

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

FORM 10-K

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

For the fiscal year ended December 31, 2013

or

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

Commission file number 001-32230

Life Time Fitness, Inc.

(Exact name of Registrant as specified in its charter)

Minnesota

41-1689746

(State or other jurisdiction of incorporation or organization)

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

2902 Corporate Place

55317

Chanhassen, Minnesota

(Zip Code)

(Address of principal executive offices)

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

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

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$.02 par value

New York Stock Exchange

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

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

Yes ☐ No ☐

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

Yes ☐ No ☐

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

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

☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐

Smaller reporting company ☐

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Non-accelerated filer

☐ (do not check if smaller
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒
The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 28, 2013
was \$1,984,624,790, based on the closing sale price for the registrant's common stock on that date.

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

DOCUMENTS INCORPORATED BY REFERENCE

Document

Proxy Statement for the 2014 Annual Meeting of Shareholders

Incorporated as to

Part II, Item 5 and Part III

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FORWARD-LOOKING STATEMENTS

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

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

PART I

Item 1. Business.

Company Overview

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

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

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

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

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

Our History

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

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

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

Our Competitive Strengths

We offer comprehensive programs and services.

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

We offer a value proposition that encourages membership loyalty.

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

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

We offer a product that is convenient for our members.

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

We have an established and profitable economic model.

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

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

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

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Our Growth Strategy

Our growth strategy is driven by three primary elements:

Build and acquire new centers.

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

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

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

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

Grow membership dues and in-center revenue.

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

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

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

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

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

Grow ancillary businesses revenue.

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

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

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

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

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

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

Size and Location

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

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

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

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

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

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

Amenities	Services	Activities and Events
Cardiovascular Equipment	24-Hour Availability	Aquatics
Free Weight and Resistance Equipment	Towel Service	Athletic Leagues
Group Fitness Studios	Locker Service	Kids' Birthday Parties
Studio Cycle Theaters	Experience Life® Magazine	Martial Arts
LifePower SM Studio	Massage Therapy	Kids' Academy
Basketball/Volleyball Courts	Health and Fitness Assessments	Pilates
Racquetball/Squash Courts	Metabolic Testing	Group Fitness Classes
Lap Pool and Whirlpool Spas	Personal Training	Studio Cycling
Zero-depth Entry Swimming Pools	T.E.A.M. Programs	Sports Training Camps
Two-story Waterslides	Weight Loss Programs	Summer and Vacation Camps
Saunas	Nutritional Products	Swimming Lessons
Rock Climbing Cavern	Nutrition Coaching	Yoga
Child Center	Endurance Coaching	Dance Classes
LifeSpa	Member Advantage	Athletic Events
LifeCafe and Pool-side Bistro	myLT.com and Other Online Services	Social Events
Men's, Women's and Family	Cardiovascular and Resistance Training	Run, Cycle and Other
Locker Rooms		Interest-Driven Clubs

Fitness Equipment and Facilities. To help members develop and maintain a healthy way of life, train for athletic events or lose weight, our centers have up to 400 pieces of cardiovascular and resistance training equipment plus free weights. Exercise equipment is arranged in spacious workout areas to allow for easy movement from machine to machine, facilitating a convenient and efficient workout. Equipment in these areas is arranged in long parallel rows that are clearly labeled by muscle group, allowing members to conveniently customize their exercise programs and reduce downtime during their workouts. Due to the large amount of equipment in each center, members rarely

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have to wait to use a machine. We have in-house technicians who service and maintain our equipment. In addition, we have large-screen televisions in several areas of the center.

Our current model centers have large indoor and outdoor recreation pools with zero-depth entrances and water slides, lap pools, saunas, steam baths and whirlpools. A majority of these centers also have at least two regulation-size basketball courts that can be used for various sports activities, as well as other dedicated facilities for group fitness, cycling, rock climbing, racquetball and/or squash. In addition, we have tennis facilities at 18 locations with professional instruction.

Fitness Services for Individuals and Groups. On average, we employ 25 personal trainers in a current model center. Our personal trainers are skilled in assessing and formulating effective individual and group exercise programs. Our personal training program aims to improve the long-term health and fitness of our members and be considered a leader in the industry. To this end, our personal trainers are required to be certified by one of the nationally accredited certification bodies within six months of employment and take a rigorous one-week internal certification program before providing member service.

We offer many different programs featuring our certified professional personal trainers including:

One-on-One Sessions – We offer sessions in which an individual member meets directly with a personal trainer to help him or her achieve healthy way of life goals, including losing weight, gaining weight/muscle mass, or specific event training.

Group Sessions – We offer small group (two to four members) and large group (typically eight to 12 members) training sessions to help members achieve their healthy way of life goals with others.

- **Assessments** – We offer various health assessments for a detailed view of total health including metabolic cardiovascular testing, metabolic profile assessments and lab testing.

Weight Loss – We offer weight loss and management programs, such as the Life Time 90-Day Weight Loss Challenge, Transformational Challenge and various other programs as an opportunity for members to receive education, training and motivation that helps them set and achieve their health and fitness goals, and keep their overall health programs on track.

Fitness Programs and Classes. Our centers offer fitness programs, including group fitness classes and health and fitness training seminars on subjects ranging from metabolism to personal nutrition. Each current model center has at least two group fitness studios and makes use of the indoor and outdoor pool areas for classes. These centers also offer yoga and Pilates as well as a studio dedicated to indoor cycling. On average, we offer 85 group fitness classes per week at each current model center, including, for example, indoor cycling, strength training, cardio conditioning, dance, circuit training and yoga classes. These classes are generally included with membership. The volume and variety of activities at each center allows members to enjoy the center, whether participating in personalized activities or with other members in group activities.

LifeCafe. Our large format centers feature an on-site, full-service, chef-driven LifeCafe, which offers an all-natural menu with an abundance of organic, preservative- and cage-free offerings. In keeping with our commitment to provide members with healthy, all-natural food, a broad menu of made-to-order and pre-prepared breakfast, lunch and dinner items offer better ingredients - free of artificial flavors, artificial colors, artificial preservatives, artificial sweeteners, trans fats and bleached flour. Customers can enjoy the convenience of dining indoors or ordering items to go.

Additionally, they may take advantage of our outdoor poolside bistro at each of our current model centers and certain of our other large format centers. LifeCafes also typically offer our line of nutritional products and supplements, third-party nutritional products, exercise accessories and personal care products.

LifeSpa. Our current model centers and almost all of our other large format centers also feature a LifeSpa, which is a full-service salon and spa. Each in-center LifeSpa offers hair, body, skin care and massage therapy services, customized to each client's individual needs. We also offer medi-spa services in select locations. Each LifeSpa is located in a separate, self-contained area that provides a relaxing and rejuvenating environment.

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LifeClinic Chiropractic. In select locations, LifeClinic Chiropractic services are provided by licensed chiropractors. LifeClinic Chiropractic offers an innovative, non-invasive form of soft tissue and joint treatment.

Child Centers. Nearly all of our centers offer on-site child centers for children from three months through 11 years of age as part of a monthly fee per child. Child center services are available for up to two hours per child per day while members use our centers. During this time, children ages one to five years can participate in enrichment programs, such as music, movement and arts and crafts while children ages six to 11 years can participate in Kids Play, which includes gym and rock wall activities. The child center features a computer center, separate infant and toddler playrooms and numerous children's activities. We hire employees that are dedicated to working in the child centers to provide children with an enjoyable experience.

Additional Programs. All of our large format centers offer a variety of additional programs for children, which may include birthday parties, summer and school break camps, rock wall climbing activities, parents' night out, sports and fitness classes and swimming lessons. For adults, we offer a variety of sports leagues and interest-driven clubs.

Memberships

We define a membership in two ways: Access memberships and Non-Access memberships or other subscriptions. As of December 31, 2013, we had 789,490 memberships, comprised of 678,619 Access memberships and 110,871 Non-Access memberships. As of December 31, 2013, we had 1,465,831 members, an average of 1.9 members per membership.

Access Membership Plans. We offer a variety of convenient month-to-month memberships with no long-term contracts. Our members may pay a one-time joining fee, which includes an initiation fee and an administrative fee, and receive an initial 14-day money back guarantee. In this document, we refer to the total cost to join as an enrollment fee. Within each Access membership, we define a singular membership as one individual, couple or family (for example, a family of three people would be considered one membership). We currently offer five Access membership levels, including Bronze, Gold, Platinum, Onyx and Diamond. Within Access membership levels, a member may purchase full access to only one club or, with an elite membership, access to all clubs at that membership level and below (for example, Platinum membership holders may access all Platinum, Gold and Bronze centers). Depending on the center classification, a member is required to have a minimum membership level (for example, a Platinum-designated center requires a Platinum membership at minimum). A member may hold a higher level membership than the center designation should they want access to additional centers, guest privileges and additional amenities, programs and services. Offered memberships vary by location. Decisions of center designation are made on a center-by-center basis and are dependent on the market presence, demographic nature, population density, initial investment in the center and available services and amenities.

All Access memberships, regardless of level, typically include 24-hour access, locker and towel service, group fitness classes and Member Advantage (an offering that provides discounts on purchases from national and local businesses for Life Time members).

Part of the Access membership plan offering at most centers is a junior membership. Children under the age of 12 qualify for a junior membership, with dues of \$8 to \$30 per month, depending on the center. The junior membership provides access to the child center, pools and gymnasiums at designated times. In addition, we have added a new offering also for children under the age of 12 – Life Time Kids Academy – which includes more in-depth programming focused on activity, learning, and fitness. This program was added in five clubs in 2013 and is priced between \$20 and \$90 per month. We do not count junior memberships or Life Time Kids Academy memberships as incremental reported memberships since they are already part of the Access membership. We also have occasionally offered other membership plans aimed to attract niche members.

