

LIFE TIME FITNESS INC  
Form 10-Q  
October 29, 2010

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

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2010**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File No. 001-32230**

**Life Time Fitness, Inc.**

(Exact name of registrant as specified in its charter)

**Minnesota**

(State or other jurisdiction of  
incorporation or organization)

**2902 Corporate Place**

**Chanhassen, Minnesota**

(Address of principal executive offices)

**41-1689746**

(I.R.S. Employer  
Identification No.)

**55317**

(Zip Code)

Registrant's telephone number, including area code: **952-947-0000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  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 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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(do not check if smaller  
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the registrant's common stock as of October 20, 2010 was 41,888,083 common shares.



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**LIFE TIME FITNESS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share and per share data)

|                                                                                        | <b>September<br/>30,<br/>2010<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2009</b> |
|----------------------------------------------------------------------------------------|---------------------------------------------------|----------------------------------|
| <b>ASSETS</b>                                                                          |                                                   |                                  |
| <b>CURRENT ASSETS:</b>                                                                 |                                                   |                                  |
| Cash and cash equivalents                                                              | \$ 33,502                                         | \$ 6,282                         |
| Accounts receivable, net                                                               | 5,453                                             | 4,026                            |
| Center operating supplies and inventories                                              | 15,766                                            | 14,621                           |
| Prepaid expenses and other current assets                                              | 14,423                                            | 12,938                           |
| Deferred membership origination costs                                                  | 16,245                                            | 20,278                           |
| Deferred income taxes                                                                  | 942                                               | 660                              |
| Total current assets                                                                   | 86,331                                            | 58,805                           |
| PROPERTY AND EQUIPMENT, net                                                            | 1,546,749                                         | 1,512,993                        |
| RESTRICTED CASH                                                                        | 2,052                                             | 2,941                            |
| DEFERRED MEMBERSHIP ORIGINATION COSTS                                                  | 7,281                                             | 8,716                            |
| OTHER ASSETS                                                                           | 60,111                                            | 48,070                           |
| <b>TOTAL ASSETS</b>                                                                    | <b>\$ 1,702,524</b>                               | <b>\$ 1,631,525</b>              |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                                             |                                                   |                                  |
| <b>CURRENT LIABILITIES:</b>                                                            |                                                   |                                  |
| Current maturities of long-term debt                                                   | \$ 77,518                                         | \$ 16,716                        |
| Accounts payable                                                                       | 14,014                                            | 14,429                           |
| Construction accounts payable                                                          | 22,375                                            | 9,882                            |
| Accrued expenses                                                                       | 58,085                                            | 48,235                           |
| Deferred revenue                                                                       | 33,426                                            | 36,939                           |
| Total current liabilities                                                              | 205,418                                           | 126,201                          |
| LONG-TERM DEBT, net of current portion                                                 | 554,228                                           | 643,630                          |
| DEFERRED RENT LIABILITY                                                                | 31,455                                            | 29,048                           |
| DEFERRED INCOME TAXES                                                                  | 81,656                                            | 77,189                           |
| DEFERRED REVENUE                                                                       | 7,314                                             | 8,819                            |
| OTHER LIABILITIES                                                                      | 9,523                                             | 9,207                            |
| Total liabilities                                                                      | 889,594                                           | 894,094                          |
| <b>COMMITMENTS AND CONTINGENCIES (Note 6)</b>                                          |                                                   |                                  |
| <b>SHAREHOLDERS EQUITY:</b>                                                            |                                                   |                                  |
| Undesignated preferred stock, 10,000,000 shares authorized; none issued or outstanding |                                                   |                                  |

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|                                                                                                                                       |              |              |
|---------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Common stock, \$.02 par value, 75,000,000 shares authorized; 41,976,365<br>and 41,410,367 shares issued and outstanding, respectively | 840          | 829          |
| Additional paid-in capital                                                                                                            | 405,203      | 395,121      |
| Retained earnings                                                                                                                     | 407,193      | 344,095      |
| Accumulated other comprehensive loss                                                                                                  | (306)        | (2,614)      |
| Total shareholders' equity                                                                                                            | 812,930      | 737,431      |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY                                                                                            | \$ 1,702,524 | \$ 1,631,525 |

See notes to unaudited consolidated financial statements.

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**LIFE TIME FITNESS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)  
(Unaudited)

|                                                                                          | <b>For the Three Months<br/>Ended<br/>September 30,</b> |             | <b>For the Nine Months<br/>Ended<br/>September 30,</b> |             |
|------------------------------------------------------------------------------------------|---------------------------------------------------------|-------------|--------------------------------------------------------|-------------|
|                                                                                          | <b>2010</b>                                             | <b>2009</b> | <b>2010</b>                                            | <b>2009</b> |
| <b>REVENUE:</b>                                                                          |                                                         |             |                                                        |             |
| Membership dues                                                                          | \$ 155,288                                              | \$ 144,832  | \$ 453,332                                             | \$ 425,070  |
| Enrollment fees                                                                          | 6,078                                                   | 6,617       | 18,577                                                 | 19,630      |
| In-center revenue                                                                        | 69,453                                                  | 59,129      | 203,442                                                | 178,681     |
| Total center revenue                                                                     | 230,819                                                 | 210,578     | 675,351                                                | 623,381     |
| Other revenue                                                                            | 7,493                                                   | 3,742       | 13,820                                                 | 9,922       |
| Total revenue                                                                            | 238,312                                                 | 214,320     | 689,171                                                | 633,303     |
| <b>OPERATING EXPENSES:</b>                                                               |                                                         |             |                                                        |             |
| Center operations                                                                        | 145,205                                                 | 127,468     | 424,940                                                | 383,313     |
| Advertising and marketing                                                                | 6,265                                                   | 5,756       | 18,940                                                 | 20,145      |
| General and administrative                                                               | 10,563                                                  | 9,669       | 32,606                                                 | 33,172      |
| Other operating                                                                          | 7,289                                                   | 8,017       | 17,146                                                 | 17,791      |
| Depreciation and amortization                                                            | 23,402                                                  | 23,428      | 69,385                                                 | 68,127      |
| Total operating expenses                                                                 | 192,724                                                 | 174,338     | 563,017                                                | 522,548     |
| Income from operations                                                                   | 45,588                                                  | 39,982      | 126,154                                                | 110,755     |
| <b>OTHER INCOME (EXPENSE):</b>                                                           |                                                         |             |                                                        |             |
| Interest expense, net of interest income of \$10,<br>\$208, \$31 and \$370, respectively | (6,792)                                                 | (7,651)     | (21,806)                                               | (23,005)    |
| Equity in earnings of affiliate                                                          | 302                                                     | 316         | 906                                                    | 985         |
| Total other income (expense)                                                             | (6,490)                                                 | (7,335)     | (20,900)                                               | (22,020)    |
| <b>INCOME BEFORE INCOME TAXES</b>                                                        | 39,098                                                  | 32,647      | 105,254                                                | 88,735      |
| <b>PROVISION FOR INCOME TAXES</b>                                                        | 15,720                                                  | 12,014      | 42,156                                                 | 34,728      |
| <b>NET INCOME</b>                                                                        | \$ 23,378                                               | \$ 20,633   | \$ 63,098                                              | \$ 54,007   |
| <br>                                                                                     |                                                         |             |                                                        |             |
| <b>BASIC EARNINGS PER COMMON SHARE</b>                                                   | \$ 0.59                                                 | \$ 0.52     | \$ 1.59                                                | \$ 1.38     |
| <br>                                                                                     |                                                         |             |                                                        |             |
| <b>DILUTED EARNINGS PER COMMON<br/>SHARE</b>                                             | \$ 0.57                                                 | \$ 0.51     | \$ 1.55                                                | \$ 1.36     |

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|                                                                    |       |        |        |        |        |
|--------------------------------------------------------------------|-------|--------|--------|--------|--------|
| WEIGHTED AVERAGE NUMBER OF<br>COMMON SHARES OUTSTANDING            | BASIC | 39,932 | 39,410 | 39,597 | 39,221 |
| WEIGHTED AVERAGE NUMBER OF<br>COMMON SHARES OUTSTANDING<br>DILUTED |       | 41,260 | 40,255 | 40,783 | 39,687 |

See notes to unaudited consolidated financial statements.

