

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from _____ to _____

Commission File Number: 001-40887

Life Time Group Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

47-3481985
(I.R.S. Employer
Identification No.)

2902 Corporate Place
Chanhassen, Minnesota 55317
(952) 947-0000

(Address of principal executive offices, including zip code; Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common stock, par value \$0.01 per share	LTH	The New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input checked="" type="checkbox"/>
Smaller reporting company	<input type="checkbox"/>			Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 7, 2022, the registrant had 194,188,729 shares of common stock outstanding, par value \$0.01 per share.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LIFE TIME GROUP HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)
(Unaudited)

	September 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 107,069	\$ 31,637
Accounts receivable, net	12,281	6,464
Center operating supplies and inventories	44,084	41,007
Prepaid expenses and other current assets	44,829	48,883
Income tax receivable	—	3,533
Total current assets	208,263	131,524
Property and equipment, net	2,772,385	2,791,464
Goodwill	1,233,176	1,233,176
Operating lease right-of-use assets	2,148,828	1,864,528
Intangible assets, net	173,492	174,241
Other assets	65,403	61,742
Total assets	\$ 6,601,547	\$ 6,256,675
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 72,951	\$ 71,308
Construction accounts payable	118,671	83,311
Deferred revenue	32,296	33,871
Accrued expenses and other current liabilities	167,457	147,920
Current maturities of debt	15,046	23,527
Current maturities of operating lease liabilities	50,746	46,315
Total current liabilities	457,167	406,252
Long-term debt, net of current portion	1,775,248	1,775,719
Operating lease liabilities, net of current portion	2,206,753	1,909,883
Deferred income taxes	43,941	55,213
Other liabilities	13,265	18,216
Total liabilities	4,496,374	4,165,283
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, \$0.01 par value per share; 500,000 shares authorized; 193,991 and 193,060 shares issued and outstanding, respectively.	1,940	1,931
Additional paid-in capital	2,780,190	2,743,560
Accumulated deficit	(666,602)	(651,083)
Accumulated other comprehensive loss	(10,355)	(3,016)
Total stockholders' equity	2,105,173	2,091,392
Total liabilities and stockholders' equity	\$ 6,601,547	\$ 6,256,675

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue:				
Center revenue	\$ 479,995	\$ 372,000	\$ 1,307,498	\$ 933,690
Other revenue	16,386	13,040	42,404	23,835
Total revenue	496,381	385,040	1,349,902	957,525
Operating expenses:				
Center operations	295,253	231,996	814,383	625,322
Rent	63,213	52,513	179,166	154,552
General, administrative and marketing	57,139	45,304	175,650	126,896
Depreciation and amortization	56,400	57,977	171,680	177,005
Other operating (income) expense	(31,358)	14,796	(56,605)	30,660
Total operating expenses	440,647	402,586	1,284,274	1,114,435
Income (loss) from operations	55,734	(17,546)	65,628	(156,910)
Other (expense) income:				
Interest expense, net of interest income	(27,696)	(39,849)	(84,732)	(176,144)
Equity in earnings (loss) of affiliate	95	(28)	129	(412)
Total other expense	(27,601)	(39,877)	(84,603)	(176,556)
Income (loss) before income taxes	28,133	(57,423)	(18,975)	(333,466)
Provision for (benefit from) income taxes	3,401	(11,981)	(3,456)	(58,867)
Net income (loss)	\$ 24,732	\$ (45,442)	\$ (15,519)	\$ (274,599)
Income (loss) per common share:				
Basic	\$ 0.13	\$ (0.36)	\$ (0.08)	\$ (2.00)
Diluted	\$ 0.12	\$ (0.36)	\$ (0.08)	\$ (2.00)
Weighted-average common shares outstanding:				
Basic	193,918	145,196	193,364	145,196
Diluted	198,381	145,196	193,364	145,196

See notes to unaudited condensed consolidated financial statements.

LIFE TIME GROUP HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Net income (loss)	\$ 24,732	\$ (45,442)	\$ (15,519)	\$ (274,599)
Foreign currency translation adjustments, net of tax of \$0	(6,015)	(2,404)	(7,339)	323
Comprehensive income (loss)	\$ 18,717	\$ (47,846)	\$ (22,858)	\$ (274,276)

See notes to unaudited condensed consolidated financial statements.