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The following table compares our different Access membership plans as of December 31, 2013:

	Bronze Value and affordability	Gold Fitness, fun and relaxation	Platinum Outstanding club amenities	Onyx Exceptional service and luxury	Diamond Premium benefits, value and privileges
Number of centers	14	55	12	16	11
Enrollment fee	\$0-105	\$0-115	\$0-115	\$0-145	\$0-165
Individual dues	\$45-55	\$55-80	\$80-90	\$100-120	\$130-160
Family dues (1)	\$95-140	\$140-180	\$190-200	\$200-260	\$285-340
Center access	All Bronze centers (14)	All Bronze and Gold centers (69)	All Bronze, Gold and Platinum centers (81)	All Bronze, Gold, Platinum and Onyx centers (97)	All centers (108)

(1) Does not include the cost of junior memberships or Life Time Kids Academy memberships.

From time to time we change a club's designation, for example, from Bronze to Gold. Our clubs by membership type are as follows:

	December 31,				
	2013	2012	2011	2010	2009
Life Time Fitness centers					
Bronze	14	18	20	10	11
Gold	55	51	49	51	47
Platinum	12	16	15	14	16
Total Life Time Fitness centers	81	85	84	75	74
Life Time Athletic centers					
Onyx	16	11	9	9	10
Diamond	11	9	8	5	—
Total Life Time Athletic centers	27	20	17	14	10
Total centers	108	105	101	89	84

Non-Access Memberships and Other Subscription Plans. Non-access memberships are \$10 to \$20 per month, whether an individual, couple or a family. Non-access members continue to have online access to myLT.com, which includes Member Advantage and interest-area content, a subscription to Experience Life® magazine and the ability to resume Access membership without paying enrollment fees. We also offer a Non-Access membership to non-members and to members who choose to “freeze” rather than terminate their Access membership with us. In the future, we may develop and implement other membership or subscription plans that will not have full access to the centers. These types of memberships will be included in this category of Non-Access and other subscription plans.

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Usage

Our centers are generally open 24 hours a day, seven days a week. We typically experience the highest level of member activity at a center between 8:00 a.m. to noon and 3:00 p.m. to 8:00 p.m. Our centers are appropriately staffed during peak and non-peak hours to provide each member with a positive experience. We have introduced a number of initiatives focused on getting our members more involved and connected with the goal of higher membership usage and increased member satisfaction. The following table reports our usage statistics:

	For the Year Ended December 31,				
	2013	2012	2011	2010	2009
Total number of visits (in millions)	69.2	68.4	63.8	60.1	57.7
Average number of visits to large format centers per month	63,412	64,263	63,496	62,229	61,715
Average number of visits to large format centers per year per membership	100	100	99	98	98

New Center Site Selection and Construction

Site Selection. Our management devotes significant time and resources to analysis of each prospective site (including both undeveloped land and existing facilities available for lease) on the basis of facts. We look at the physical geography of the site, the highway patterns and drive times, demographics within primary and secondary trade areas as well as cultural and competitive information. We focus mainly on markets that will allow us to operate multiple centers that create certain efficiencies in marketing and branding activities, but we select each site based on whether that site and trade area can support an individual center.

After we identify a potential site and determine that it is a viable site, we develop a business plan for a center on that site. This requires analysis from several functional areas of management and approval from the Finance Committee of our Board of Directors. We believe that our disciplined, structured process reduces the potential for developing a site that the market cannot support.

Design and Construction. Our wholly owned subsidiary, Life Time Construction, provides us with architecture and design services, millwork fabrication and construction management. With approximately 135 employees, this subsidiary is dedicated solely to the design and construction of each new center and the remodel of existing and acquired centers.

We have developed a series of prototypical plans and specifications that can be easily adapted to each specific site. Project architects along with our construction management teams monitor quality and oversee the construction progress throughout the development of each new center.

Life Time Construction's management teams provide on-site supervision, for each new site and remodel, as well as administrative services, such as permitting, purchasing, project accounting and safety administration. The construction management teams qualify subcontractors, bid each component of our projects to ensure cost-effective pricing, and monitor cost progress for the duration of the project. By using similar materials at each center, we not only maintain a consistent look and feel, but we are also able to maximize buying power and leverage economies of scale in purchasing.

Through Life Time Construction we are able to maximize flexibility in the design process, retain control over the cost and timing of the construction process and realize potential cost savings on each project. Nearly all of their costs are capitalized as a part of the overall initial investment in the new center or the remodel. Any remaining unallocated costs are recognized as an expense in the period incurred. Because this subsidiary perform services solely for us, we do not recognize any revenue or profit related to Life Time Construction's operations.

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Marketing and Sales

Overview of Marketing. Our in-house marketing and creative design agency is responsible for promoting and differentiating the Life Time Healthy Way of Life brand so as to attract, connect and engage existing and new customers to our centers, products and services. Our marketing and creative design initiatives focus on our comprehensive, healthy lifestyle-oriented approach of helping people set and achieve their health and fitness goals by participating in activities that interest them - and helping them to identify new areas of passion - both inside and outside of our healthy way of life destinations. In turn, these efforts further engage existing members in our ancillary business areas and generate new consumer leads for our membership sales force. Our in-house marketing and creative design agency integrates four key areas, including member acquisition and retention, media planning and analysis, creative development and production, and web, digital and social development. By delivering centralized marketing and creative design services to our centers and ancillary businesses, we bring proven, experienced and innovative strategic planning, creative design, member experience and production to our existing and new markets in an efficient and effective manner.

Overview of Sales. We have trained, commissioned member engagement advisors (sales team) in each center who are responsible for member acquisition and retention. Our member engagement advisors are responsible for prospecting potential members, setting up personalized visits and tours of our centers, and highlighting relevant programs, services and amenities that align with expressed member interests and goals. The member engagement advisors inspire action on the part of prospective members to get started on their healthy way of life and ensure they are connected to our programs and professionals. The member engagement advisors also serve as a primary relationship manager for new members through consistent engagement and timely follow up. During the pre-opening and grand opening phases described below, we have up to 12 member engagement managers on staff at a center. As the center matures, we reduce the number of member engagement advisors on staff to between six and eight.

Pre-Opening Phase. We generally begin selling memberships up to five months prior to a center's scheduled opening. We market to prospective members during this period primarily through a portfolio of broad-reach and targeted consumer and business-to-business media as well as referral promotions. To further attract new members during this period, we occasionally offer lower pre-opening enrollment fees.

Grand Opening Phase. We deploy a marketing program during the first month of a center's operation that builds on our pre-opening efforts. The campaign culminates with households in a strategically designated trade area - based on local access considerations, housing density and travel patterns - receiving targeted advertising. Simultaneously, new members receive special invitations to post-grand-opening activities designed to assist them in their orientation to the center.

Membership Growth Phase. After the grand opening phase, marketing activities and costs generally decrease as drive-by visibility and word-of-mouth marketing become more influential. The goal of each center is to achieve consistent membership growth until targeted capacity is reached. Once the center has reached its targeted capacity, marketing efforts aim to keep membership levels stable and grow other in-center services. Marketing plans for each center are formulated on an annual basis and reviewed monthly by marketing and center-level sales employees. At monthly intervals, a comprehensive situation analysis is performed and adjustments are implemented, as necessary, to ensure sales and retention objectives are meeting the goals of the center's business plan.

Ongoing Member Retention Phase. When a new member joins, we initiate a comprehensive connectivity and engagement process aimed at helping them to achieve their total health objectives, athletic aspirations and fitness goals by engaging in their areas of passion. We are in the position to help them achieve this by providing the best places, people and programs of exceptional quality and value. We have created dozens of specific interest areas, along with connectivity programs, including, but not limited to, our dedicated member website, myLT.com; our periodic offerings of various athletic and social events; access to national and local Member Advantage discounts; and access to myLT Buck\$, a member loyalty or rewards program.

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Leveraging the LIFE TIME Brand

We continue to build our brand nationally and internationally through expansion of our portfolio of centers, by delivering high-quality products and services in the area of athletic events and media and by offering comprehensive health programs that focus on the Healthy Way of Life.

Centers. As of February 28, 2014, we operated 109 centers in 29 major markets in the United States and Canada under the LIFE TIME FITNESS® and LIFE TIME ATHLETIC® brands. Today, we provide consumers with the highest quality, most comprehensive health and fitness destinations featuring a resort-like atmosphere and amenities, and comprehensive health and fitness experience, supported by spacious workout areas, unprecedented programs and amenities, dedicated and intimate fitness studios, a large, full-service spa and café, pristine pools, spacious locker room areas, spotless interiors, exquisite craftsmanship and much more. Each space within our centers is carefully designed to be inviting, functional, innovative and inspiring. Our destinations are complemented by a large, trained and certified team of professionals who uphold a common objective: helping our customers achieve their total health objectives, athletic aspirations and fitness goals. Moreover, we operate some twenty different businesses within our destinations, each deliberately designed to meet all of the sports, health, fitness, recreation and entertainment needs of the most discerning consumer - all under one roof. These boutique-like, interest-driven programs help ensure that our customers are able to achieve success by participating in the activities that match their areas of passion. In both existing and new markets, our centers provide a powerful reinforcement of the unique and differentiated Healthy Way of Life brand, programs, products and services we deliver to individuals, communities and organizations.