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

|                                                                                   | <b>For the Nine Months Ended</b> |             |
|-----------------------------------------------------------------------------------|----------------------------------|-------------|
|                                                                                   | <b>September 30,</b>             |             |
|                                                                                   | <b>2010</b>                      | <b>2009</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                  |             |
| Net income                                                                        | \$ 63,098                        | \$ 54,007   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                  |             |
| Depreciation and amortization                                                     | 69,385                           | 68,127      |
| Deferred income taxes                                                             | (1,100)                          | 6,957       |
| Loss on disposal of property and equipment, net                                   | 979                              | 818         |
| Gain on sale of land held for sale                                                | (527)                            | (873)       |
| Amortization of deferred financing costs                                          | 2,024                            | 1,925       |
| Share-based compensation                                                          | 5,412                            | 5,907       |
| Excess tax benefit related to share-based payment arrangements                    | (1,697)                          | (433)       |
| Equity in earnings of affiliate                                                   | (906)                            | (985)       |
| Dividend received from equity investment                                          | 350                              | 350         |
| Changes in operating assets and liabilities                                       | 8,930                            | 1,650       |
| Other                                                                             | 199                              | 1,101       |
| Net cash provided by operating activities                                         | 146,147                          | 138,551     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                                  |             |
| Purchases of property and equipment                                               | (86,132)                         | (116,853)   |
| Acquisitions, net of cash acquired                                                | (14,378)                         |             |
| Proceeds from sale of property and equipment                                      | 721                              | 8           |
| Proceeds from sale of land held for sale                                          | 1,019                            | 1,327       |
| Increase in other assets                                                          | (578)                            | (213)       |
| Decrease in restricted cash                                                       | 889                              | 151         |
| Net cash used in investing activities                                             | (98,459)                         | (115,580)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                  |             |
| Proceeds from long-term borrowings                                                |                                  | 7,813       |
| Repayments of long-term borrowings                                                | (38,067)                         | (7,755)     |
| Proceeds from (repayments of) revolving credit facility, net                      | 12,500                           | (27,600)    |
| Increase in deferred financing costs                                              | (258)                            | (745)       |
| Excess tax benefit related to share-based payment arrangements                    | 1,697                            | 433         |
| Proceeds from stock option exercises                                              | 3,660                            | 2,191       |
| Net cash used in financing activities                                             | (20,468)                         | (25,663)    |

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|                                                  |           |          |
|--------------------------------------------------|-----------|----------|
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 27,220    | (2,692)  |
| CASH AND CASH EQUIVALENTS Beginning of period    | 6,282     | 10,829   |
| CASH AND CASH EQUIVALENTS End of period          | \$ 33,502 | \$ 8,137 |

See notes to unaudited consolidated financial statements.

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

**1. Basis of Presentation**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary to fairly present financial position, results of operations and cash flows for the periods have been included.

These interim consolidated financial statements and the related notes should be read in conjunction with the annual consolidated financial statements and notes included in the latest Form 10-K, as filed with the Securities and Exchange Commission ( SEC ), which includes audited consolidated financial statements for the three fiscal years ended December 31, 2009.

**2. Share-Based Compensation***Stock Option and Incentive Plans*

We have four share-based compensation plans, the FCA, Ltd. 1996 Stock Option Plan (the 1996 Plan ), the Life Time Fitness, Inc. 1998 Stock Option Plan (the 1998 Plan ), the Amended and Restated Life Time Fitness, Inc. 2004 Long-Term Incentive Plan (the 2004 Plan ) and an Employee Stock Purchase Plan (the ESPP ), collectively, the share-based compensation plans. In connection with approval for the 2004 Plan, our Board of Directors approved a resolution to cease making additional grants under the 1996 Plan and the 1998 Plan. The types of awards that may be granted under the 2004 Plan include incentive and non-qualified options to purchase shares of common stock, stock appreciation rights, restricted shares, restricted share units, performance awards and other types of share-based awards.

As of September 30, 2010, we had granted a total of 5,587,165 options to purchase common stock under all of the share-based compensation plans, of which options to purchase 623,120 shares were outstanding and vested, and a total of 2,954,147 restricted shares were granted, of which 2,043,577 restricted shares were outstanding and unvested. We use the term restricted shares to define nonvested shares granted to employees and non-employee directors, whereas applicable accounting guidance reserves that term for fully vested and outstanding shares whose sale is contractually or governmentally prohibited for a specified period of time.

Total share-based compensation expense included in our consolidated statements of operations for the three and nine months ended September 30, 2010 and 2009 was as follows:

|                                                               | <b>For the Three Months<br/>Ended<br/>September 30,</b> |             | <b>For the Nine Months<br/>Ended<br/>September 30,</b> |             |
|---------------------------------------------------------------|---------------------------------------------------------|-------------|--------------------------------------------------------|-------------|
|                                                               | <b>2010</b>                                             | <b>2009</b> | <b>2010</b>                                            | <b>2009</b> |
| Share-based compensation expense related to stock options     | \$ 3                                                    | \$ 98       | \$ 41                                                  | \$ 730      |
| Share-based compensation expense related to restricted shares | 1,818                                                   | 1,752       | 5,281                                                  | 5,087       |
| Share-based compensation expense related to ESPP              | 30                                                      | 30          | 90                                                     | 90          |
| Total share-based compensation expense                        | \$ 1,851                                                | \$ 1,880    | \$ 5,412                                               | \$ 5,907    |

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

*Summary of Restricted Stock Activity*

|                                   | <b>Restricted<br/>Shares</b> | <b>Range of Market Price<br/>Per<br/>Share on Grant Date</b> |
|-----------------------------------|------------------------------|--------------------------------------------------------------|
| Outstanding at December 31, 2009  | 1,966,672                    | \$ 9.72-53.95                                                |
| Granted                           | 313,561                      | \$ 28.79                                                     |
| Canceled                          | (15,927)                     | \$ 9.72-50.82                                                |
| Vested                            | (278,828)                    | \$ 9.72-53.95                                                |
| Outstanding at March 31, 2010     | 1,985,478                    | \$ 9.72-53.95                                                |
| Granted                           | 15,158                       | \$ 36.28                                                     |
| Canceled                          | (3,816)                      | \$ 9.72-49.06                                                |
| Vested                            | (18,302)                     | \$ 14.31-50.11                                               |
| Outstanding at June 30, 2010      | 1,978,518                    | \$ 9.72-53.95                                                |
| Granted                           | 87,226                       | \$ 38.32                                                     |
| Canceled                          | (15,421)                     | \$ 9.72-49.06                                                |
| Vested                            | (6,746)                      | \$ 9.72-51.15                                                |
| Outstanding at September 30, 2010 | 2,043,577                    | \$ 9.72-53.95                                                |

During the nine months ended September 30, 2010 and 2009, we issued 415,945 and 1,685,829 shares of restricted stock, respectively, with an aggregate fair value of \$12.9 million and \$27.3 million, respectively. The grant date fair value of restricted shares that vested during the nine months ended September 30, 2010 was \$6.7 million. 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, 2010, there was \$17.9 million of unrecognized compensation expense related to restricted stock that is expected to be recognized over a weighted average period of 2.6 years.

*Performance-Based Restricted Stock Grants*

In June 2009, the Compensation Committee of our Board of Directors approved the grant of 996,000 shares of long-term performance-based restricted stock to serve as an incentive to our senior management team to achieve certain diluted earnings per share (EPS) targets in 2011 and 2012. In August 2010, an additional 20,000 shares of long-term performance-based restricted stock were granted to a new member of senior management using the same diluted EPS targets and vesting schedule. As of September 30, 2010, 992,000 of these shares were still outstanding. If a specified EPS target is achieved for fiscal 2011, 50% of the restricted shares will vest. If a higher EPS target is achieved for fiscal 2011, 100% of the restricted shares will vest. If the grant has not fully vested after fiscal 2011, 50% of the shares will vest if a specified EPS target is achieved for fiscal 2012. If none of the shares vested after fiscal 2011, 100% of the shares will vest if a higher EPS target is achieved for fiscal 2012. In the event that we do not achieve the required EPS targets, the restricted stock will be forfeited. A maximum of \$20.6 million could be recognized as compensation expense under this grant if all EPS targets are met.

We believe these targets, inclusive of compensation expense under this grant, to be aggressive goals in excess of our current baseline expectations, and therefore, we did not recognize any compensation expense associated with the grant since the grant date, including the nine months ended September 30, 2010, nor has any share amount been included in

our total diluted shares. The probability of reaching the targets is evaluated each reporting period. If it becomes probable that certain of the target performance levels will be achieved, a cumulative adjustment will be recorded and future compensation expense will increase based on the currently projected performance levels. If we had determined that all of the targets had become probable on September 30, 2010, we would have recognized a \$10.2 million cumulative compensation adjustment on that date. If we later determine that it is not probable that the minimum EPS performance threshold for the grants will be met, no further compensation cost will be recognized and any previously recognized compensation cost will be reversed.