LIFE TIME GROUP HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Equity
	Shares	Amount				
Balance at June 30, 2022	193,796	\$ 1,938	\$ 2,772,393	\$ (691,334)	\$ (4,340)	\$ 2,078,657
Net income	—	—	—	24,732	—	24,732
Other comprehensive loss	—	—	—	—	(6,015)	(6,015)
Share-based compensation	—	—	5,803	—	—	5,803
Stock option exercises	195	2	1,994	—	—	1,996
Balance at September 30, 2022	193,991	\$ 1,940	\$ 2,780,190	\$ (666,602)	\$ (10,355)	\$ 2,105,173

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Equity
	Shares	Amount				
Balance at December 31, 2021	193,060	\$ 1,931	\$ 2,743,560	\$ (651,083)	\$ (3,016)	\$ 2,091,392
Net loss	—	—	—	(15,519)	—	(15,519)
Other comprehensive loss	—	—	—	—	(7,339)	(7,339)
Share-based compensation	—	—	33,214	—	—	33,214
Stock option exercises	309	3	3,187	—	—	3,190
Equity issuance costs	—	—	(270)	—	—	(270)
Issuance of common shares in connection with the vesting of restricted stock units	622	6	(6)	—	—	—
Settlement of accrued compensation liabilities through the issuance of share-based compensation awards	—	—	505	—	—	505
Balance at September 30, 2022	193,991	\$ 1,940	\$ 2,780,190	\$ (666,602)	\$ (10,355)	\$ 2,105,173

	Common Stock		Additional Paid-In Capital	Stockholder Note Receivable	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Equity
	Shares	Amount					
Balance at June 30, 2021	145,196	\$ 1,452	\$ 1,564,591	\$ (15,000)	\$ (300,871)	\$ (503)	\$ 1,249,669
Net loss	—	—	—	—	(45,442)	—	(45,442)
Other comprehensive loss	—	—	—	—	—	(2,404)	(2,404)
Share-based compensation	—	—	1,794	—	—	—	1,794
Cancellation of stockholder note receivable	—	—	(11,355)	15,000	—	—	3,645
Dividends on preferred stock	—	—	(6,126)	—	—	—	(6,126)
Balance at September 30, 2021	145,196	\$ 1,452	\$ 1,548,904	\$ —	\$ (346,313)	\$ (2,907)	\$ 1,201,136

	Common Stock		Additional Paid-In Capital	Stockholder Note Receivable	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Equity
	Shares	Amount					
Balance at December 31, 2020	145,196	\$ 1,452	\$ 1,569,905	\$ (15,000)	\$ (71,714)	\$ (3,230)	\$ 1,481,413
Net loss	—	—	—	—	(274,599)	—	(274,599)
Other comprehensive income	—	—	—	—	—	323	323
Share-based compensation	—	—	2,924	—	—	—	2,924
Settlement of accrued compensation liabilities through the issuance of share-based compensation awards	—	—	3,844	—	—	—	3,844
Cancellation of stockholder note receivable	—	—	(11,355)	15,000	—	—	3,645
Dividends on preferred stock	—	—	(16,414)	—	—	—	(16,414)
Balance at September 30, 2021	145,196	\$ 1,452	\$ 1,548,904	\$ —	\$ (346,313)	\$ (2,907)	\$ 1,201,136

See notes to unaudited condensed consolidated financial statements.

LIFE TIME GROUP HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (15,519)	\$ (274,599)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	171,680	177,005
Deferred income taxes	(10,957)	(63,467)
Share-based compensation	33,214	6,959
Non-cash rent expense	27,304	11,546
Impairment charges associated with long-lived assets	153	2,455
(Gain) loss on disposal of property and equipment, net	(98,498)	3,515
Loss on debt extinguishment	—	40,993
Write-off of discounts and debt issuance costs	—	18,325
Amortization of debt discounts and issuance costs	5,898	7,761
Changes in operating assets and liabilities	14,055	57,614
Other	(2,010)	(3,429)
Net cash provided by (used in) operating activities	125,320	(15,322)
Cash flows from investing activities:		
Capital expenditures	(409,946)	(201,741)
Acquisitions, net of cash acquired	—	(9,139)
Proceeds from sale-leaseback transactions	373,451	73,981
Other	(985)	(1,291)
Net cash used in investing activities	(37,480)	(138,190)
Cash flows from financing activities:		
Proceeds from borrowings	8,657	1,907,577
Repayments of debt	(21,993)	(1,602,164)
Proceeds from revolving credit facility	710,000	134,000
Repayments of revolving credit facility	(710,000)	(228,000)
Repayments of finance lease liabilities	(1,043)	(1,133)
Increase in debt discounts and issuance costs	(43)	(45,151)
Proceeds from stock option exercises	3,190	—
Other	(476)	—
Net cash (used in) provided by financing activities	(11,708)	165,129
Effect of exchange rates on cash and cash equivalents	(700)	15
Increase in cash and cash equivalents	75,432	11,632
Cash and cash equivalents – beginning of period	31,637	33,195
Cash and cash equivalents – end of period	\$ 107,069	\$ 44,827

See notes to unaudited condensed consolidated financial statements.

