debt service payment of \$0.7 million.

In January 2014, a wholly owned subsidiary obtained a mortgage loan in the original principal amount of \$80.0 million from Well Fargo Bank, N.A. pursuant to a promissory note and related agreements dated January 28, 2014. The mortgage financing is secured by mortgages on five properties and matures in February 2024. Interest on the amounts borrowed is 5.06% per annum, with a constant monthly debt service payment of \$0.5 million.

### Debt Covenants

We are in compliance in all material respects with all restrictive and financial covenants under our various credit facilities as of September 30, 2014.

Our primary financial covenants under the credit facility are:

| Covenant                                    | Requirement                | Actual as of<br>September 30,<br>2014 | Actual as of<br>December 31,<br>2013 |
|---------------------------------------------|----------------------------|---------------------------------------|--------------------------------------|
| Total Consolidated Debt to Adjusted EBITDAR | Not more than 4.00 to 1.00 | 3.47 to 1.00                          | 2.79 to 1.00                         |
| Fixed Charge Coverage Ratio                 | Not less than 1.50 to 1.00 | 3.19 to 1.00                          | 3.58 to 1.00                         |
| Unencumbered Asset Ratio                    | Not less than 1.30 to 1.00 | 1.97 to 1.00                          | 2.62 to 1.00                         |

The formulas for these covenants are specifically defined in the credit agreement for our credit facility and include, among other things, an add back of share-based compensation expense to EBITDAR.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We invest our excess cash in highly liquid short-term investments. These investments are not held for trading or other speculative purposes. Changes in interest rates affect the investment income we earn on our cash and cash equivalents and, therefore, impact our consolidated cash flows and consolidated results of operations. As of September 30, 2014 and December 31, 2013, our net floating rate indebtedness was \$535.8 million and \$346.1 million, respectively. If long-term floating interest rates were to have increased by 100 basis points during the nine months ended September 30, 2014, our interest costs would have increased by approximately \$3.0 million. If short-term interest rates were to have increased by 100 basis points during the nine months ended September 30, 2014, our interest income from cash equivalents would have increased by less than \$0.1 million. These amounts are determined by considering the impact of the hypothetical interest rates on our floating rate indebtedness and cash equivalents balances at September 30, 2014.

### Item 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15 or 15d-15 of

the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

See Note 6 to the financial statements included in this Quarterly Report on Form 10-Q.

### ITEM 1A. RISK FACTORS

Not applicable.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

#### Issuer Purchases of Equity Securities in Third Quarter 2014

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 issued under our ESPP (the "ESPP Authorization"). From June 2006 through September 30, 2014, we repurchased 271,451 shares pursuant to the ESPP Authorization, of which 32,178 shares were repurchased during the first nine months of 2014. The shares repurchased to date have been purchased in the open market and, upon repurchase, became unissued shares of our common stock.

The following table presents the repurchases of stock under the ESPP Authorization in the third quarter of 2014:

| Period               | Total Number of<br>Shares Purchased | Average Price<br>Paid per Share | Maximum Number of Shares that May<br>Yet be Purchased |
|----------------------|-------------------------------------|---------------------------------|-------------------------------------------------------|
| July 1-31, 2014      | 17,032                              | \$48.75                         | 228,549                                               |
| August 1-31, 2014    | —                                   | \$—                             | 228,549                                               |
| September 1-30, 2014 | —                                   | \$—                             | 228,549                                               |
| Total                | 17,032                              | \$48.75                         | 228,549                                               |

On August 15, 2013, our Board of Directors authorized the repurchase of up to \$200.0 million of our outstanding common stock from time to time through open market or privately negotiated transactions (the "Stock Repurchase Authorization.") through July 22, 2014. As of September 30, 2014, a total of 4,109,146 shares were repurchased under this program for \$197.8 million. During the nine months ended September 30, 2014, 3,462,445 shares were repurchased for \$166.9 million. The shares repurchased were purchased in the open market and, upon repurchase, became unissued shares of our common stock. This authorization terminated on July 22, 2014 with the authorization of a new share repurchase program.