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

*Summary of Stock Option Activity*

|                                              | Stock<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (in<br>years) | Aggregate<br>Intrinsic<br>Value |
|----------------------------------------------|------------------|------------------------------------------|-----------------------------------------------------------------------|---------------------------------|
| Outstanding at December 31, 2009             | 810,578          | \$ 22.93                                 | 4.8                                                                   | \$ 3,669                        |
| Granted                                      |                  | \$                                       |                                                                       |                                 |
| Exercised                                    | (23,526)         | \$ 15.75                                 |                                                                       |                                 |
| Canceled                                     |                  | \$                                       |                                                                       |                                 |
| Outstanding at March 31, 2010                | 787,052          | \$ 23.14                                 | 4.5                                                                   | \$ 5,315                        |
| Granted                                      |                  | \$                                       |                                                                       |                                 |
| Exercised                                    | (120,221)        | \$ 21.48                                 |                                                                       |                                 |
| Canceled                                     |                  | \$                                       |                                                                       |                                 |
| Outstanding at June 30, 2010                 | 666,831          | \$ 23.44                                 | 4.3                                                                   | \$ 6,493                        |
| Granted                                      |                  | \$                                       |                                                                       |                                 |
| Exercised                                    | (40,014)         | \$ 17.68                                 |                                                                       |                                 |
| Canceled                                     | (3,697)          | \$ 48.59                                 |                                                                       |                                 |
| Outstanding and Vested at September 30, 2010 | 623,120          | \$ 23.67                                 | 4.1                                                                   | \$ 10,202                       |

No stock options have been granted since 2007. As of September 30, 2010, there was no unrecognized compensation expense related to stock options, and all outstanding stock options were vested.

The aggregate intrinsic value in the table above at September 30, 2010 represents the total pretax intrinsic value (the difference between our closing stock price at September 30, 2010 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders, had all option holders exercised their options on September 30, 2010. The intrinsic value changes based on the fair market value of our stock. Total intrinsic value of options exercised during the nine months ended September 30, 2010 and 2009 was \$2.7 million and \$1.8 million, respectively.

Net cash proceeds from the exercise of stock options were \$3.7 million and \$2.2 million for the nine months ended September 30, 2010, and 2009, respectively. The actual income tax benefit realized from stock option exercises total \$1.7 million and \$0.4 million, respectively, for each of those same periods.

*Employee Stock Purchase Plan and Related Share Repurchase Plan*

Our ESPP provides for the sale of our common stock to our employees at discounted purchase prices. The cost per share under this plan is 90% of the fair market value of our common stock on the last day of the purchase period, as defined. The current purchase period for employees under the ESPP began July 1, 2010 and ends December 31, 2010. Compensation expense under the ESPP is estimated based on the discount of 10% at the end of the purchase period. In June 2006, our Board of Directors authorized the repurchase of 500,000 shares of our common stock from time to time in the open market or otherwise for the primary purpose of offsetting the dilutive effect of shares pursuant to our ESPP. During the first nine months of 2010, we repurchased 32,628 shares for approximately \$1.0 million. As of

September 30, 2010, there were 342,760 remaining shares authorized to be repurchased for this purpose. The shares repurchased to date have been purchased in the open market and, upon repurchase, became authorized, but unissued shares of our common stock.

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

**3. Earnings per Share**

Basic EPS is computed by dividing net income applicable to common shareholders by the weighted average number of shares of common stock outstanding for each period. Diluted EPS is computed based on the weighted-average number of common shares and common equivalent shares. Common equivalent shares represent the effect of dilutive stock options and restricted stock awards during each period presented. Stock options excluded from the calculation of diluted EPS because the option exercise price was greater than the average market price of the common share were 74,919 and 435,128 for the nine months ended September 30, 2010 and 2009, respectively. Long-term performance-based restricted shares excluded from the calculation of diluted EPS, because vesting of the shares was not probable, was 992,000 and 996,000 for each of those same periods, respectively.

The basic and diluted earnings per share calculations are shown below (share amounts in thousands):

|                                                                 | <b>For the Three Months<br/>Ended<br/>September 30,</b> |             | <b>For the Nine Months<br/>Ended<br/>September 30,</b> |             |
|-----------------------------------------------------------------|---------------------------------------------------------|-------------|--------------------------------------------------------|-------------|
|                                                                 | <b>2010</b>                                             | <b>2009</b> | <b>2010</b>                                            | <b>2009</b> |
| Net income                                                      | \$ 23,378                                               | \$ 20,633   | \$ 63,098                                              | \$ 54,007   |
| Weighted average number of common shares<br>outstanding basic   | 39,932                                                  | 39,410      | 39,597                                                 | 39,221      |
| Effect of dilutive stock options                                | 195                                                     | 141         | 160                                                    | 55          |
| Effect of dilutive restricted stock awards                      | 1,133                                                   | 704         | 1,026                                                  | 411         |
| Weighted average number of common shares<br>outstanding diluted | 41,260                                                  | 40,255      | 40,783                                                 | 39,687      |
| Basic earnings per common share                                 | \$ 0.59                                                 | \$ 0.52     | \$ 1.59                                                | \$ 1.38     |
| Diluted earnings per common share                               | \$ 0.57                                                 | \$ 0.51     | \$ 1.55                                                | \$ 1.36     |

**4. Operating Segments**

Our operations are conducted mainly through our distinctive and large, multi-use sports and athletic, professional fitness, family recreation and spa centers in a resort-like environment. We aggregate the activities of our centers and other ancillary products and services into one reportable segment as none of the centers or other ancillary products or services meet the quantitative thresholds for separate disclosure under the applicable accounting guidance. Each of the centers has similar expected economic characteristics and customers, and generally offers similar service and product offerings. Each of the other ancillary products and services either directly or indirectly, through advertising or branding, compliment the operations of the centers. Our chief operating decision maker uses EBITDA as the primary measure of operating segment performance.

The following table presents revenue for the three and nine months ended September 30, 2010 and 2009:

|                 | <b>For the Three Months<br/>Ended<br/>September 30,</b> |             | <b>For the Nine Months<br/>Ended<br/>September 30,</b> |             |
|-----------------|---------------------------------------------------------|-------------|--------------------------------------------------------|-------------|
|                 | <b>2010</b>                                             | <b>2009</b> | <b>2010</b>                                            | <b>2009</b> |
| Membership dues | \$ 155,288                                              | \$ 144,832  | \$ 453,332                                             | \$ 425,070  |
| Enrollment fees | 6,078                                                   | 6,617       | 18,577                                                 | 19,630      |



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|                   |            |            |            |            |
|-------------------|------------|------------|------------|------------|
| Personal training | 31,839     | 27,353     | 96,680     | 84,492     |
| Other in-center   | 37,614     | 31,776     | 106,762    | 94,189     |
| Other             | 7,493      | 3,742      | 13,820     | 9,922      |
| Total revenue     | \$ 238,312 | \$ 214,320 | \$ 689,171 | \$ 633,303 |

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

**5. Supplementary Cash Flow Information**

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

|                                                 | <b>For the Nine Months<br/>Ended<br/>September 30,</b> |              |
|-------------------------------------------------|--------------------------------------------------------|--------------|
|                                                 | <b>2010</b>                                            | <b>2009</b>  |
| Accounts receivable                             | \$ (1,380)                                             | \$ 2,930     |
| Center operating supplies and inventories       | (1,132)                                                | 697          |
| Prepaid expenses and other current assets       | (945)                                                  | (177)        |
| Deferred membership origination costs           | 5,467                                                  | 864          |
| Other assets                                    |                                                        | (1,598)      |
| Accounts payable                                | (291)                                                  | 2,954        |
| Accrued expenses                                | 11,373                                                 | 6,047        |
| Deferred revenue                                | (7,138)                                                | (1,964)      |
| Deferred rent liability                         | 2,407                                                  | 539          |
| Other liabilities                               | 569                                                    | (8,642)      |
| <br>Changes in operating assets and liabilities | <br>\$ 8,930                                           | <br>\$ 1,650 |

We made cash payments for income taxes of \$38.1 million and \$33.7 million for the nine months ended September 30, 2010 and 2009, respectively.

We made cash payments for interest, net of capitalized interest, of \$19.4 million and \$23.0 million for the nine months ended September 30, 2010 and 2009, respectively. Capitalized interest was \$2.3 million and \$2.6 million for the nine months ended September 30, 2010 and 2009, respectively.

Construction accounts payable and accounts payable related to property and equipment was \$22.3 million and \$11.4 million at September 30, 2010 and 2009, respectively.

In the first nine months of 2010, we invested \$14.4 million in acquisitions, net of cash acquired. These acquisitions included a small health club in the Houston market, a number of athletic events, including the Chicago Triathlon and the Leadville 100 series of races, and a yoga instructor training curriculum. The purchase price was primarily allocated to intangible assets. The impact on operations in 2010 from the respective acquisition dates forward is not anticipated to be material.