Athletic Events and Media. We produce athletic events for members and non-members, both inside and outside our centers. The primary focus has been on endurance activities, including running, cycling and triathlon. In 2013, we produced more than 100 events, serving approximately 150,000 participants. Our events range from entry level to ultra endurance events and draw from local, regional, national and international markets. Our larger events include triathlons such as the Life Time Tri Minneapolis and Life Time Tri Chicago, as well as the iconic Leadville Trail 100® event series, including the mountain bike “Race Across the Sky.” In addition, we own and manage the Life Time Tri Pro Series, which connects seven of the most prominent international distance triathlon events in the United States. We produce events primarily in markets in which we operate centers, including themed runs such as the Torchlight 5K Run, Turkey Day 5K and Commitment Day 5KSM. We also produce indoor triathlons in many of our centers, which are geared towards introducing members to the sport of triathlon.

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

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

Our Employees

Our current model centers are staffed with an average of 250 full-time and part-time employees. Approximately 10 center employees are in management positions, typically including a general manager, member services department head, operations department head, member engagement manager and personal training department head to ensure a well-managed facility and motivated work force.

All center team members are required to participate in a training and certification program that is specifically designed to promote a friendly and inviting environment with each member interaction while upholding a consistent standard of performance across all of our centers. Team members also receive ongoing mentoring, and continuing education and annually a re-certification is required before any team member is permitted to work or to advance to other positions within our company. Additionally, our personal trainers, registered dietitians, massage therapists and cosmetologists are required to maintain a professional license or one of their industry’s top certifications.

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As of February 17, 2014, we had approximately 22,500 employees, including approximately 15,000 part-time employees. We are not a party to a collective bargaining agreement with any of our employees. Although we experience turnover of non-management employees, historically we have not experienced difficulty in obtaining adequate replacement employees. In general, we believe relations with our employees are good.

Information Systems

In addition to our standard operating and administrative systems, we use an integrated member management system to manage the flow of member information within each of our centers and between centers and our corporate office. We have designed and developed our proprietary system to allow us to easily collect and process information. Our system enables us to, among other things, enroll new members with an electronic membership agreement, capture digital pictures of members for identification purposes and capture and maintain specific member information, including usage. The system allows us to streamline the collection of membership dues electronically, thereby offering additional convenience for our members while at the same time reducing our corporate overhead and accounts receivable. We also have a customer relationship management system to enhance our marketing campaigns and management oversight regarding daily sales and marketing activities.

Competition

We consider the following groups to be the primary industry participants in the health and wellness industry:

- health club operators, including 24 Hour Fitness Worldwide, Inc., Equinox Holdings, Inc., LA Fitness International, LLC, Town Sports International, Inc. and Gold's Gym;
- the YMCA and similar non-profit organizations;
- physical fitness and recreational facilities established by local governments, hospitals and businesses;
- local salons, cafés and businesses offering similar ancillary services;
- exercise and small fitness clubs, and studios, including Anytime Fitness, Curves International and Snap Fitness;
- racquet, tennis and other athletic clubs;
- amenity and condominium clubs;
- country clubs;
- online personal training and fitness coaching;
- the home-use fitness equipment industry;
- athletic event operators and related suppliers; and
- providers of wellness and other healthy way of life orientated products and services.

The health and wellness industry is highly competitive. While competition in the industry varies from market to market, it may be impacted by various factors, including the breadth and price of membership offerings and other products and services, the flexibility of membership options, the overall quality of the offering, name or brand recognition and economies of scale. We believe that our comprehensive product offering and focus on services, amenities and value provide us with a distinct competitive advantage, positioning us well in the health and wellness industry.

Government Regulation

Our operations and business practices are subject to regulation at federal, state and local levels, including consumer protection regulation related to our advertising, marketing, and sales efforts; health and safety regulation and licensing requirements related to our café, spa, aquatics, child care and ancillary health and fitness-related products

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and services; and regulation related to the collection, use and security of personal information about our members, guests and purchasers.

With respect to the health and fitness industry specifically, state statutes regulate the sale and terms of our membership contracts. State statutes often require that we:

- include certain terms in our membership contracts, including the right to cancel a membership, in most cases, within three to 10 days after joining, and receive a refund of enrollment fees paid;

- escrow funds received from pre-opening sales or post a bond or proof of financial responsibility; and

- adhere to price or financing limitations.

Financial Information About Geographic Areas

We operate centers and offer other wellness-related offerings in the United States and Canada. Our race registration and timing business also has customers outside of the United States and Canada. Net sales by geographic area is presented by attributing revenue from our members and customers on the basis of whether the product or services are sold within the United States or outside of the United States. Our revenues from members and customers within the United States were \$1,183.3 million, \$1,111.5 million and \$1,013.5 million for the fiscal years ended December 31, 2013, 2012 and 2011, respectively. Our revenues from members and customers in all foreign countries were \$22.6 million, \$15.4 million and \$0.2 million in the aggregate for those same periods. Additionally, we also held net long-term assets within the United States of \$2,187.7 million, \$1,930.2 million and \$1,796.2 million at December 31, 2013, 2012 and 2011, respectively, and outside of the United States of \$44.6 million, \$41.6 million and \$34.1 million in the aggregate as of December 31, 2013, 2012 and 2011, respectively.

Seasonality of Business

Seasonal trends have an effect on our overall business. Generally, we have experienced greater membership growth at the beginning of the year. We also experience increased membership in certain centers during the summer pool season. During the summer months, we also experience a slight increase in in-center business activity with summer programming and operating expenses due to our outdoor aquatics operations. We experience an increased level of membership attrition during the third and fourth quarters as the summer pool season ends and we enter the holiday season. This can lead to a sequential decline in memberships during those quarters.

Trademarks and Trade Names

We own several trademarks and service marks registered with the U.S. Patent and Trademark Office, including, among others, LIFE TIME FITNESS®, LIFE TIME ATHLETIC®, EXPERIENCE LIFE®, MYHEALTHCHECK® and MYHEALTHSCORE®. We have also registered our logo and our LIFE TIME FITNESS Triathlon logo. We also registered the “LIFE TIME FITNESS” mark in certain foreign countries.

We believe our trademarks and trade names have become important components in our marketing and branding strategies. We believe that we have all licenses necessary to conduct our business. In particular, we license the mark “LIFE TIME” in connection with our nutritional products so that we can market and distribute them under the LIFE TIME FITNESS® brand.

Available Information

Our corporate website is lifetimefitness.com. We make available through our website, free of charge, all reports and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the “SEC”).

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Item 1A. Risk Factors.

We may be unable to attract and retain members, which could have a negative effect on our business.

The success of our business depends on our ability to attract and retain members, and we cannot assure you that we will be successful in our marketing efforts or that the membership levels at our centers will not materially decline, especially at those centers in operation for an extended period of time. All of our members can cancel their membership at any time upon providing advance notice. In addition, we experience attrition and must continually engage existing members and attract new members in order to maintain our membership levels and sales from in-center services. There are numerous factors that could lead to a decline in membership levels or sales of in-center services in mature centers or that could prevent us from increasing membership and in-center service revenue at newer centers where membership is generally not yet at a targeted capacity. These factors include changing desires and behaviors of consumers, changes in discretionary spending trends and general economic conditions, market maturity or saturation, a decline in our ability to deliver quality service at a competitive price, direct and indirect competition in our trade areas, advances in medical care that lead to less interest in health and fitness activities, and a decline in the public's interest in health and fitness as well as social fears such as terror or health threats which could reduce the desire to be in a concentrated public venue. In order to increase membership levels, we may from time to time offer lower membership rates and enrollment fees. In addition, we anticipate that most of our future centers will target higher income members than we have historically targeted. We may not be successful in optimizing price and mix or in adding new memberships in these new centers, and our growth in membership dues in these future centers may suffer as a result. Any decrease in our average dues, reduction in enrollment fees or higher membership acquisition costs may adversely impact our operating margins.

We rely heavily on our revolving credit facility and our ability to access additional capital. If we are not able to access our credit facility, obtain additional capital or refinance existing debt, our ability to operate our business and pursue our growth strategy may be impaired.

As of December 31, 2013, we had total consolidated indebtedness of \$848.6 million, of which \$346.1 million was floating rate debt, consisting principally of obligations under term notes that are secured by certain of our properties, borrowings under our revolving credit facility that are secured by certain personal property, mortgage notes that are secured by certain of our centers, and obligations under capital leases.

The credit markets generally and our level of indebtedness could have important consequences to us, including the following:

- Our ability to obtain the appropriate levels of capital for working capital purposes or to finance the development and construction of new centers or acquisitions may limit our growth strategy and future business opportunities;

- A significant portion of our debt has a variable rate of interest, which increases our vulnerability to interest rate fluctuations;

- We will need a substantial portion of our cash flow to pay the principal of, and interest on, our indebtedness, including indebtedness that we may incur in the future, which may reduce the funds that would otherwise be available for our operations or to pursue our growth strategy and future business opportunities;

- A substantial decrease in our cash flows from operations or a substantial increase in our investment in new centers could make it difficult for us to meet our debt service requirements and force us to modify our operations; and

- We may be more highly leveraged than our competitors, which may place us at a competitive disadvantage including in the event of an economic downturn.

In addition to the amount of indebtedness outstanding as of December 31, 2013, we had access to an additional \$337.4 million under our credit facility. We also have the ability to incur new debt, subject to limitations under our existing credit facility and in our debt financing agreements. If we incur additional debt, the risks associated with our leverage, including our ability to service our debt, could intensify, and we may have to change our growth strategies as a consequence.