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

1. Nature of Business and Basis of Presentation

Nature of Business

Life Time Group Holdings, Inc. (collectively with its direct and indirect subsidiaries, “Life Time,” “we,” “our,” or the “Company”) is a holding company incorporated in the state of Delaware. Life Time Group Holdings, Inc. changed its name from LTF Holdings, Inc. effective on June 21, 2021. As a holding company, Life Time Group Holdings, Inc. does not have its own independent assets or business operations, and all of our assets and business operations are through Life Time, Inc. and its direct and indirect subsidiaries. We are primarily dedicated to providing premium health, fitness and wellness experiences at our athletic country club destinations and via our comprehensive digital platform and portfolio of iconic athletic events – all with the objective of inspiring healthier, happier lives. We design, build and operate our athletic country club destinations that are distinctive and large, multi-use sports and athletic, professional fitness, family recreation and spa centers in a resort-like environment. As of September 30, 2022, we operated 156 centers in 29 states and one Canadian province.

COVID-19 Impact

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a pandemic, the United States declared a National Public Health Emergency and we closed all of our centers based on orders and advisories from federal, state and local governmental authorities regarding COVID-19. We re-opened our first center on May 8, 2020 and continued to re-open our centers as state and local governmental authorities permitted. With the exception of our three Canadian centers, which were temporarily closed during a portion of January 2022, all of our centers were open during the three and nine months ended September 30, 2022.

Initial Public Offering

On October 12, 2021, Life Time Group Holdings, Inc. consummated its initial public offering (“IPO”) of 9.0 million shares of its common stock at a public offering price of \$18.00 per share, resulting in total gross proceeds of \$162.0 million, which was reduced by underwriting discounts and other offering and issuance expenses of \$28.0 million, of which approximately \$0.3 million was recognized during 2022, for net proceeds of \$133.7 million. The shares of the Company’s common stock began trading on The New York Stock Exchange (the “NYSE”) under the symbol “LTH” on October 7, 2021. A registration statement on Form S-1 relating to the offering of these securities was declared effective by the Securities and Exchange Commission (the “SEC”) on October 6, 2021.

On November 1, 2021, Life Time Group Holdings, Inc. consummated the sale of nearly 1.6 million additional shares of its common stock at the IPO price of \$18.00 per share pursuant to the partial exercise by the underwriters of their over-allotment option, resulting in total gross proceeds of approximately \$28.4 million, which was reduced by underwriting discounts and other offering expenses of \$1.3 million, for net proceeds of \$27.1 million. We used these net proceeds, as well as the remaining portion of the net proceeds we received in connection with the IPO after the \$575.7 million (including a \$5.7 million prepayment penalty) partial pay down of our Term Loan Facility (as defined in Note 6, Debt), for general corporate purposes.

Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of Life Time Group Holdings, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”), which require 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. Actual 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 revise the recorded estimates when better information is available, facts change, or we can determine actual amounts. These revisions can affect our consolidated operating results. All adjustments (consisting of normal recurring adjustments) considered necessary to fairly present our consolidated financial position, results of operations and cash flows for the periods have been included.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. A summary of our significant accounting policies is included in Note 2 to our annual consolidated financial statements.

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

2. Summary of Significant Accounting Policies

Recently Adopted Accounting Pronouncements

In November 2021, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standard Update (“ASU”) 2021-10, “Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance,” to increase the transparency of government assistance, including with respect to the disclosure of the types of assistance an entity receives, an entity’s method of accounting for government assistance and the effect of the assistance on an entity’s financial statements. The amendments are to be applied either (1) prospectively to all applicable transactions that are reflected in financial statements at the date of initial application and new transactions that are entered into after the date of initial application or (2) retrospectively to those transactions. We adopted this ASU as of January 1, 2022 and applied it prospectively. The adoption of this ASU did not have any impact on our financial position, results of operations or cash flows.