**6. Commitments and Contingencies**

We are engaged in legal proceedings incidental to the normal course of business. Due to their nature, such legal proceedings involve inherent uncertainties, including but not limited to, court rulings, negotiations between affected parties and governmental intervention. We have established reserves for matters that are probable and estimable in amounts we believe are adequate to cover reasonable adverse judgments not covered by insurance. Based upon the information available to us and discussions with legal counsel, it is our opinion that the outcome of the various legal actions and claims that are incidental to our business will not have a material adverse impact on our consolidated financial position, results of operations or cash flows; however, such matters are subject to many uncertainties, and the outcome of individual matters are not predictable with assurance.

On August 27, 2009, Foss Swim School, Inc. filed an action against Life Time Fitness, Inc. and its subsidiary, LTF Club Operations Company, Inc., in district court in Hennepin County, Minnesota seeking monetary damages and injunctive relief relating to our prior relationship with The Foss Swim School and subsequent development of our USwim program. The court heard our motion for summary judgment on July 22, 2010, and has not yet ruled on the motion. A trial date is currently scheduled for early 2011. We continue to vigorously defend the action.



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**LIFE TIME FITNESS, INC. AND SUBSIDIARIES**  
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**(Table amounts in thousands, except share and per share data)**

**7. Recent Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board issued new guidance on the consolidation of variable interest entities, which was effective for us beginning January 1, 2010. The guidance amends the consolidation guidance applicable to variable interest entities to require revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. The implementation did not have an impact on our consolidated financial statements.

**8. Intangible Assets**

We are required to test our intangible assets for impairment on an annual basis. We are also required to evaluate these assets for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of the intangible asset below its carrying amount. An indicator of potential impairment that could impact our intangible asset values include, but is not limited to, a significant loss of occupancy at our rental property located in Highland Park, Minnesota. We expect the facility to continue to be used as a rental property with continuing lease renewals and/or replacements and there have been no legal, regulatory or contractual provisions that would indicate that we could not renew the leases. Accordingly, the leasehold rights, which include in-place lease value and tenant origination value, were originally determined to have an indefinite life. However, during our quarter ended June 30, 2010, we determined it was appropriate to re-evaluate our useful life given the recent challenging commercial real estate markets and the current economic environment. Based upon our review, we determined our leasehold rights to have a finite life. Accordingly, we amortize the remaining carrying value of this intangible asset prospectively over the remaining weighted average lease term for in-place lease value and weighted average lease term plus expected renewal options for tenant origination value. We performed an impairment analysis as of the date of our decision to change the useful life from an indefinite life to a finite life and determined there to be no impairment.

**9. Derivative Instruments**

As part of our risk management program, we may periodically use interest rate swaps to manage known market exposures. Terms of derivative instruments are structured to match the terms of the risk being managed and are generally held to maturity.

In 2007, we entered into an interest rate swap contract that effectively fixed the rates paid on a total of \$125.0 million of variable rate borrowings at 4.825% plus the applicable spread (which depends on our cash flow leverage ratio) until October 2010. In May 2009, we amended the interest swap contract to effectively fix the rates paid on the \$125.0 million of variable rate borrowings at 4.715% plus the applicable spread from July 2009 until October 2010. The contract has been designated a cash flow hedge against interest rate volatility. In accordance with applicable accounting guidance, changes in the fair market value of the swap contract are recorded in accumulated other comprehensive income (loss). As of September 30, 2010, the \$0.3 million fair market value loss, net of tax, of the swap contract was recorded as accumulated other comprehensive loss in the shareholders' equity section of our consolidated balance sheets and the \$0.5 million gross fair market value of the swap contract was included in current maturities of long-term debt.

On an ongoing basis, we assess whether the interest rate swap used in this hedging transaction is highly effective in offsetting changes in the fair value or cash flow of the hedged item by comparing the current terms of the swap and the debt to assure they continue to coincide and through an evaluation of the continued ability of the counterparty to the swap to honor its obligations under the swap. If it is determined that the derivative is not highly effective as a hedge or hedge accounting is discontinued, any change in fair value of the derivative since the last date at which it was determined to be effective would be recognized in earnings.

On October 10, 2010, our interest rate swap contract expired without renewal.

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

**10. Fair Value Measurements**

The carrying amounts related to cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the relatively short maturities of such instruments. The fair value of our long-term debt and capital leases are estimated based on estimated current rates for debt with similar terms, credit worthiness and the same remaining maturities. The fair value estimates presented are based on information available to us as of September 30, 2010. These fair value estimates have not been comprehensively revalued for purposes of these consolidated financial statements since that date, and current estimates of fair values may differ significantly. The following table presents the carrying value and the estimated fair value of long-term debt:

|                                  | <b>September 30, 2010</b> |                                 |
|----------------------------------|---------------------------|---------------------------------|
|                                  | <b>Carrying<br/>Value</b> | <b>Estimated<br/>Fair Value</b> |
| Fixed-rate debt                  | \$ 334,338                | \$ 316,415                      |
| Obligations under capital leases | 17,922                    | 17,875                          |
| Floating-rate debt               | 279,486                   | 272,564                         |
| <br>Total                        | <br>\$ 631,746            | <br>\$ 606,854                  |

The accounting guidance established a framework for measuring fair value and expanded disclosures about fair value measurements. The guidance applies to all assets and liabilities that are measured and reported on a fair value basis. This enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The guidance requires that each asset and liability carried at fair value be classified into one of the following categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

We determined the fair value of the swap contract based upon current fair values as quoted by recognized dealers. As prescribed by the guidance, we recognize the fair value of the swap liability as a Level 2 valuation.

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**Item 2.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-Looking Statements**

The following discussion may contain forward-looking statements regarding us and our business, prospects and results of operations that are subject to certain risks and uncertainties posed by many factors and events that could cause our actual business, prospects and results of operations to differ materially from those that may be anticipated by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those described under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the SEC that advise interested parties of the risks and factors that may affect our business.

The interim consolidated financial statements filed on this Form 10-Q and the discussions contained herein should be read in conjunction with the annual consolidated financial statements and notes included in the latest Form 10-K, as filed with the SEC, which includes audited consolidated financial statements for the three fiscal years ended December 31, 2009.

**Overview**

We operate large, multi-use sports, fitness and family recreation centers. As of October 29, 2010, we operated 89 centers primarily in residential locations across 19 states under the LIFE TIME FITNESS and LIFE TIME ATHLETIC brands.

We compare the results of our centers based on how long the centers have been open at the most recent measurement period. We include a center's revenue in the same-center revenue category for comparison 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's revenue in the same-center revenue category for comparison purposes beginning on the first day of the thirteenth full calendar month after we assumed the center's operations. We also measure same-center revenue beginning on the first day of the thirty-seventh full calendar month of the center's operation, which we refer to as a mature center.

As we grow our presence in existing markets by opening new centers, we expect to attract some memberships away from our other existing centers already in those markets, reducing revenue and initially lowering the memberships of those existing centers. In addition, as a result of new center openings in existing markets, and because older centers will represent an increasing proportion of our center base over time, our same-center revenue may be lower in future periods than in the past. Of the three new large format centers we have opened or plan to open in 2010, two will be in existing markets. Of the two boutique centers we have opened in 2010, both are in existing markets. We acquired a small health club in May 2010 and a boutique center in July 2010, both of which are in existing markets. We do not expect that operating costs of our planned new centers will be significantly higher than centers opened in the past, and we also do not expect that the planned increase in the number of centers will have a material adverse effect on the overall financial condition or results of operations of existing centers.

Over the past several years, in addition to opening new centers, we have assumed the operations of leased facilities and we have financed several centers with sale-leaseback transactions. As a result of opening new centers, assuming the operations of leased facilities and entering into sale-leaseback transactions, our center operating margins are lower than they have been historically. We expect that the addition of pre-opening expenses and the lower revenue volumes characteristic of newly-opened centers, as well as the occupancy costs for our leased centers and the lease costs for facilities which we financed through sale-leaseback transactions, will affect our center operating margins at these centers and on a consolidated basis.

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In 2008 and 2009, we experienced increased member attrition and lower revenue per membership as well as higher membership acquisition costs due to the challenging economic environment. If the challenging economic conditions continue, we may face continued lower total revenue and operating profit in affected centers and on a consolidated basis. Certain of our markets may be impacted more severely than others as a result of regional economic factors such as housing, competition or unemployment rates. In the first nine months of 2010, we saw improvement in attrition and revenue per membership metrics, but we continue to incur high membership acquisition costs, as well as higher center operating expenses from expanded program offerings intended to improve member acquisition and retention. In 1999, we formed Bloomingdale LIFE TIME Fitness, L.L.C. ( Bloomingdale LLC ) with two unrelated organizations for the purpose of constructing, owning and operating a center in Bloomingdale, Illinois. Bloomingdale LLC 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 investment, average center revenue per membership, including membership dues and enrollment fees, average in-center revenue per membership and center operating expenses, with an emphasis on payroll and occupancy costs, as a percentage of revenue and same-center revenue growth. We use center revenue 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 system-wide basis. These metrics include change in center membership levels and growth of system-wide memberships, percentage center membership to target capacity, center membership usage, center membership mix among individual, couple and family memberships, Flex subscription memberships and center attrition rates. During 2008, our annual attrition rate (trailing 12 month) increased from 34.3% to 42.3% driven primarily by the challenging economic environment and inactive members leaving earlier than in the past. During 2009, our annual attrition rate decreased from 42.3% to 40.6%. In first nine months of 2010, our trailing 12 month attrition rate decreased to 37.1%.