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Finally, if cash from available sources is insufficient or unavailable, or if cash is used for unanticipated needs, we may require additional capital sooner than anticipated. In the event that we are required or choose to raise additional funds, we may be unable to do so on favorable terms or at all. Furthermore, the cost of debt financing could significantly increase, making it cost prohibitive to borrow, which could force us to issue new equity securities. If we issue new equity securities, existing shareholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of common stock.

Any inability to access our existing credit facility, to raise additional capital when required or with favorable terms, or to repay scheduled indebtedness at maturity could have an adverse effect on our business plans and operating results. If we fail to properly maintain the integrity of our data or to strategically implement, upgrade or consolidate existing information systems, our reputation and business could be materially adversely affected.

We increasingly use electronic means to interact with our customers and collect, maintain and store individually identifiable information, including, but not limited to, personal financial information and health-related information. Despite the security measures we have in place to ensure compliance with applicable laws and rules, our facilities and systems, and those of our third-party service providers, may be vulnerable to security breaches, acts of cyber terrorism, vandalism or theft, computer viruses, misplaced or lost data, programming and/or human errors or other similar events. Additionally, the collection, maintenance, use, disclosure and disposal of individually identifiable data by our businesses are regulated at the federal and state levels as well as by certain financial industry groups, such as the Payment Card Industry organization. Federal, state and financial industry groups may also consider from time to time new privacy and security requirements that may apply to our businesses. Compliance with evolving privacy and security laws, requirements, and regulations may result in cost increases due to necessary systems changes, new limitations or constraints on our business models and the development of new administrative processes. They also may impose further restrictions on our collection, disclosure and use of individually identifiable information that are housed in one or more of our databases. Noncompliance with privacy laws, financial industry group requirements or a security breach involving the misappropriation, loss or other unauthorized disclosure of personal, sensitive and/or confidential information, whether by us or by one of our vendors, could have material adverse effects on our business, operations, reputation and financial condition, including decreased revenue; material fines and penalties; increased financial processing fees; compensatory, statutory, punitive or other damages; adverse actions against our licenses to do business; and injunctive relief whether by court or consent order. Like other large companies, we have, from time to time, experienced threats to our data and systems, including malware and computer virus attacks, unauthorized access, systems failures and disruptions, none of which have had a material impact on our business, results of operation or financial condition and none of which have required us to provide formal notification to any parties. Our planned accelerated growth could place strains on our management, employees, information systems and internal controls which may adversely impact our business.

Over the past several years, we have experienced growth in our business activities and operations, including an increase in the number of our centers, development of new businesses and acquisitions of other businesses. Our past expansion has placed, and our planned accelerated future expansion may place, significant demands on our administrative, operational, financial and other resources. Any failure to manage growth effectively could seriously harm our business. To be successful, we will need to continue to implement management information systems and improve our operating, administrative, financial and accounting systems and controls. We will also need to train new employees and maintain close coordination among our executive, accounting, finance, legal, human resources, risk management, marketing, sales and operations functions. These processes are time-consuming and expensive, increase management responsibilities and divert management attention.

Our business could be adversely affected by strong competition in the highly competitive health and wellness industry.

We compete with the following industry participants: other health and fitness centers; physical fitness and recreational facilities established by non-profit organizations, governments, hospitals, and businesses; local salons, cafés and businesses offering similar ancillary services; exercise and small fitness clubs and studios and other boutique fitness offerings; racquet, tennis and other athletic clubs; amenity and condominium clubs; country clubs; online personal training and fitness coaching; the home-use fitness equipment industry; athletic event operators and related suppliers;

and providers of wellness and other healthy way of life orientated products and services. We

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cannot assure you that our competitors will not attempt to copy our business model, or portions thereof, and that this will not erode our market share and brand recognition and impair our growth rate and profitability. Competitors, which may have greater name recognition than we have, may compete with us to attract members in our markets. Non-profit and government organizations in our markets may be able to obtain land and construct centers at a lower cost and collect membership fees without paying taxes, thereby allowing them to charge lower prices. Furthermore, due to the increased number of low cost health club and fitness center alternatives, we may face increased competition during periods if we increase our price, discretionary spending declines or unemployment remains high. This competition may limit our ability to attract and retain members.

We may incur significant costs in the development and implementation of new businesses with no guarantee of success.

In order to remain competitive and expand our business, we have developed, and expect to continue to develop, in-center and ancillary businesses. We may incur significant costs in the development of these businesses, some of which may be outside of our core competency. In addition, we cannot guarantee that these businesses will be successful and contribute to earnings.

We may be unable to successfully acquire suitable businesses or, if we do acquire them, the acquisition may disrupt our business, we may be unable to successfully integrate the business into our own, or the acquired assets may be subject to impairment, all of which may have a material adverse effect on our performance.

In order to remain competitive and to expand our business, we have acquired, and expect to continue to acquire, complementary businesses and centers. In the future, we may not be able to find suitable acquisition candidates. If we do find suitable candidates, we may not be able to conduct effective due diligence or acquire the businesses on favorable terms or at all. We may also have to incur debt or issue equity securities to pay for any acquisition, which could adversely affect our financial results or dilute our shareholders.

If we do acquire other businesses, integrating the business into our own may place significant demands on our administrative, operational, financial and other resources and may require significant management time, which may disrupt our other businesses. Our ability to acquire and integrate larger or more significant companies is unproven. In addition, we cannot provide any assurances that we will be able to successfully integrate any acquired, or to be acquired, business into our own business or achieve any goals relating to the acquisition.

Additionally, as we have acquired other businesses, we have recorded assets, liabilities and intangible assets at fair value at the time of acquisition. If the fair value of the long-lived assets or intangible assets were determined to be lower than the carrying value, the assets would be subject to impairment, which could adversely affect our financial results.

We expect our investments in future centers in high demographic areas to be above historical average. We cannot guarantee the level of return will meet our expectations, and our financial results may be adversely affected.

As we increase our numbers of centers, our current focus is on higher demographic locations, which typically require higher costs of land, increased construction costs, and amenities and features within the new centers that represent the Life Time Athletic center, which include the Onyx and Diamond membership plans. The higher gross invested capital at these centers will require higher operating margins and higher net income per center to produce the level of return we expect. Failure to provide this level of return could adversely affect our financial results.

If our chairman, president and chief executive officer leaves our company for any reason, it could have an adverse effect on our business.

Our growth and development to date have been driven by the services of Bahram Akradi, our Chairman of the Board of Directors, President, Chief Executive Officer and founder. We do not have any employment or non-competition agreement with Mr. Akradi. In addition, Mr. Akradi may be able to exert disproportionate influence over us because of the significant consequence of his departure.

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If we fail to comply with any of the covenants in our financing documents, we may not be able to access our existing credit facility, and we may face an accelerated obligation to repay our indebtedness.

We have entered into several financing transactions to finance the development of our centers. Certain of the loan documents contain financial and other covenants applicable to us, and certain of these loan documents contain cross-default provisions. If we fail to comply with any of the covenants, it may cause a default under one or more of our loan documents, which could limit our ability to obtain additional financing under our existing credit facility, require us to pay higher levels of interest or accelerate our obligations to repay our indebtedness.

If we are unable to identify and acquire suitable sites for centers, our revenue growth rate and profits may be negatively impacted.

To successfully expand our business, we must identify and acquire sites that meet the site selection criteria we have established. In addition to finding sites with the right demographic and other measures we employ in our selection process, we also need to evaluate the penetration of our competitors in the market. We face significant competition for sites that meet our criteria, and as a result we may lose those sites, our competitors could copy our format or we could be forced to pay significantly higher prices for those sites. If we are unable to identify and acquire sites for new centers, our revenue growth rate and profits may be negatively impacted. Additionally, if our analysis of the suitability of a site is incorrect, we may not be able to recover our capital investment in developing and building the new center. We may incur rising costs related to construction of new centers and maintenance of our existing centers. If we are not able to pass these cost increases through to our members, our financial results may be adversely affected.

Our centers require significant upfront and ongoing investment. If our investment is higher than we had planned, we may need to outperform our operational plan to achieve our targeted return. Over the longer term, we believe that we can offset cost increases by increasing our membership dues and other fees and improving profitability through cost efficiencies, but higher costs in regions where we are opening new centers may be difficult to offset in the short term. We have significant operations concentrated in certain geographic areas, and any disruption in the operations of our centers in any of these areas could harm our operating results.

At February 28, 2014, we operated multiple centers in several metropolitan areas, including 24 in the Minneapolis/St. Paul market, nine in the Chicago market, eight in the Dallas market, six in the Atlanta, Detroit and Houston markets and five in the Phoenix and greater New York markets, with future planned expansion in current and new markets. As a result, any prolonged disruption in the operations of our centers in any of these markets, whether due to technical difficulties, power failures or destruction or damage to the centers as a result of a natural disaster, fire or any other reason, could harm our operating results. In addition, our concentration in these markets increases our exposure to adverse developments related to competition, as well as economic and demographic changes in these areas.

If we cannot retain our key employees and hire additional highly qualified employees, we may not be able to successfully manage our businesses and pursue our strategic objectives.

We are highly dependent on the services of our senior management team and other key employees at both our corporate headquarters and our centers, and on our ability to recruit, retain and motivate key employees. Competition for such employees is intense, and the inability to attract and retain the additional qualified employees required to expand our activities, or the loss of current key employees, could adversely affect our operating efficiency and consolidated financial results.

The opening of new centers may negatively impact our operating margins. In addition, the opening of new centers in existing markets may negatively impact our same-center revenues.