New Accounting Pronouncements Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contract modifications, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. In response to the concerns about structural risks of interbank offered rates (“IBORs”) and, particularly, the risk of cessation of the London Interbank Offered Rate (“LIBOR”), regulators in several jurisdictions around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction-based and less susceptible to manipulation. ASU 2020-04 provides companies with optional guidance to ease the potential accounting burden associated with transitioning away from reference rates that are expected to be discontinued. In January 2021, the FASB issued ASU 2021-01, “Reference Rate Reform (Topic 848): Scope,” which provides implementation guidance associated with ASU 2020-04 and clarifies certain optional expedients in Topic 848. The guidance in ASU 2020-04 is effective for all entities as of March 12, 2020 and may be applied through December 31, 2022. We are still evaluating the impact of ASU 2020-04, but we do not expect that the adoption of this ASU will have a material impact on our consolidated financial statements.

Fair Value Measurements

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

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

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

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

The carrying amounts related to cash and cash equivalents, accounts receivable, income tax receivable, accounts payable and accrued liabilities approximate fair value.

Fair Value Measurements on a Recurring Basis. We had no material remeasurements of such assets or liabilities to fair value during the three and nine months ended September 30, 2022 and 2021.

Financial Assets and Liabilities. At September 30, 2022, the fair value of our outstanding Term Loan Facility, Secured Notes and Unsecured Notes (each of which is defined in Note 6, Debt) was approximately \$269.9 million, \$839.2 million and \$404.8 million, respectively. At December 31, 2021, the fair value of our outstanding Term Loan Facility, Secured Notes and Unsecured Notes was approximately \$277.0 million, \$957.4 million and \$494.0 million, respectively. The carrying amount of our outstanding Mortgage Notes and Construction Loan (each of which is defined in Note 6, Debt) at September 30, 2022 and December 31, 2021 approximates fair value. The fair value of our debt is based on the amount of future cash flows discounted using rates we would currently be able to realize for similar instruments of comparable maturity. If our long-term debt were recorded at fair value, it would be classified as Level 2 in the fair value hierarchy. For more information regarding our debt, see Note 6, Debt.

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

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

During both the three and nine months ended September 30, 2022 and 2021, we determined that certain projects were no longer deemed viable for construction, and that the previously capitalized site development costs associated with these projects were impaired. Accordingly, as it relates to these long-lived assets, we recognized impairment charges of \$0.2 million and \$0.7 million for the three months ended September 30, 2022 and 2021, respectively, and \$0.2 million and \$2.5 million for the nine months ended September 30, 2022 and 2021, respectively. Fair value remeasurements are based on significant unobservable inputs (Level 3). Fixed asset fair values are primarily derived using a discounted cash flow ("DCF") model to estimate the present value of net cash flows that the asset or asset group was expected to generate. The key inputs to the DCF model generally include our forecasts of net cash generated from revenue, expenses and other significant cash outflows, such as capital expenditures, as well as an appropriate discount rate.

3. Supplemental Balance Sheet and Cash Flow Information

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

	September 30, 2022	December 31, 2021
Property held for sale	\$ 4,988	\$ —
Construction contract receivables	8,106	14,949
Deferred membership origination costs	972	3,150
Prepaid expenses	30,763	30,784
Prepaid expenses and other current assets	<u>\$ 44,829</u>	<u>\$ 48,883</u>

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	September 30, 2022	December 31, 2021
Real estate taxes	\$ 39,170	\$ 32,955
Accrued interest	31,846	35,006
Payroll liabilities	27,133	23,243
Utilities	9,945	7,022
Self-insurance accruals	20,303	18,921
Corporate accruals	32,772	24,741
Current maturities of finance lease liabilities	921	1,374
Other	5,367	4,658
Accrued expenses and other current liabilities	<u>\$ 167,457</u>	<u>\$ 147,920</u>

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

Supplemental Cash Flow Information

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

	Nine Months Ended September 30,	
	2022	2021
Accounts receivable	\$ (6,056)	\$ (3,604)
Center operating supplies and inventories	(3,140)	(3,836)
Prepaid expenses and other current assets	2,166	(3,243)
Income tax receivable	3,533	4,372
Other assets	638	1,950
Accounts payable	2,069	17,709
Accrued expenses and other current liabilities	19,954	60,270
Deferred revenue	(1,467)	(16,777)
Other liabilities	(3,642)	773
Changes in operating assets and liabilities	<u>\$ 14,055</u>	<u>\$ 57,614</u>

Additional supplemental cash flow information is as follows:

	Nine Months Ended September 30,	
	2022	2021
Net cash paid for income taxes, net of refunds received	\$ 3,628	\$ 221
Cash payments for interest, net of capitalized interest	82,607	82,228
Capitalized interest	11,228	2,476
Non-cash activity:		
Issuance of Series A Preferred Stock (as defined in Note 10, Income (Loss) Per Share) in connection with the extinguishment of a related party secured loan	—	108,591

See Note 7, Leases, for supplemental cash flow information associated with our lease arrangements for the three and nine months ended September 30, 2022 and 2021.