We have three primary sources of revenue.

Our largest source of revenue is membership dues (65.8% of total revenue for the nine months ended September 30, 2010) and enrollment fees (2.7% of total revenue for the nine months ended September 30, 2010) paid by our members. We recognize revenue from monthly membership dues in the month to which they pertain. We recognize revenue from enrollment fees over the estimated average membership life, which we estimate to be 30 months for the first three quarters of 2010 and all of 2009 and the fourth quarter of 2008, 33 months for the second and third quarters of 2008 and 36 months for the first quarter of 2008 and prior periods.

We generate revenue within a center, which we refer to as in-center revenue, (29.5% of total revenue for the nine months ended September 30, 2010), including fees for personal training, group fitness training and other member activities, sales of products at our LifeCafe, sales of products and services offered at our LifeSpa, tennis programs and renting space in certain of our centers. The revenue associated with these services is generally recognized at the time the service is performed.

We have expanded the LIFE TIME FITNESS brand into other wellness-related offerings that generate revenue, which we refer to as other revenue, or corporate businesses (2.0% of total revenue for the nine months ended September 30, 2010), including our media, wellness and athletic events businesses. Our primary media offering is our magazine, *Experience Life*. Other revenue also includes two restaurants in the Minneapolis market and rental income from our Highland Park, Minnesota office building.

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We have five primary sources of operating expenses.

Center operations expenses consist primarily of salary, 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 consist of our marketing department costs and media and advertising costs to support center membership levels, in-center businesses and our corporate businesses.

General and administrative expenses include costs relating to our centralized support functions, such as corporate general management, accounting, information systems, human resources, procurement, real estate and development and member relations.

Other operating expenses include the costs associated with our media, athletic events and nutritional product businesses, two restaurants and other corporate expenses, as well as gains or losses on our dispositions of assets.

Depreciation and amortization 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 presale activities and the performance of our in-center 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 large format center can vary considerably based on variability in land cost and the cost of construction labor, as well as whether or not a tennis area is included or whether or not we expand the gymnasium or add 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 revenue 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 and tax provisions. 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, 2009.



**Table of Contents****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<br>Ended<br>September 30, |        | For the Nine Months<br>Ended<br>September 30, |          |
|--------------------------------------------------|------------------------------------------------|--------|-----------------------------------------------|----------|
|                                                  | 2010                                           | 2009   | 2010                                          | 2009     |
| <b>Revenue</b>                                   |                                                |        |                                               |          |
| Center revenue                                   |                                                |        |                                               |          |
| Membership dues                                  | 65.2%                                          | 67.6%  | 65.8%                                         | 67.1%    |
| Enrollment fees                                  | 2.6                                            | 3.1    | 2.7                                           | 3.1      |
| In-center revenue                                | 29.1                                           | 27.6   | 29.5                                          | 28.2     |
| Total center revenue                             | 96.9                                           | 98.3   | 98.0                                          | 98.4     |
| Other revenue                                    | 3.1                                            | 1.7    | 2.0                                           | 1.6      |
| Total revenue                                    | 100.0                                          | 100.0  | 100.0                                         | 100.0    |
| <b>Operating expenses</b>                        |                                                |        |                                               |          |
| Center operations                                | 60.9                                           | 59.5   | 61.7                                          | 60.5     |
| Advertising and marketing                        | 2.6                                            | 2.7    | 2.7                                           | 3.2      |
| General and administrative                       | 4.5                                            | 4.5    | 4.7                                           | 5.2      |
| Other operating                                  | 3.1                                            | 3.7    | 2.5                                           | 2.8      |
| Depreciation and amortization                    | 9.8                                            | 10.9   | 10.1                                          | 10.8     |
| Total operating expenses                         | 80.9                                           | 81.3   | 81.7                                          | 82.5     |
| <b>Income from operations</b> (operating margin) | 19.1                                           | 18.7   | 18.3                                          | 17.5     |
| <b>Other income (expense)</b>                    |                                                |        |                                               |          |
| Interest expense, net                            | (2.8)                                          | (3.6)  | (3.2)                                         | (3.7)    |
| Equity in earnings of affiliate                  | 0.1                                            | 0.1    | 0.2                                           | 0.2      |
| Total other income (expense)                     | (2.7)                                          | (3.5)  | (3.0)                                         | (3.5)    |
| <b>Income before income taxes</b>                | 16.4                                           | 15.2   | 15.3                                          | 14.0     |
| Provision for income taxes                       | 6.6                                            | 5.6    | 6.1                                           | 5.5      |
| <b>Net income</b>                                | 9.8%                                           | 9.6%   | 9.2%                                          | 8.5%     |
| <b>Other financial data:</b>                     |                                                |        |                                               |          |
| Same-center revenue growth 13 month (1)          | 6.6%                                           | (5.4%) | 4.7%                                          | (4.2%)   |
| Mature same-center revenue growth 37 month (1)   | 4.0%                                           | (8.7%) | 1.6%                                          | (8.5%)   |
| Average center revenue per membership (2)        | \$ 374                                         | \$ 358 | \$ 1,113                                      | \$ 1,063 |
|                                                  | \$ 112                                         | \$ 100 | \$ 335                                        | \$ 305   |

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Average in-center revenue per membership

|                                         |           |           |            |            |
|-----------------------------------------|-----------|-----------|------------|------------|
| (3)                                     |           |           |            |            |
| Trailing 12 month attrition rate (4)    | 37.1%     | 40.6%     | 37.1%      | 40.6%      |
| Quarterly attrition rate (5)            | 9.6%      | 10.6%     | N/A        | N/A        |
| EBITDA (in thousands) (6)               | \$ 69,292 | \$ 63,726 | \$ 196,445 | \$ 179,867 |
| EBITDA margin (7)                       | 29.1%     | 29.7%     | 28.5%      | 28.4%      |
| EBITDAR (in thousands) (6)              | \$ 80,078 | \$ 73,790 | \$ 228,566 | \$ 210,011 |
| EBITDAR margin (8)                      | 33.6%     | 34.4%     | 33.2%      | 33.2%      |
| Capital expenditures (in thousands) (9) | \$ 37,968 | \$ 25,128 | \$ 86,132  | \$ 116,853 |
| Free cash flow (in thousands) (10)      | \$ 7,471  | \$ 15,139 | \$ 60,015  | \$ 21,698  |

**Operating data (end of period) (11):**

|                            |                    |           |           |           |
|----------------------------|--------------------|-----------|-----------|-----------|
| Centers open               | 89 <sup>(13)</sup> | 84        | 89        | 84        |
| Memberships                | 622,698            | 590,716   | 622,698   | 590,716   |
| Center square footage (12) | 8,685,114          | 8,445,689 | 8,685,114 | 8,445,689 |
|                            | 16                 |           |           |           |

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- (1) 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 in *mature same-center revenue growth 37 month* beginning on the first day of the thirty-seventh full calendar month of the center's operation.
- (2) Average center revenue per membership is total center revenue for the period divided by an average number of memberships for the period, where the average number of memberships for the period is derived from dividing the sum of the total

memberships outstanding at the end of each month during the period by the total number of months in the period.

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

(4) Trailing 12 month attrition rate (or annual attrition rate) is calculated as follows: total terminations for the trailing 12 months (excluding frozen memberships) divided into the average

beginning  
month  
membership  
balance for the  
trailing  
12 months. The  
trailing  
12 month  
attrition rate for  
the three months  
and nine months  
ended  
September 30,  
2010 includes a  
small positive  
impact due to a  
change in  
calculation  
methodology  
adopted April 1,  
2010 in which  
we exclude  
potential  
memberships  
who elect to  
cancel during  
their 14-day  
trial as  
members.

- (5) Quarterly  
attrition rate is  
calculated as  
follows: total  
terminations for  
the quarter  
(excluding  
frozen  
memberships)  
divided into the  
average  
beginning  
month  
membership  
balance for the  
quarter. The  
quarterly  
attrition rate  
includes a small  
positive impact  
due to a change

in calculation methodology adopted April 1, 2010 in which we exclude potential memberships who elect to cancel during their 14-day trial as members.