A result of opening new centers is that our center operating margins may be lower than they have been historically while the centers build membership base. We expect both the addition of pre-opening expenses and the lower revenue volumes characteristic of newly opened centers to affect our center operating margins at these new centers. We also expect certain operating costs, particularly those related to occupancy, to be higher than in the past in some

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newly entered geographic regions. As a result of the impact of these rising costs, our total center contribution and operating margins may be lower in future periods than they have been in the past.

We currently operate centers in 23 states and one Canadian province. We plan to open six new large format centers in 2014, three of which are in existing markets. Opening new centers in existing markets may attract some memberships away from other centers in those markets, thereby leading to diminished revenue and profitability. 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 increases may be lower in future periods than in the past.

Delays in new center openings could have an adverse effect on our growth.

In order to meet our objectives, it is important that we open new centers on schedule. A significant amount of time and expenditure of capital is required to develop and construct new centers. If we are significantly delayed in opening new centers, our competitors may be able to open new clubs in the same market before we open our centers or improve centers currently open. This change in the competitive landscape could negatively impact our pre-opening sales of memberships and increase our investment costs. In addition, delays in opening new centers could hurt our ability to meet our growth objectives. Our ability to open new centers on schedule depends on a number of factors, many of which are beyond our control. These factors include:

- obtaining acceptable financing for construction of new sites;
- obtaining entitlements, permits and licenses necessary to complete construction of the new center on schedule;
- recruiting, training and retaining qualified employees;
- securing access to labor and materials necessary to develop and construct our centers;
- delays due to material shortages, labor issues, weather conditions or other acts of God, discovery of contaminants, accidents, deaths or injunctions; and
- general economic conditions.

We could be subject to claims related to construction or operation of our centers and off-premises activities and events which could have a negative effect on our financial conditions and results of operations.

Use of our centers and participation in off-premises activities and events pose potential health or safety risks to members or guests through exertion and use of our equipment, swimming pools, rock climbing walls, waterslides, endurance events and other facilities and services. Claims may be asserted against us for injury or death suffered by someone using our facilities, services, activities and events, including a minor child. We could also face claims in connection with our construction and remodel of our centers. While we carry insurance generally applicable to such claims, we face exposure for losses within any self-insured retention or for uninsured damages.

We are subject to extensive government regulation, and changes in these regulations could have a negative effect on our financial condition and results of operations.

Our operations are subject to various federal and state laws and regulations, including but not limited to the following:

- federal and state consumer protection laws related to the advertising, marketing and sale of our products and services;
- state statutes that regulate the sale and terms of our membership contracts;
- state and local health or safety regulations related to various center operations, such as child centers, LifeCafe, LifeSpa or Aquatics;
- federal and state regulation of ancillary health and fitness-related products and services;

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state licensing or other regulation of our service providers, such as cosmetologists, massage therapists and registered dietitians; and

federal and state laws and regulations governing privacy and security of information.

Any changes in such laws or regulations could have a material adverse effect on our financial condition and results of operations.

We could be subject to claims related to our ancillary health and fitness-related offerings, and the value of our brand may suffer.

We offer directly or through third parties a variety of ancillary health and fitness-related products and services, such as nutritional products, blood screenings and other fitness assessments, chiropractic services, and medi-spa services.

These products and services are, or may be subject to, legal and regulatory requirements. We cannot assure you that there will be no claims against us regarding the ingredients in, manufacture of or results of using our nutritional products, or any claims against us regarding our provision of other health and fitness-related services or our relationships with third parties. Furthermore, we cannot assure you that any rights we have under indemnification provisions and/or insurance policies will be sufficient to cover any losses that might result from such claims. Any publicity surrounding such claims may negatively impact the value of our brand.

If it becomes necessary to protect or defend our intellectual property rights or if we infringe on the intellectual property rights of others, we may become involved in costly litigation or be required to pay royalties or fees.

We may have disputes with third parties to enforce our intellectual property rights, protect our trademarks, determine the validity and scope of the proprietary rights of others or defend ourselves from claims of infringement, invalidity or unenforceability. We may incur substantial costs and a diversion of resources as a result of such disputes, even if we win. In the event that we do not win, we may have to enter into royalty or licensing agreements, we may be prevented from using the marks within certain markets in connection with goods and services that are material to our business or we may be unable to prevent a third party from using our marks. We cannot assure you that we would be able to reach an agreement on reasonable terms, if at all. In particular, although we own a federal trademark registration for use of the LIFE TIME FITNESS® mark in the field of health and fitness centers, we are aware of entities in certain locations around the country that use LIFE TIME FITNESS, LIFE TIME or other similar marks in connection with goods and services related to health and fitness. The rights of these entities in such marks may predate our rights. Accordingly, if we open any centers in the areas in which these parties operate, we may be required to pay royalties or may be prevented from using the mark in such areas.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

Our corporate headquarters, located in Chanhassen, Minnesota next to our Chanhassen large format center, is a 105,000 square foot, free-standing, three-story building that we own.

As of February 28, 2014, we operated 109 centers in 23 states and one Canadian province. We expect to open six centers in 2014 on sites we own or lease in various markets, one of which is open and five of which are currently under construction. The table below contains information about our open centers as of February 28, 2014:

	Number of Centers	Square Feet		Number of Centers	Square Feet
United States:					
Alabama	1	103,647	Nevada	1	143,286
Arizona	5	457,950	New Jersey	3	324,668
Colorado	4	482,557	New York	2	248,103
Florida	1	73,688	North Carolina	6	294,369
Georgia	6	585,601	Ohio	6	508,297
Illinois	9	1,016,003	Oklahoma	1	114,441
Indiana	3	166,956	Tennessee	1	112,110
Kansas	2	222,190	Texas	18	1,892,813
Maryland	2	177,263	Utah	1	108,925
Michigan	6	609,005	Virginia	4	384,974
Minnesota	24	1,957,092	Canada:		
Missouri	1	112,110	Ontario	1	146,674
Nebraska	1	115,030	Total	109	10,357,752

In a few of our centers, we sublease space to third parties. The square footage figures above include those subleased areas. The square footage figures exclude areas used for tennis courts, outdoor swimming pools and outdoor play areas. These figures are approximations.

In addition to the centers listed in the table above, we also operate six facilities which we classify as satellite locations. These include a 15,640 square foot tennis-only facility that we own in Minnetonka, Minnesota, a 75,450 square foot tennis-only facility that we own in Centennial, Colorado and four leased yoga centers in the Detroit, Michigan market.

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Other Property Data:

	As of December 31,				
	2013	2012	2011	2010	2009
	(Number of centers)				
Center age					
Open 1 to 12 months (non-mature)	3	4	12	6	3
Open 13 to 36 months (non-mature)	16	18	9	14	21
Open 37+ months (mature)	89	83	80	69	60
Total centers	108	105	101	89	84
Center format					
Large format - current model	63	60	57	54	51
Large format - other	24	24	24	24	24
Other format	21	21	20	11	9
Total centers	108	105	101	89	84
Center ownership					
Own	46	48	47	35	28
Own/ground lease	9	9	7	3	3
Own/mortgaged	22	17	17	20	23
Own/ground lease/mortgaged	—	—	—	3	3
Joint venture	1	1	1	1	1
Leased	30	30	29	27	26
Total centers	108	105	101	89	84
Center composition					
Company originated centers	86	83	80	77	73
Acquired centers	22	22	21	12	11
Total centers	108	105	101	89	84

Generally, the main differences between our large format centers and those that are of the current model design are that our current model centers generally include an outdoor aquatics park, larger indoor aquatics area, larger gymnasium, up to three additional studios and enhanced LifeSpa and LifeCafe spaces. We believe that all of our large format centers serve as all-in-one sports and athletic, professional fitness, family recreation and spa destinations. The other center format includes smaller or specialty centers.

Excluding renewal options, the terms of leased centers, including ground leases, expire at various dates from 2014 through 2049. The majority of our leases have renewal options and a few give us the right to purchase the property.

Item 3. Legal Proceedings.

We may be subject to litigation from time to time. 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 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 will not have a material adverse impact on our consolidated financial position, results of operations or cash flows. Such matters are subject to many uncertainties, however, and the outcome of individual matters is not predictable with assurance.

Item 4. Mine Safety Disclosures.

None.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchaser of Equity Securities.

Market Information

Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol LTM. The following table sets forth, for the periods indicated, the high and low sales prices as reported by the NYSE.

	High	Low
Fiscal Year Ended December 31, 2012:		
First Quarter (January 1, 2012 – March 31, 2012)	\$52.68	\$44.18
Second Quarter (April 1, 2012 – June 30, 2012)	\$51.03	\$40.40
Third Quarter (July 1, 2012 – September 30, 2012)	\$50.00	\$41.79
Fourth Quarter (October 1, 2012 – December 31, 2012)	\$50.84	\$42.09
Fiscal Year Ended December 31, 2013:		
First Quarter (January 1, 2013 – March 31, 2013)	\$52.43	\$39.10
Second Quarter (April 1, 2013 – June 30, 2013)	\$52.17	\$40.85
Third Quarter (July 1, 2013 – September 30, 2013)	\$56.94	\$47.92
Fourth Quarter (October 1, 2013 – December 31, 2013)	\$52.50	\$43.88

Holders

As of February 17, 2014, the number of record holders of our common stock was approximately 413, including 10 record holders with our transfer agent.