4. Goodwill and Intangibles

The goodwill balance was \$1,233.2 million at both September 30, 2022 and December 31, 2021.

Intangible assets consisted of the following:

	September 30, 2022		
	Gross	Accumulated Amortization	Net
Trade name	\$ 163,000	\$ —	\$ 163,000
Other	16,735	(6,243)	10,492
Total intangible assets	<u>\$ 179,735</u>	<u>\$ (6,243)</u>	<u>\$ 173,492</u>
	December 31, 2021		
	Gross	Accumulated Amortization	Net
Trade name	\$ 163,000	\$ —	\$ 163,000
Other	16,327	(5,086)	11,241
Total intangible assets	<u>\$ 179,327</u>	<u>\$ (5,086)</u>	<u>\$ 174,241</u>

Other intangible assets at September 30, 2022 and December 31, 2021 include a facility license as well as trade names and customer relationships associated with our race registration and timing businesses.

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

Amortization expense associated with intangible assets for the three months ended September 30, 2022 and 2021 was \$0.3 million and \$0.2 million, respectively, and was \$1.2 million and \$0.6 million for the nine months ended September 30, 2022 and 2021, respectively. Amortization expense associated with intangible assets is included in Depreciation and amortization in our condensed consolidated statements of operations.

There were no goodwill or intangible asset impairment charges recorded during the three and nine months ended September 30, 2022 and 2021.

5. Revenue

Revenue associated with our membership dues, enrollment fees, and certain services from our in-center businesses is recognized over time as earned. Revenue associated with products and services offered in our cafes and spas, as well as through e-commerce, is recognized at a point in time. The following is a summary of revenue, by major revenue stream, that we recognized during the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Membership dues and enrollment fees	\$ 335,717	\$ 261,033	\$ 916,895	\$ 653,584
In-center revenue	144,278	110,967	390,603	280,106
Total center revenue	479,995	372,000	1,307,498	933,690
Other revenue	16,386	13,040	42,404	23,835
Total revenue	\$ 496,381	\$ 385,040	\$ 1,349,902	\$ 957,525

The timing associated with the revenue we recognized during the three months ended September 30, 2022 and 2021 is as follows:

	Three Months Ended September 30, 2022			Three Months Ended September 30, 2021		
	Center Revenue	Other Revenue	Total Revenue	Center Revenue	Other Revenue	Total Revenue
Goods and services transferred over time	\$ 419,758	\$ 16,386	\$ 436,144	\$ 324,350	\$ 13,040	\$ 337,390
Goods and services transferred at a point in time	60,237	—	60,237	47,650	—	47,650
Total revenue	\$ 479,995	\$ 16,386	\$ 496,381	\$ 372,000	\$ 13,040	\$ 385,040

The timing associated with the revenue we recognized during the nine months ended September 30, 2022 and 2021 is as follows:

	Nine Months Ended September 30, 2022			Nine Months Ended September 30, 2021		
	Center Revenue	Other Revenue	Total Revenue	Center Revenue	Other Revenue	Total Revenue
Goods and services transferred over time	\$ 1,137,643	\$ 42,404	\$ 1,180,047	\$ 813,425	\$ 23,835	\$ 837,260
Goods and services transferred at a point in time	169,855	—	169,855	120,265	—	120,265
Total revenue	\$ 1,307,498	\$ 42,404	\$ 1,349,902	\$ 933,690	\$ 23,835	\$ 957,525

Contract liabilities represent payments or consideration received in advance for goods or services that the Company has not yet transferred to the customer. Contract liabilities consist primarily of deferred revenue for fees collected in advance for membership dues, enrollment fees, personal training and other center services offerings, as well as our media and athletic events. Contract liabilities at September 30, 2022 and December 31, 2021 were \$34.4 million and \$35.9 million, respectively.