- (6) EBITDA 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 a similarly titled measures used by other companies and are not measures of 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):

|                               | <b>For the Three Months Ended</b> |                  | <b>For the Nine Months Ended</b> |                   |
|-------------------------------|-----------------------------------|------------------|----------------------------------|-------------------|
|                               | <b>September 30,</b>              |                  | <b>September 30,</b>             |                   |
|                               | <b>2010</b>                       | <b>2009</b>      | <b>2010</b>                      | <b>2009</b>       |
| Net income                    | \$ 23,378                         | \$ 20,633        | \$ 63,098                        | \$ 54,007         |
| Interest expense, net         | 6,792                             | 7,651            | 21,806                           | 23,005            |
| Provision for income taxes    | 15,720                            | 12,014           | 42,156                           | 34,728            |
| Depreciation and amortization | 23,402                            | 23,428           | 69,385                           | 68,127            |
| <b>EBITDA</b>                 | <b>\$ 69,292</b>                  | <b>\$ 63,726</b> | <b>\$ 196,445</b>                | <b>\$ 179,867</b> |
| Rent expense                  | 10,786                            | 10,064           | 32,121                           | 30,144            |
| <b>EBITDAR</b>                | <b>\$ 80,078</b>                  | <b>\$ 73,790</b> | <b>\$ 228,566</b>                | <b>\$ 210,011</b> |

(7)

EBITDA  
margin is the  
ratio of  
EBITDA to  
total revenue.

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



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(9) Capital expenditures represent investments in our new centers, costs related to updating and maintaining our existing centers, acquisitions (of centers and events) 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.

(10)

Free cash flow is a non-GAAP measure consisting of net cash provided by operating activities, less purchases of property and equipment. Free cash flow does not include acquisition investments.

This term, as we define it, may not be comparable to a similarly titled measure used by other companies and does not represent the total increase or decrease in the cash balance presented in accordance with GAAP. We use free cash flow as a measure of cash generated after spending on property and equipment. Free cash flow should not be considered as a substitute for net cash provided by operating activities prepared in accordance with GAAP.

The following table provides a reconciliation of net cash

provided by  
operating  
activities to free  
cash flow (in  
thousands):

|                                           | <b>For the Three Months<br/>Ended<br/>September 30,</b> |             | <b>For the Nine Months<br/>Ended<br/>September 30,</b> |             |
|-------------------------------------------|---------------------------------------------------------|-------------|--------------------------------------------------------|-------------|
|                                           | <b>2010</b>                                             | <b>2009</b> | <b>2010</b>                                            | <b>2009</b> |
| Net cash provided by operating activities | \$ 45,439                                               | \$ 40,267   | \$ 146,147                                             | \$ 138,551  |
| Less: Purchases of property and equipment | (37,968)                                                | (25,128)    | (86,132)                                               | (116,853)   |
| Free cash flow                            | \$ 7,471                                                | \$ 15,139   | \$ 60,015                                              | \$ 21,698   |

(11) The operating data presented in these items includes the center owned by Bloomingdale LLC. The data presented elsewhere in this section excludes the center owned by Bloomingdale LLC.

(12) The square footage presented in this table reflects fitness square footage, which is the best metric for the efficiencies of a facility. We exclude outdoor pool, outdoor play areas, indoor/outdoor tennis elements and satellite facility square footage.

(13)

During the three months ended September 30, 2010, we opened one boutique center in Minneapolis, Minnesota and acquired one boutique center in Phoenix, Arizona. Also during the quarter, we declined to renew the building lease for our St. Paul location. We closed the center and transferred its memberships to surrounding locations.

**Table of Contents*****Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009***

*Total revenue.* Total revenue increased \$24.0 million, or 11.2%, to \$238.3 million for the three months ended September 30, 2010 from \$214.3 million for the three months ended September 30, 2009.

Total center revenue grew \$20.2 million, or 9.6%, to \$230.8 million for the three months ended September 30, 2010 from \$210.6 million for the three months ended September 30, 2009. Of the \$20.2 million increase in total center revenue,

51.7% was from membership dues, which increased \$10.5 million, or 7.2%, due to increased memberships at new centers and higher average dues. Our number of memberships increased 5.4% to 622,698 at September 30, 2010 from 590,716 at September 30, 2009.

51.0% was from in-center revenue, which increased \$10.3 million primarily as a result of increased sales of our LifeSpa and LifeCafe products and services and personal training. Average in-center revenue per membership increased 11.9% to \$112 for the three months ended September 30, 2010 from \$100 for the three months ended September 30, 2009.

(2.7%) was from enrollment fees, which are deferred until a center opens and recognized on a straight-line basis over our estimated average membership life. Since the fourth quarter of 2008, the estimated average membership life has been 30 months. For the second and third quarters of 2008, it was 33 months, and for the first quarter of 2008 and prior, it was 36 months. Enrollment fees decreased by \$0.5 million for the three months ended September 30, 2010 to \$6.1 million. Our average enrollment fee was lower in the third quarter of 2010 than in the third quarter of 2009 due primarily to increased promotional pricing activity to attract new memberships in the current economic environment.

Other revenue increased \$3.8 million, or 100.2%, to \$7.5 million for the three months ended September 30, 2010, which was primarily due to athletic event revenue, which includes revenue from recently acquired athletic events.

*Center operations expenses.* Center operations expenses totaled \$145.2 million, or 62.9% of total center revenue (or 60.9% of total revenue), for the three months ended September 30, 2010, compared to \$127.5 million, or 60.5% of total center revenue (or 59.5% of total revenue), for the three months ended September 30, 2009. This \$17.7 million increase primarily consisted of an increase of \$10.6 million in additional payroll-related costs to support increased memberships and revenue growth at our centers and \$2.2 million in occupancy-related costs, including utilities, real estate taxes and rent on leased centers. Center rent expense totaled \$10.6 million for the three months ended September 30, 2010 and \$9.9 million for the three months ended September 30, 2009. This \$0.7 million increase is primarily a result of two new ground leases for future centers. Center operations expenses increased as a percent of total revenue due primarily to increases in member acquisition costs, costs associated with increased in-center revenue and costs associated with expanded program offerings intended to improve member acquisition and retention.

*Advertising and marketing expenses.* Advertising and marketing expenses were \$6.3 million, or 2.6% of total revenue, for the three months ended September 30, 2010 compared to \$5.8 million, or 2.7% of total revenue, for the three months ended September 30, 2009.

*General and administrative expenses.* General and administrative expenses were \$10.6 million, or 4.5% of total revenue, for the three months ended September 30, 2010 compared to \$9.7 million, or 4.5% of total revenue, for the three months ended September 30, 2009. This \$0.9 million increase was primarily due to increased expenditures to support member acquisition and retention.

*Other operating expenses.* Other operating expenses were \$7.3 million for the three months ended September 30, 2010 compared to \$8.0 million for the three months ended September 30, 2009. This \$0.7 million decrease was primarily due to decreases in construction related expenses partially offset by costs associated with acquired athletic events.

*Depreciation and amortization.* Depreciation and amortization was \$23.4 million, or 9.8% of total revenue, for the three months ended September 30, 2010 compared to \$23.4 million, or 10.9% of total revenue, for the three months ended September 30, 2009.

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*Interest expense, net.* Interest expense, net of interest income, was \$6.8 million for the three months ended September 30, 2010 compared to \$7.7 million for the three months ended September 30, 2009. This \$0.9 million decrease was primarily the result of a reduction in debt levels.

*Provision for income taxes.* The provision for income taxes was \$15.7 million for the three months ended September 30, 2010 compared to \$12.0 million for the three months ended September 30, 2009. This \$3.7 million increase was due to an increase in income before income taxes of \$6.5 million and a higher effective income tax rate in the first nine months of 2010. The effective income tax rate for the three months ended September 30, 2010 was 40.2% compared to 36.8% for the three months ended September 30, 2009.

*Net income.* As a result of the factors described above, net income was \$23.4 million, or 9.8% of total revenue, for the three months ended September 30, 2010 compared to \$20.6 million, or 9.6% of total revenue, for the three months ended September 30, 2009.

***Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009***

*Total revenue.* Total revenue increased \$55.9 million, or 8.8%, to \$689.2 million for the nine months ended September 30, 2010 from \$633.3 million for the nine months ended September 30, 2009.

Total center revenue grew \$52.0 million, or 8.3%, to \$675.4 million for the nine months ended September 30, 2010 from \$623.4 million for the nine months ended September 30, 2009. Of the \$52.0 million increase in total center revenue,

54.4% was from membership dues, which increased \$28.3 million, or 6.6%, due to increased memberships at new centers and higher average dues. Our number of memberships increased 5.4% to 622,698 at September 30, 2010 from 590,716 at September 30, 2009.

47.6% was from in-center revenue, which increased \$24.8 million primarily as a result of increased sales of our LifeSpa and LifeCafe products and services and personal training. Average in-center revenue per membership increased 10.0% to \$335 for the nine months ended September 30, 2010 from \$305 for the nine months ended September 30, 2009.