Performance Graph

The following graph compares the annual change in the cumulative total shareholder return on our common stock from December 31, 2008 through December 31, 2013 with the cumulative total return on the NYSE Composite Index and Russell 2000 Index. The comparison assumes \$100 was invested on December 31, 2008 in Life Time Fitness common stock and in each of the foregoing indices and assumes that dividends were reinvested when and as paid. We have not declared dividends on our common stock. You should not consider shareholder return over the indicated period to be indicative of future shareholder returns.

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	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
Life Time Fitness	\$100	\$193	\$317	\$361	\$380	\$363
NYSE Composite Index	100	125	138	130	147	181
Russell 2000 Index (1)	100	125	157	148	170	233

(1) We have provided a comparison against the Russell 2000 because there is no published industry or line-of-business index for our industry and we do not have a readily definable peer group that is publicly traded.

Dividends

We have never declared or paid any cash dividends on our common stock. We currently intend to utilize all future earnings for the operation and expansion of our business or for share repurchases and do not anticipate declaring or paying any cash dividends on our common stock in the foreseeable future. In addition, the terms of our revolving credit facility limit the amount of dividends we may pay without the consent of the lenders. The payment of any dividends in the future will be at the discretion of our Board of Directors and will depend upon our results of operations, earnings, capital requirements, contractual restrictions, outstanding indebtedness and other factors deemed relevant by our board.

Issuer Purchases of Equity Securities in Fourth Quarter 2013

In June 2006, our Board of Directors authorized the repurchase of 500,000 shares of our common stock from time to time in the open market or otherwise for the primary purpose of offsetting the dilutive effect of shares issued under our employee stock purchase plan ("ESPP") (the "ESPP Authorization"). From June 2006 through December 31, 2013, we repurchased 239,273 shares pursuant to the ESPP Authorization, of which 27,093 shares were repurchased during 2013. There were no shares repurchased in fourth quarter of 2013. As of December 31, 2013, there were 260,727 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 unissued shares of our common stock.

In August 2011, our Board of Directors authorized the repurchase of up to \$60.0 million of our outstanding common stock from time to time through open market or privately negotiated transactions (the "Stock Repurchase

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Authorization") through its expiration date, August 17, 2013. During the year ended December 31, 2013, 682,634 shares were repurchased for \$31.0 million. The shares repurchased were purchased in the open market and, upon repurchase, became unissued shares of our common stock. This authorization terminated on August 15, 2013 with the authorization of a new share repurchase program. A total of 1,107,665 shares were repurchased under this program for \$50.1 million.

On August 15, 2013, our Board of Directors authorized the repurchase of up to \$200.0 million of our outstanding common stock from time to time through open market or privately negotiated transactions. The authorization to repurchase shares terminates when the aggregate repurchase amount totals \$200.0 million or at the close of business on August 16, 2015, whichever occurs first. The share repurchase program does not obligate us to repurchase any dollar amount or number of shares of our common stock and the program may be extended, modified, suspended or discontinued at any time. As of December 31, 2013, 646,701 shares have been repurchased under this program for approximately \$31.0 million. The shares repurchased to date have been purchased in the open market and, upon repurchase, became unissued shares of our common stock.

The following table presents the repurchases of stock under the Stock Repurchase Authorization in the fourth quarter of 2013:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Maximum Dollar Value of Shares that May Yet be Purchased
October 1 – 31, 2013	—	\$—	\$190,724,977
November 1 – 30, 2013	210,000	\$47.52	\$180,745,680
December 1 – 31, 2013	250,000	\$46.83	\$169,038,670
Total	460,000	\$47.14	\$169,038,670

Equity Compensation Plan Information

Incorporated by reference hereunder is the information under “Equity Compensation Plan Information” in our Proxy Statement.

Item 6. Selected Financial Data.

You should read the selected consolidated financial data below in conjunction with our consolidated financial statements and the related notes and with “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The consolidated statement of operations data for the years ended December 31, 2013, 2012 and 2011 and the consolidated balance sheet data as of December 31, 2013 and 2012 are prepared from our audited consolidated financial statements that are included elsewhere in this report. The consolidated statement of operations data for the years ended December 31, 2010 and 2009 and the consolidated balance sheet data as of December 31, 2011, 2010 and 2009 are derived from our audited consolidated financial statements that have been previously filed with the SEC. Historical results are not necessarily indicative of the results of operations to be expected for future periods. See footnote 2 to our consolidated financial statements for a description of the method used to compute basic and diluted net earnings per share.

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	For the Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except per share, center and membership data)				
Statement of Operations Data:					
Revenue					
Center revenue					
Membership dues	\$766,846	\$727,596	\$663,439	\$603,231	\$564,605
Enrollment fees	13,941	15,346	18,447	24,426	26,138
In-center revenue (1)	375,517	348,265	308,474	266,426	232,834
Total center revenue	1,156,304	1,091,207	990,360	894,083	823,577
Other revenue	49,600	35,740	23,314	18,761	13,424
Total revenue	1,205,904	1,126,947	1,013,674	912,844	837,001
Operating expenses					
Center operations	696,209	655,887	614,949	561,070	506,443
Advertising and marketing	42,712	39,931	36,318	27,098	26,299
General and administrative	58,986	55,715	54,736	48,060	42,776
Other operating	64,401	52,170	35,562	23,544	21,852
Depreciation and amortization	118,972	115,016	98,843	92,313	90,770
Total operating expenses (2)	981,280	918,719	840,408	752,085	688,140
Income from operations	224,624	208,228	173,266	160,759	148,861
Interest expense, net	(25,656)	(25,475)	(20,138)	(27,795)	(30,338)
Equity in earnings of affiliate (3)	1,399	1,482	1,299	1,176	1,302
Income before income taxes	200,367	184,235	154,427	134,140	119,825
Provision for income taxes	78,655	72,697	61,810	53,448	47,441
Net income	\$121,712	\$111,538	\$92,617	\$80,692	\$72,384
Basic earnings per common share	\$2.95	\$2.70	\$2.29	\$2.03	\$1.84
Weighted average number of common shares outstanding — basic	41,263	41,345	40,358	39,809	39,297
Diluted earnings per common share	\$2.93	\$2.66	\$2.26	\$2.00	\$1.82
Weighted average number of common shares outstanding — diluted (4)	41,482	41,972	40,930	40,385	39,870
Balance Sheet Data (end of period):					
Cash and cash equivalents	\$8,334	\$16,499	\$7,487	\$12,227	\$6,282
Working capital	(104,223)	(67,723)	(55,413)	(56,513)	(67,396)
Total assets	2,331,051	2,072,174	1,915,828	1,718,480	1,631,525
Long-term debt, net of current portion	824,093	691,867	679,449	605,279	643,630
Total debt	848,598	704,470	686,298	612,544	660,346
Total shareholders' equity	1,148,029	1,072,917	957,473	840,578	737,431
Cash Flow Data:					
Net cash provided by operating activities	\$258,417	\$255,745	\$227,943	\$192,265	\$186,203
Net cash used in investing activities	(359,836)	(251,403)	(232,949)	(149,034)	(143,285)
Net cash provided by (used in) financing activities	87,321	5,818	266	(37,286)	(47,465)

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	For the Year Ended December 31,					
	2013	2012	2011	2010	2009	
	(In thousands, except per share, center and membership data)					
Other Data:						
Same-center revenue growth (open 13 months or longer) (5)	4.0	% 4.3	% 5.1	% 5.0	% (3.1	%)
Same-center revenue growth (open 37 months or longer) (5)	3.2	% 3.7	% 4.3	% 2.3	% (7.5	%)
Average center revenue per Access membership (6)	\$1,656	\$1,567	\$1,527	\$1,462	\$1,414	
Average in-center revenue per Access membership (7)	\$545	\$507	\$481	\$440	\$400	
Annual attrition rate (8)	35.8	% 33.5	% 31.3	% 33.3	% 40.6	%
EBITDA (9)	\$344,995	\$324,726	\$273,408	\$254,248	\$240,933	
EBITDAR (9)	\$385,260	\$363,377	\$316,218	\$296,729	\$281,174	
Capital expenditures (10)	\$348,948	\$224,194	\$165,335	\$131,671	\$146,632	
Free cash flow (11)	\$(90,531	) \$31,551	\$62,608	\$60,594	\$39,571	
Operating Data (end of period) (12):						
Centers open	108	105	101	89	84	
Center square footage (13)	10,221,759	9,901,108	9,500,442	8,810,507	8,459,540	
Employees	22,500	21,700	20,000	19,000	17,400	
Memberships:						
Access memberships	678,619	682,621	676,054	612,556	578,937	
Non-Access memberships	110,871	104,382	92,806	70,302	50,001	
Total memberships	789,490	787,003	768,860	682,858	628,938	
Margins:						
Center operations	42.3	% 41.8	% 39.3	% 38.5	% 39.5	%
EBITDA (14)	28.6	% 28.8	% 27.0	% 27.9	% 28.8	%
EBITDAR (15)	31.9	% 32.2	% 31.2	% 32.5	% 33.6	%
Operating income	18.6	% 18.5	% 17.1	% 17.6	% 17.8	%
Net Income	10.1	% 9.8	% 9.1	% 8.8	% 8.6	%
Stock Information:						
Total common shares outstanding	42,116	43,149	42,428	41,925	41,410	
Market price per share – high	\$56.94	\$52.68	\$48.42	\$42.99	\$32.05	
Market price per share – close	\$47.00	\$49.21	\$46.75	\$40.99	\$24.93	
Market price per share – low	\$39.10	\$40.40	\$33.15	\$22.05	\$7.07	
Price/earnings ratio at year-end – diluted	16.0	18.5	20.7	20.5	13.6	
Market capitalization (16)	\$1,979,452	\$2,123,362	\$1,983,509	\$1,718,505	\$1,032,351	

In-center revenue includes revenue generated at our centers from fees for personal training, group fitness training (1) and other member activities, sales of products offered at our cafés, sales of products and services offered at our spas, tennis and renting space in certain of our centers.