The following table presents the repurchases of stock under the Stock Repurchase Authorization in the third quarter of 2014:

| Period               | Total Number of<br>Shares Purchased | Average Price<br>Paid per Share | Maximum Dollar Value of Shares that<br>May Yet be Purchased (1) |
|----------------------|-------------------------------------|---------------------------------|-----------------------------------------------------------------|
| July 1-31, 2014      | 551,499                             | \$48.75                         | \$—                                                             |
| August 1-31, 2014    | —                                   | \$—                             | \$—                                                             |
| September 1-30, 2014 | —                                   | \$—                             | \$—                                                             |
| Total                | 551,499                             | \$48.75                         | \$—                                                             |

(1) This authorization terminated on July 22, 2014 with the authorization of a new share repurchase program.

On July 22, 2014, our Board of Directors authorized the repurchase of up to \$200.0 million of our outstanding common stock from time to time through open market or privately negotiated transactions. The authorization to repurchase shares terminates when the aggregate repurchase amount totals \$200.0 million or at the close of business on June 30, 2016, whichever occurs first. The share repurchase program does not obligate us to repurchase any dollar amount or number of shares of our common stock and the program may be extended, modified, suspended or discontinued at any time. As of September 30, 2014, no shares have been repurchased under this program.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

Not applicable.

### ITEM 6. EXHIBITS

Exhibits filed with this report

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                                                                                                                                            | Method of Filing                                                                                                                                                                    |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1         | Amended and Restated Articles of Incorporation of the Registrant, as amended.                                                                                                                                                                                                                                                                                                                                                          | Filed Electronically.                                                                                                                                                               |
| 3.2         | Amended and Restated By-Laws of the Registrant.                                                                                                                                                                                                                                                                                                                                                                                        | Incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K dated July 17, 2012 (File No. 001-32230).                                                                     |
| 4.1         | Specimen of common stock certificate.                                                                                                                                                                                                                                                                                                                                                                                                  | Incorporated by reference to Exhibit 4 to Amendment No. 4 to the Registrant's Registration Statement on Form S-1 (File No. 333-113764), filed with the Commission on June 23, 2004. |
| 4.2         | Rights Agreement, dated as of August 22, 2014, between Life Time Fitness, Inc. and Wells Fargo Bank, N.A., as Rights Agent.                                                                                                                                                                                                                                                                                                            | Incorporated by reference to Exhibit 1 to the Registrant's Registration Statement on Form 8-A filed with the Commission on August 25, 2014 (File No. 001-32230).                    |
| 10.1        | Transition Agreement between Life Time Fitness, Inc. and Michael R. Robinson, dated July 8, 2014.                                                                                                                                                                                                                                                                                                                                      | Filed Electronically.                                                                                                                                                               |
| 31.1        | Rule 13a-14(a)/15d-14(a) Certification by Principal Executive Officer.                                                                                                                                                                                                                                                                                                                                                                 | Filed Electronically.                                                                                                                                                               |
| 31.2        | Rule 13a-14(a)/15d-14(a) Certification by Principal Financial Officer.                                                                                                                                                                                                                                                                                                                                                                 | Filed Electronically.                                                                                                                                                               |
| 32          | Section 1350 Certifications.                                                                                                                                                                                                                                                                                                                                                                                                           | Filed Electronically.                                                                                                                                                               |
| 101         | The following materials from Life Time Fitness's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, formatted in eXtensible Business Reporting Language (XBRL): (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) consolidated statements of comprehensive income, (iv) consolidated statements of cash flows, and (v) notes to the unaudited consolidated financial statements. | Filed Electronically.                                                                                                                                                               |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Life Time Fitness, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on October 30, 2014.

LIFE TIME FITNESS, INC.

By: /s/ Bahram Akradi  
Name: Bahram Akradi  
Title: Chairman of the Board of Directors, President and Chief Executive Officer  
(Principal Executive Officer and Director)

By: /s/ Eric J. Buss  
Name: Eric J. Buss  
Title: Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

By: /s/ John M. Hugo  
Name: John M. Hugo  
Title: Senior Vice President and Corporate Controller  
(Principal Accounting Officer)

INDEX TO EXHIBITS

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