(2.0%) was from enrollment fees, which are deferred until a center opens and recognized on a straight-line basis over our estimated average membership life. Since the fourth quarter of 2008, the estimated average membership life has been 30 months. For the second and third quarters of 2008, it was 33 months, and for the first quarter of 2008 and prior, it was 36 months. Enrollment fees decreased by \$1.1 million for the nine months ended September 30, 2010 to \$18.6 million. Our average enrollment fee was lower in the first nine months of 2010 than in the first nine months of 2009 due primarily to increased promotional pricing activity to attract new memberships in the current economic environment.

Other revenue increased \$3.9 million, or 39.3%, to \$13.8 million for the nine months ended September 30, 2010, which was primarily due to athletic event revenue, which includes revenue from recently acquired athletic events.

*Center operations expenses.* Center operations expenses totaled \$424.9 million, or 62.9% of total center revenue (or 61.7% of total revenue), for the nine months ended September 30, 2010, compared to \$383.3 million, or 61.5% of total center revenue (or 60.5% of total revenue), for the nine months ended September 30, 2009. This \$41.6 million increase primarily consisted of an increase of \$23.8 million in additional payroll-related costs to support increased memberships and revenue growth at our centers and \$6.9 million in occupancy-related costs, including utilities, real estate taxes and rent on leased centers. Center rent expense totaled \$31.6 million for the nine months ended September 30, 2010 and \$29.7 million for the nine months ended September 30, 2009. This \$1.9 million increase is primarily a result of two new ground leases for future centers. Center operations expenses increased as a percent of total revenue due primarily to increases in member acquisition costs, costs associated with increased in-center revenue and costs associated with expanded program offerings intended to improve member acquisition and retention.

*Advertising and marketing expenses.* Advertising and marketing expenses were \$18.9 million, or 2.7% of total revenue, for the nine months ended September 30, 2010 compared to \$20.1 million, or 3.2% of total revenue, for the nine months ended September 30, 2009. These expenses decreased primarily due to more targeted and market-specific marketing campaigns.



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*General and administrative expenses.* General and administrative expenses were \$32.6 million, or 4.7% of total revenue, for the nine months ended September 30, 2010 compared to \$33.2 million, or 5.2% of total revenue, for the nine months ended September 30, 2009. This \$0.6 million decrease was primarily due to increased efficiencies and productivity improvements.

*Other operating expenses.* Other operating expenses were \$17.1 million for the nine months ended September 30, 2010 compared to \$17.8 million for the nine months ended September 30, 2009.

*Depreciation and amortization.* Depreciation and amortization was \$69.4 million for the nine months ended September 30, 2010 compared to \$68.1 million for the nine months ended September 30, 2009.

*Interest expense, net.* Interest expense, net of interest income, was \$21.8 million for the nine months ended September 30, 2010 compared to \$23.0 million for the nine months ended September 30, 2009. This \$1.2 million decrease was primarily the result of a reduction in debt levels.

*Provision for income taxes.* The provision for income taxes was \$42.2 million for the nine months ended September 30, 2010 compared to \$34.7 million for the nine months ended September 30, 2009. This \$7.5 million increase was due to an increase in income before income taxes of \$16.5 million and a higher effective income tax rate in the first nine months of 2010. The effective income tax rate for the nine months ended September 30, 2010 was 40.1% compared to 39.1% for the nine months ended September 30, 2009.

*Net income.* As a result of the factors described above, net income was \$63.1 million, or 9.2% of total revenue, for the nine months ended September 30, 2010 compared to \$54.0 million, or 8.5% of total revenue, for the nine months ended September 30, 2009.

**Liquidity and Capital Resources**

***Liquidity***

Historically, we have satisfied our liquidity needs through various debt arrangements, sales of equity and cash flow provided by operations. Our principal liquidity needs have included the development of new centers, debt service requirements and expenditures necessary to maintain and update our existing centers and associated fitness equipment. We believe that we can satisfy our current and longer-term debt service obligations and capital expenditure requirements primarily with cash flow from operations, 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 2009, we slowed our growth plans and began to generate free cash flow that allowed us to pay down a portion of our existing debt. We plan to pay off or refinance debt scheduled to mature in 2011 and 2012, including repaying our mortgage notes due in July 2011, which became current in the third quarter of 2010, and extending or refinancing our revolving credit facility in May 2012.

Our business model operates with negative working capital because we carry minimal accounts receivable due to our ability to have monthly membership dues paid by electronic draft, we defer enrollment fee revenue and we fund the construction of our new centers under standard arrangements with our vendors that are paid with proceeds from long-term debt.



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The following table summarizes our capital structure as of September 30, 2010 and December 31, 2009 (in thousands):

|                                      | <b>September<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|--------------------------------------|-----------------------------------|----------------------------------|
| Debt                                 |                                   |                                  |
| Long-term debt                       | \$ 554,228                        | \$ 643,630                       |
| Current maturities of long-term debt | 77,518                            | 16,716                           |
| Total debt                           | 631,746                           | 660,346                          |
| Shareholders' Equity                 |                                   |                                  |
| Common stock                         | 840                               | 829                              |
| Additional paid-in capital           | 405,203                           | 395,121                          |
| Retained earnings                    | 407,193                           | 344,095                          |
| Accumulated other comprehensive loss | (306)                             | (2,614)                          |
| Total shareholders' equity           | 812,930                           | 737,431                          |
| Total capitalization                 | \$ 1,444,676                      | \$ 1,397,777                     |

Debt highlights, as of September 30, 2010 and December 31, 2009:

|                                                                                                                         | <b>September<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|-------------------------------------------------------------------------------------------------------------------------|-----------------------------------|----------------------------------|
| Fixed-rate debt as a percent of total debt <sup>(1)</sup>                                                               | 55.8%                             | 59.6%                            |
| Weighted-average annual interest rate of total debt                                                                     | 3.4%                              | 3.7%                             |
| Total debt (net of cash) as a percent of total capitalization (total debt (net of cash) and total shareholders' equity) | 42.4%                             | 47.0%                            |
| Cash provided by operating activities (trailing twelve months) as a percent of total debt                               | 30.7%                             | 28.2%                            |

(1) Our interest rate swap notional amount of \$125.0 million is included as fixed rate debt in our calculation of fixed-rate debt as a percent of total debt.

**Operating Activities**

As of September 30, 2010, we had total cash and cash equivalents of \$33.5 million. We also had \$87.7 million available under the existing terms of our revolving credit facility as of September 30, 2010.

Net cash provided by operating activities was \$146.1 million for the nine months ended September 30, 2010 compared to \$138.6 million for the nine months ended September 30, 2009.

***Investing Activities***

Investing activities consist primarily of purchasing real property, constructing new centers, acquiring certain centers and events and purchasing new fitness equipment. In addition, we invest in capital expenditures to maintain and update our existing centers. We continue to evaluate, and on occasion, opportunistically acquire, health clubs and/or related businesses that we believe enhance our strategic and economic position. In the first nine months of 2010, we invested \$14.4 million in acquisitions, including a small health club in the Houston market, a number of athletic events, including the Chicago Triathlon and the Leadville 100 series of races, and a yoga instructor training curriculum. We finance the purchase of our property and equipment and our acquisitions by cash flow from operations or by financing through notes payable or capital lease obligations.

Net cash used in investing activities was \$98.5 million for the nine months ended September 30, 2010 compared to \$115.6 million for the nine months ended September 30, 2009. The decrease of \$17.1 million was primarily due to a reduction in construction accounts payable.

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Our capital expenditures were as follows (in thousands):

|                                                                                   | <b>For the Nine Months<br/>Ended<br/>September 30,</b> |                  |
|-----------------------------------------------------------------------------------|--------------------------------------------------------|------------------|
|                                                                                   | <b>2010</b>                                            | <b>2009</b>      |
| Purchases of property and equipment                                               | \$ 86,132                                              | \$ 116,853       |
| Non-cash property purchases in construction accounts payable and accounts payable | 12,370                                                 | (52,335)         |
| Non-cash share-based compensation capitalized to projects under development       | 262                                                    | 319              |
| <b>Total capital expenditures</b>                                                 | <b>\$ 98,764</b>                                       | <b>\$ 64,837</b> |

The following schedule reflects capital expenditures by type of expenditure for the nine months ended September 30, 2010 (in thousands):

|                                                                   |                  |
|-------------------------------------------------------------------|------------------|
| New center land and construction                                  | \$ 72,626        |
| Initial remodels of acquired centers                              | 2,553            |
| Maintenance of existing facilities and centralized infrastructure | 23,585           |
| <b>Total capital expenditures</b>                                 | <b>\$ 98,764</b> |

As of September 30, 2010, we had purchased the real property for the three large format centers we plan to open in 2010, of which two have previously opened, and we had signed leases for two boutique centers we opened in 2010. In May 2010 and July 2010, we acquired a small health club and a boutique center, respectively, both of which are open. We had also purchased real property for three, and entered into a ground lease for two, large format centers that we plan to open after 2010. Construction in progress, including land purchased for future development, totaled \$132.5 million at September 30, 2010 and \$117.6 million at September 30, 2009.