(2) Total operating expenses in 2010 includes \$5.6 million (pretax) associated with performance-based restricted stock compensation expense. In June 2009, we granted performance-based restricted stock to our senior management team. In fourth quarter 2010, we determined that achieving the 2011 diluted earnings per share performance criteria required for vesting of 50% of the stock (representing 453,500 shares of restricted stock) was probable. As a result, we recognized a cumulative, non-cash performance share-based compensation expense of \$5.6 million (pretax) in

the quarter. Of this amount, approximately \$1.2 million is

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reflected in center operations expense and approximately \$4.4 million is reflected in general and administrative expense.

Total operating expenses in 2011 include \$10.6 million (pretax) associated with non-cash performance-based restricted stock compensation expense. In fourth quarter 2011, we determined that achieving the 2012 diluted earnings per share performance criteria required for vesting of the final 50% of the stock (representing 448,000 shares of restricted stock) was probable. As a result, we recognized a cumulative, non-cash performance share-based compensation expense of \$6.8 million (pretax) in the quarter, in addition to the \$3.8 million (pretax) of share-based compensation expense we recognized in 2011 on the initial 50% of the grant. Of the \$10.6 million amount, approximately \$2.5 million is reflected in center operations expense and approximately \$8.1 million is reflected in general and administrative expense.

Total operating expenses in 2012 include \$2.6 million associated with performance-based restricted stock compensation expense. Of the \$2.6 million, approximately \$0.5 million is reflected in center operations expense and approximately \$2.1 million is reflected in general and administrative expense.

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. Each (3) member made an initial capital contribution of \$2.0 million and owns a one-third interest in Bloomingdale LLC.

The center commenced operations in February 2001. The terms of the relationship among the members are governed by an operating agreement. Bloomingdale LLC is accounted for using the equity method.

The diluted weighted average number of common shares outstanding is the weighted average number of common (4) shares plus the assumed weighted average exercise of dilutive stock options using the treasury stock method and unvested restricted stock awards using the treasury stock method.

The following table summarizes the weighted average number of common shares for basic and diluted earnings per share computations:

	December 31, 2013	2012	2011	2010	2009
	(In thousands)				
Weighted average number of common shares outstanding – basic	41,263	41,345	40,358	39,809	39,297
Effect of dilutive stock options	85	116	132	156	69
Effect of dilutive restricted stock awards	134	511	440	420	504
Weighted average number of common shares outstanding – diluted	41,482	41,972	40,930	40,385	39,870

Membership dues, enrollment fees and in-center revenue for a center are included in same center revenue growth – (5) 13 month beginning on the first day of the thirteenth full calendar month of the center's operation and are included in same center revenue growth – 37 month beginning on the first day of the thirty-seventh full calendar month of the center's operation.

Average center revenue per Access membership is total center revenue derived from Access memberships for the period divided by the average number of Access memberships for the period, where the average number of Access memberships for the period is an average derived from dividing the sum of the total Access memberships outstanding at the beginning of the period and at the end of each month during the period by one plus the number (6) of months in each period. Our calculation methodology changed in 2013 to include Access memberships only, and the 2010 through 2012 numbers above are recalculated under the new methodology. The bifurcated membership data needed for the new calculation methodology is not available for 2009. The 2009 average center revenue was calculated as follows: 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.

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

Annual attrition rate (or trailing 12 month attrition rate) is calculated as follows: total membership terminations for the trailing 12 months divided into the average beginning month total membership balance for the trailing 12 months. The annual attrition rate for the years ended December 31, 2010 and 2011 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. Our calculation methodology changed in 2013 to better reflect (8) our business by redefining membership as either Non-Access or Access. Our attrition calculation then had total terminations in the numerator and total memberships in the denominator, and the 2010 through 2012 numbers above are recalculated under the new methodology. The bifurcated membership data needed for the new calculation methodology is not available for 2009. The 2009 annual attrition rate was calculated as follows: total terminations for the trailing 12 months (excluding frozen memberships) divided into the average beginning month Access membership balance for the trailing 12 months.

EBITDA is a non-GAAP, non-cash measure which consists of net income plus interest expense, net, provision for income taxes and depreciation and amortization. EBITDAR adds rent expense to EBITDA. These terms, as we define them, may not be comparable to similarly titled measures used by other companies and are not measures of 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 (9) 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. Additional details related to EBITDA and EBITDAR are provided in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures.”

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

	For the Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands)				
Net income	\$121,712	\$111,538	\$92,617	\$80,692	\$72,384
Interest expense, net	25,656	25,475	20,138	27,795	30,338
Provision for income taxes	78,655	72,697	61,810	53,448	47,441
Depreciation and amortization	118,972	115,016	98,843	92,313	90,770
EBITDA	\$344,995	\$324,726	\$273,408	\$254,248	\$240,933
Rent expense	40,265	38,651	42,810	42,481	40,241
EBITDAR	\$385,260	\$363,377	\$316,218	\$296,729	\$281,174

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

(11) Free cash flow is a non-GAAP measure consisting of net cash provided by operating activities, less purchases of property and equipment, excluding acquisitions. 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 to monitor cash available for repayment of indebtedness and in discussions with the investment community. The funds

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depicted by free cash flow 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. Free cash flow should not be considered as a substitute for net cash provided by operating activities prepared in accordance with GAAP. Additional details related to free cash flow are provided in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures.”

The following table provides a reconciliation of net cash provided by operating activities to free cash flow:

	For the Year Ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands)				
Net cash provided by operating activities	\$258,417	\$255,745	\$227,943	\$192,265	\$186,203
Less: Purchases of property and equipment	348,948	224,194	165,335	131,671	146,632
Free cash flow	\$(90,531)	\$31,551	\$62,608	\$60,594	\$39,571

During 2012 and 2013, the number of our new centers under construction increased. Accordingly, our purchases of property and equipment increased, resulting in negative free cash flow.

(12) The operating data presented in these items include the center owned by Bloomingdale LLC. The data presented elsewhere in this section exclude the center owned by Bloomingdale LLC.

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

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

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

(16) Market capitalization is calculated by multiplying the year-end total common shares outstanding by the year-end stock price.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We operate distinctive and large, multi-use sports and athletic, professional fitness, family recreation and spa centers in a resort-like environment. As of February 28, 2014, we operated 109 centers primarily in residential locations across 23 states and one Canadian province under the LIFE TIME FITNESS® and LIFE TIME ATHLETIC® brands. We compare the results of our centers based on how long the centers have been open at the most recent measurement period. We include a center for same center revenue purposes beginning on the first day of the thirteenth full calendar month of the center’s operation, prior to which time we refer to the center as a new center. We include an acquired center for same center revenue purposes beginning on the first day of the thirteenth full calendar month after we assumed the center’s operations.

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

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

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As a result of new center openings in existing markets, and because older centers will represent an increasing proportion of our center base over time, our same center revenue may be lower in future periods than in the past. Of the six new centers we plan to open in 2014, three will be in existing markets. We do not expect operating costs of our planned new centers to be significantly higher than current centers, and we also do not expect the new centers to have a material adverse effect on the overall financial condition or results of operations of existing centers.

Our center operating margins have improved each of the last three years, primarily due to higher dues growth and a higher demographic center mix, which includes 28 Life Time Athletic centers as of February 28, 2014. This has more than offset the impact of the growth of our in-center businesses which are lower-margin. Additionally, although our overall membership growth rate may be less than in prior years, we expect our average dues and in-center revenue per membership to increase as a result of our focus on increasing our number of Life Time Athletic centers. We also expect center operating margin leverage at these centers.

Our categories of new centers and existing centers do not include the center owned by Bloomingdale, LLC because it is accounted for as an investment in an unconsolidated affiliate and is not consolidated in our financial statements. We measure performance using such key operating statistics as member satisfaction ratings, return on invested capital, average revenue per membership, average in-center revenue per membership and center operating expenses, with an emphasis on payroll, as a percentage of sales and same center revenue growth. We use center revenue, EBITDA and EBITDA margins to evaluate overall performance and profitability on an individual center basis. In addition, we focus on several membership statistics on a center-level and system-wide basis. These metrics include change in center Access membership levels and growth of system-wide memberships; percentage center Access membership to target capacity; center Access membership usage; center Access membership mix among individual, couple and family memberships; Non-Access memberships and center attrition rates.

During the years ended December 31, 2011, 2012 and 2013, our annual attrition rate fluctuated between 31.3% and 35.8%, resulting in the estimated average membership life remaining at 33 months during those periods. At December 31, 2013, our annual attrition rate was 35.8%, and the increase was driven primarily by growth in Non-Access membership terminations and membership pricing adjustments.

We have three primary sources of revenue:

First, our largest source of revenue is membership dues (63.6%, 64.6% and 65.5% of total revenue for the years ended December 31, 2013, 2012 and 2011, respectively) and enrollment fees (1.2%, 1.4% and 1.8% of total revenue for the years ended December 31, 2013, 2012 and 2011, respectively). We recognize revenue from monthly membership dues in the month to which they pertain.

Second, we generate revenue within a center, which we refer to as in-center revenue or in-center businesses (31.1%, 30.8% and 30.4% of total revenue for the years ended December 31, 2013, 2012 and 2011, respectively), including fees for personal training, registered dietitians, group fitness training and other member activities, sales of products at our cafés, sales of products and services offered at our spas and tennis programs.

Third, we have expanded the LIFE TIME FITNESS® brand into two other offerings: health, and events and media. These offerings generate revenue, which we refer to as other revenue or ancillary businesses (4.1%, 3.2% and 2.3% of total revenue for the years ended December 31, 2013, 2012 and 2011, respectively). Our health offering includes health promotion programs for members, non-members and corporations. Our events and media offerings include athletic events and related services, which includes our race registration and timing businesses, and media which includes our magazine, Experience Life®.

We have five primary sources of operating expenses:

Center operations expenses (57.7%, 58.2% and 60.7% of total revenue for the years ended December 31, 2013, 2012 and 2011, respectively) consist primarily of salaries, commissions, payroll taxes, benefits, real estate taxes and other occupancy costs, utilities, repairs and maintenance, supplies, administrative support and communications to operate our centers.

Advertising and marketing expenses (3.6%, 3.5% and 3.5% of total revenue for the years ended December 31, 2013, 2012 and 2011, respectively) consist of our marketing department costs and media and

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advertising costs to support and grow center membership levels, in-center businesses, new center openings and our ancillary businesses.

General and administrative expenses (4.9%, 5.0% and 5.4% of total revenue for the years ended December 31, 2013, 2012 and 2011, respectively) include costs relating to our centralized support functions, such as accounting, information systems, procurement, real estate and development and member relations.

Other operating expenses (5.3%, 4.6% and 3.5% of total revenue for the years ended December 31, 2013, 2012 and 2011, respectively) include the costs associated with our health and our events and media businesses and other corporate expenses, as well as gains or losses on our disposal of assets.

Depreciation and amortization (9.9%, 10.2% and 9.8% of total revenue for the years ended December 31, 2013, 2012 and 2011, respectively) 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 and ancillary businesses.

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

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S., or GAAP, requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates. In recording transactions and balances resulting from business operations, we use estimates based on the best information available. We use estimates for such items as depreciable lives, probability of meeting certain performance targets, tax provisions and deferred personal training revenue. We also use estimates for calculating the amortization period for deferred enrollment fee revenue and associated direct costs, which are based on the historical estimated average membership life. We revise the recorded estimates when better information is available, facts change or we can determine actual amounts. These revisions can affect operating results. We have identified below the following accounting policies that we consider to be critical.

Revenue recognition. We receive a one-time enrollment fee at the time a member joins and monthly membership dues for usage from our members. The enrollment fees are non-refundable after 14 days. Enrollment fees and related direct expenses, primarily sales commissions, are deferred and recognized on a straight-line basis over an estimated average membership life of 33 months, which is based on historical membership experience. We review the estimated average membership life on a quarterly basis, or more frequently if circumstances change. Changes in member behavior, competition, economic conditions and our performance may cause attrition levels to change, which could impact the estimated average membership life. During the years ended December 31, 2011, 2012 and 2013, our annual attrition rate fluctuated between 31.3% and 35.8%, resulting in the estimated average membership life remaining at 33 months during those periods. If the estimated average membership life had been 36 months or 30 months for the entire year ended December 31, 2013, the impact of this change in accounting estimate on our income from continuing operations and net income would have been less than \$0.1 million, and the change in accounting estimate would have had no impact on our basic and diluted earnings per common share. If the direct expenses related to the enrollment fees exceed the enrollment fees for any center, the amount of direct expenses in excess of the enrollment fees are expensed in the current period instead of deferred over the average membership life. The amount of direct expenses in excess of enrollment fees totaled \$26.2 million, \$20.7 million and \$14.9 million for the years ended December 31, 2013, 2012 and 2011, respectively. Monthly membership dues paid in

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advance of a center opening are deferred until the center opens. We only offer members month-to-month memberships and recognize as revenue the monthly membership dues in the month to which they pertain.

We provide services at each of our centers, including personal training, spa, café and other member services. Revenue from spa and café services and products is recognized at the point of sale to the customer. Personal training revenue received in advance of training sessions and the related commissions are deferred and recognized based on historical member usage.

Other revenue includes revenue from our health, events and media businesses. Health revenue is recognized primarily at the time the service is performed. For athletic events, revenue is generated primarily through sponsorship sales and race registration fees. Athletic event revenue and race registration revenue is recognized upon the completion of the event. Race timing revenue is recognized at the time of delivery to the customer. Media advertising revenue is recognized over the duration of the advertising placement.

Share-based compensation. We maintain share-based incentive plans, which include nonvested share awards, stock options and an employee stock purchase plan ("ESPP"). See footnote 7, Share-Based Compensation to the Notes to Consolidated Financial Statements for a complete discussion of our share-based compensation plans.

We determine the fair value of our nonvested share awards at the date of grant using the closing market price of our stock. Performance-based restricted share awards require management to make assumptions regarding the likelihood of achieving performance goals.

In 2012, the Compensation Committee approved the grant of a total of 658,500 shares of long-term performance-based restricted stock to serve as an incentive to our management team to achieve certain cumulative diluted EPS and return on invested capital ("ROIC") targets during performance periods that end on December 31, 2015 and December 31, 2016. The cumulative diluted EPS target measures cumulative diluted EPS for each quarter during the period from April 1, 2012 to the end of the applicable performance period. These targets are \$13.68 cumulative diluted EPS through 2015 and \$18.96 cumulative diluted EPS through 2016. The ROIC target is measured in the last year of the applicable performance period. These targets are 8.9% for 2015 and 9.0% for 2016. If the specified cumulative diluted EPS and ROIC targets are met or exceeded for the performance period ending December 31, 2015, 50% of the restricted shares will vest. If the specified cumulative diluted EPS and ROIC targets are met or exceeded for the performance period ending December 31, 2016, then all of the restricted shares will vest. In the event that we do not achieve the specified cumulative diluted EPS and ROIC targets for the performance period ending December 31, 2016, the restricted shares will be forfeited. A maximum of \$28.8 million could be recognized as compensation expense with respect to this grant if all cumulative diluted EPS and ROIC targets are met.

We currently do not believe that achievement of either the cumulative diluted EPS or the ROIC targets is currently probable, and, therefore, we did not recognize any compensation expense associated with the grant during the year ended December 31, 2013. If all of the targets had been considered probable at December 31, 2013, we would have recognized \$11.6 million of non-cash performance share-based compensation expense during the year ended December 31, 2013. If it becomes probable that the cumulative diluted EPS and ROIC performance targets will be achieved, a cumulative adjustment will be recorded and the remaining compensation expense will be recognized over the remaining performance period. The probability of reaching the targets is evaluated each reporting period.

Our ESPP provides for the sale of shares of our common stock to our employees at discounted purchase prices. The cost per share under this plan is 90% of the fair market value of our common stock on the last day of the purchase period, as defined. Compensation expense under the ESPP is based on the discount of 10% at the end of the purchase period.

A 10% change in our share-based compensation expense for the year ended December 31, 2013 would have affected net income by approximately \$0.7 million in fiscal 2013. This change would have no effect on our basic or diluted earnings per common share.

Impairment of Long-lived Assets. The carrying value of long-lived assets is reviewed annually and whenever events or changes in circumstances indicate that such carrying values may not be recoverable. We consider a history of consistent and significant operating losses, or the inability to recover net book value over the remaining useful life, to be our primary indicator of potential impairment. Judgments regarding existence of impairment indicators are based on factors such as operational performance (including revenue and expense growth rates), market conditions, and

expected holding period of each asset. We evaluate assets for impairment at the lowest levels for which there are

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identifiable cash flows, which is generally at an individual center level or ancillary business. The determination of whether impairment has occurred is based on an estimate of undiscounted future cash flows directly related to that center, compared to the carrying value of these assets. If impairment has occurred, the amount of impairment recognized is determined by estimating the fair value of these assets and recording a loss if the carrying value is greater than the fair value. Worsening operational performance, market conditions or change in expected holding periods of each asset may cause us to re-evaluate the assumptions used in management's analysis. If the estimate of our undiscounted future cash flows at our center level had decreased by 5%, the impact of this change in accounting estimate would not have resulted in impairment, and the change in accounting estimate would have had no impact on our net income or basic and diluted earnings per common share. Based upon our review and analysis, no impairments on long-lived assets were deemed to have occurred during 2013, 2012 or 2011.

Impairment of Goodwill and Intangible Assets. We assess the recoverability of goodwill and intangible assets on an annual basis or more often if indicators warrant, by determining whether the fair value of each reporting unit supports its carrying value. The valuation of goodwill and intangible assets requires assumptions and estimates of many critical factors, including revenue and market growth, operating cash flows and discount rates. A significant change in the factors noted above could cause us to reduce the estimated fair value of some or all of our reporting units and recognize a corresponding impairment of our goodwill or other intangible assets in connection with a future impairment test. Adverse changes in strategy, market conditions or assumed market capitalization may result in an impairment of goodwill or intangible assets. Based upon our review and analysis, no impairments on goodwill or intangible assets were deemed to have occurred during 2013, 2012 or 2011.

Results of Operations

The following table sets forth our consolidated statements of operations data as a percentage of total revenue for the periods indicated:

	For the Year Ended December 31,					
	2013		2012		2011	
REVENUE:						
Membership dues	63.6	%	64.6	%	65.5	%
Enrollment fees	1.2		1.4		1.8	
In-center revenue	31.1		30.8		30.4	
Total center revenue	95.9		96.8		97.7	
Other revenue	4.1		3.2		2.3	