We expect our cash outlays for capital expenditures and acquisitions to be approximately \$110 to \$130 million in 2010, including approximately \$24 to \$44 million in the remaining three months of 2010. Of this approximately \$24 to \$44 million, we expect to incur approximately \$20 to \$35 million for new center construction and approximately \$4 to \$9 million for the updating of existing centers and corporate infrastructure. Additionally, we spent \$14.4 million on acquisitions during the nine months ended September 30, 2010. We plan to fund these capital expenditures and acquisitions primarily with cash flow from operations.

**Table of Contents****Financing Activities**

Net cash used in financing activities was \$20.5 million for the nine months ended September 30, 2010 compared to \$25.7 million for the nine months ended September 30, 2009. The increase of \$5.2 million was primarily due to payments made on term notes payable to Teachers Insurance and Annuity Association of America ( TIAA ). Long-term debt consists of the following (in thousands):

|                                                                                                                                                             | <b>September<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|----------------------------------|
| Term notes payable with monthly interest and principal payments totaling \$836 and \$1,273, respectively, including interest at 8.25% to July 2011 (1)      | \$ 71,956                         | \$ 105,531                       |
| Revolving credit facility, interest only due monthly at interest rates ranging from LIBOR plus 0.625% to 1.50% or base plus 0.0%, facility expires May 2012 | 370,600                           | 358,100                          |
| Term notes payable with monthly interest and principal payments totaling \$632 including interest at 6.03% to February 2017                                 | 100,367                           | 101,418                          |
| Other                                                                                                                                                       | 70,901                            | 76,588                           |
| Total debt (excluding obligations under capital leases)                                                                                                     | 613,824                           | 641,637                          |
| Obligations under capital leases                                                                                                                            | 17,922                            | 18,709                           |
| Total debt                                                                                                                                                  | 631,746                           | 660,346                          |
| Less current maturities (1)                                                                                                                                 | 77,518                            | 16,716                           |
| Total long-term debt                                                                                                                                        | \$ 554,228                        | \$ 643,630                       |

(1) \$72.0 million of the current maturities at September 30, 2010 relate to our term notes payable with Starwood Property Mortgage Sub-1, L.L.C., due July 1, 2011.

**Revolving Credit Facility**

The amount of our revolving credit facility is \$470.0 million. We may increase the total amount of the facility up to \$600.0 million through further exercise of the accordion feature by us if one or more lenders commit the additional \$130.0 million. As of September 30, 2010, \$370.6 million was outstanding on the facility, plus \$11.7 million related to letters of credit, leaving \$87.7 million available for additional borrowing under the existing terms of the facility. The weighted average interest rate and debt outstanding under the revolving credit facility for the nine months ended September 30, 2010 was 3.2% and \$348.3 million, respectively. The weighted average interest rate and debt outstanding under the revolving credit facility for the nine months ended September 30, 2009 was 3.3% and \$382.2 million, respectively.

*Long-Term Debt Activity*

On February 23, 2010, we prepaid three of the mortgage notes payable to TIAA at the par amount of \$30.2 million. Concurrent with the prepayment, the mortgages were released on three of our centers. Additionally, the loan documents with TIAA were amended reducing the number of shares of our common stock our Chief Executive Officer must retain from 1.8 million to 1.0 million. As of the date of the prepayment, the obligations to TIAA under the remaining ten mortgage notes payable remain due in July 2011. In March 2010, TIAA sold a portfolio of mortgages, including ours, to Starwood Property Mortgage Sub-1, L.L.C.

**Table of Contents***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, 2010.

Our primary financial covenants under our revolving credit facility are:

| Covenant                           | Requirement               | Actual as of<br>September 30,<br>2010 | Actual as of<br>December 31,<br>2009 |
|------------------------------------|---------------------------|---------------------------------------|--------------------------------------|
| Total Consolidated Debt to EBITDAR | Not more than 4.00 to 1.0 | 3.06 to 1.0                           | 3.29 to 1.0                          |
| Senior Debt to EBITDA              | Not more than 3.25 to 1.0 | 1.73 to 1.0                           | 1.82 to 1.0                          |
| Fixed Charge Coverage Ratio        | Not less than 1.60        | 2.76 to 1.0                           | 2.65 to 1.0                          |

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

**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, 2010 and December 31, 2009, our net floating-rate indebtedness was approximately \$279.5 million and \$271.1 million, respectively. If our interest rates on our floating-rate indebtedness were to have increased by 100 basis points during the nine months ended September 30, 2010, our interest costs would have increased by approximately \$1.9 million. If short-term interest rates were to have increased by 100 basis points during the nine months ended September 30, 2010, our interest income from cash equivalents would have increased by \$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, 2010.

**Item 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)). Based on this evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management, including the principal executive and principal financial officer, or persons performing similar functions, 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(d) and 15d-15(d) 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 our consolidated financial statements for a description of our legal proceedings.

**ITEM 1A. RISK FACTORS**

Not applicable.

**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**  
**Issuer Purchases of Equity Securities in Third Quarter 2010**

| <b>Period</b>        | <b>Total<br/>Number<br/>of Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid<br/>per<br/>Share</b> | <b>Total Number<br/>of<br/>Shares<br/>Purchased as<br/>Part of<br/>Publicly<br/>Announced<br/>Plan (1)</b> | <b>Maximum Number<br/>of<br/>Shares that May<br/>Yet be<br/>Purchased Under<br/>the Plan<br/>(1)</b> |
|----------------------|-----------------------------------------------------|-----------------------------------------------------|------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| July 1 31, 2010      | 14,203                                              | \$ 36.05                                            | 14,203                                                                                                     | 342,760                                                                                              |
| August 1 31, 2010    |                                                     |                                                     |                                                                                                            | 342,760                                                                                              |
| September 1 30, 2010 |                                                     |                                                     |                                                                                                            | 342,760                                                                                              |
| <b>Total</b>         | <b>14,203</b>                                       | <b>\$ 36.05</b>                                     | <b>14,203</b>                                                                                              | <b>342,760</b>                                                                                       |

(1) 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 pursuant to our Employee Stock Purchase Plan.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. [REMOVED AND RESERVED]****ITEM 5. OTHER INFORMATION**

Not applicable.

**Table of Contents****ITEM 6. EXHIBITS***Exhibits filed with this report*

| <b>Exhibit No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                               | <b>Method of Filing</b>                                                                                                                                                             |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1                | Amended and Restated Articles of Incorporation, as amended, of the Registrant                                                                                                                                                                                                                                                                                                    | Incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K dated April 20, 2009 (File No. 001-32230)                                                                     |
| 3.2                | Amended and Restated Bylaws of the Registrant                                                                                                                                                                                                                                                                                                                                    | Incorporated by reference to Exhibit 3.4 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (File No. 333-113764), filed with the Commission on May 21, 2004 |
| 4                  | Specimen of Common Stock Certificate                                                                                                                                                                                                                                                                                                                                             | Incorporated by reference to Exhibit 4 to Amendment No. 4 to the Registrant's Registration Statement of Form S-1 (File No. 333-113764), filed with the Commission on June 23, 2004  |
| 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 and Accounting 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, 2010, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) consolidated statements of cash flows, and (iv) notes to the unaudited consolidated financial statements. | Filed Electronically                                                                                                                                                                |



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**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 29, 2010.

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/ Michael R. Robinson  
Name: Michael R. Robinson  
Title: Executive Vice President and  
Chief  
Financial Officer  
(Principal Financial Officer)

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

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**Table of Contents****INDEX TO EXHIBITS**

| <b>Exhibit No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                               | <b>Method of Filing</b>                                                                                                                                                             |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1                | Amended and Restated Articles of Incorporation, as amended, of the Registrant                                                                                                                                                                                                                                                                                                    | Incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K dated April 20, 2009 (File No. 001-32230)                                                                     |
| 3.2                | Amended and Restated Bylaws of the Registrant                                                                                                                                                                                                                                                                                                                                    | Incorporated by reference to Exhibit 3.4 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (File No. 333-113764), filed with the Commission on May 21, 2004 |
| 4                  | Specimen of Common Stock Certificate                                                                                                                                                                                                                                                                                                                                             | Incorporated by reference to Exhibit 4 to Amendment No. 4 to the Registrant's Registration Statement of Form S-1 (File No. 333-113764), filed with the Commission on June 23, 2004  |
| 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 and Accounting 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, 2010, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) consolidated statements of cash flows, and (iv) notes to the unaudited consolidated financial statements. | Filed Electronically                                                                                                                                                                |