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Contract liabilities that will be recognized within one year are classified as deferred revenue in our condensed consolidated balance sheets. Deferred revenue at September 30, 2022 and December 31, 2021 was \$32.3 million and \$33.9 million, respectively, and consists primarily of prepaid membership dues, personal training and other in-center services, and enrollment fees. The \$1.6 million decrease was primarily driven by deferred registrations received in prior periods for athletic events that took place in the current period.

Contract liabilities that will be recognized in a future period greater than one year are classified as a component of Other liabilities in our condensed consolidated balance sheets. Long-term contract liabilities at September 30, 2022 and December 31, 2021 were \$2.1 million and \$2.0 million, respectively, and consist primarily of deferred enrollment fees.

6. Debt

Debt consisted of the following:

	September 30, 2022	December 31, 2021
Term Loan Facility, maturing December 2024	\$ 273,625	\$ 273,625
Revolving Credit Facility, maturing December 2026	—	—
Secured Notes, maturing January 2026	925,000	925,000
Unsecured Notes, maturing April 2026	475,000	475,000
Mortgage Notes, various maturities	123,579	145,572
Construction Loan, maturing February 2026	8,657	—
Other debt	4,122	4,122
Fair value adjustment	1,327	1,818
Total debt	1,811,310	1,825,137
Less unamortized debt discounts and issuance costs	(21,016)	(25,891)
Total debt less unamortized debt discount and issuance costs	1,790,294	1,799,246
Less current maturities	(15,046)	(23,527)
Long-term debt, less current maturities	\$ 1,775,248	\$ 1,775,719

Senior Secured Credit Facility

In June 2015, Life Time, Inc. and certain of our other wholly-owned subsidiaries entered into a senior secured credit facility with a group of lenders led by Deutsche Bank AG as the administrative agent. On January 22, 2021, Life Time, Inc. and certain of our other wholly-owned subsidiaries entered into an eighth amendment to the credit agreement governing our senior secured credit agreement (the "Credit Agreement"). Pursuant to such eighth amendment to the Credit Agreement, Life Time, Inc. and such other subsidiaries, among other things, (i) entered into a new term loan facility (the "Term Loan Facility") and incurred new term loans in an aggregate principal amount of \$850.0 million and (ii) extended the maturity on the vast majority of commitments under the revolving portion of our senior secured credit facility (the "Revolving Credit Facility" and together with the Term Loan Facility, the "Credit Facilities"). On December 2, 2021, Life Time, Inc. and certain of our other wholly-owned subsidiaries entered into a ninth amendment to the Credit Agreement. Pursuant to such ninth amendment, Life Time, Inc. and such other subsidiaries increased the commitments under the Revolving Credit Facility to \$475.0 million and extended the maturity of the Revolving Credit Facility to December 2, 2026, except that the maturity will be: (a) September 22, 2024 if we have not refinanced or amended the Term Loan Facility in a manner set forth in such amendment by such date; (b) October 16, 2025 if we have at least \$100.0 million remaining outstanding on the senior secured notes (the "Secured Notes") that mature in January 2024 on such date; and (c) January 14, 2026 if we have at least \$100.0 million remaining outstanding on the senior unsecured notes (the "Unsecured Notes") that mature in April 2024 on such date.

Upon the exercise of an accordion feature and subject to certain conditions, borrowings under the Credit Facilities may be increased subject, in certain cases, to meeting a first lien net leverage ratio. The Credit Facilities are secured by a first priority lien (on a pari-passu basis with the Secured Notes described below) on substantially all of our assets.

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Term Loan Facility

The \$850.0 million Term Loan Facility, which matures in December 2024, initially amortized at 0.25% quarterly, which required us to make three mandatory quarterly principal repayments of approximately \$2.1 million during the year ended December 31, 2021. On October 13, 2021, we used a portion of net proceeds we received in connection with the IPO to pay down \$575.7 million (including a \$5.7 million prepayment penalty) of our Term Loan Facility. As a result of the pay down, we are no longer required to make quarterly principal payments on the Term Loan Facility prior to its maturity. At September 30, 2022, the Term Loan Facility loan balance was \$273.6 million, with interest due at intervals ranging from 30 to 180 days at interest rates ranging from LIBOR plus 4.75% or base rate plus 3.75%, in either case subject to a 1.00% rate floor.

Revolving Credit Facility

Our Revolving Credit Facility provides for a \$475.0 million revolver and matures in December 2026, or earlier as detailed above under “—Senior Secured Credit Facility.” At September 30, 2022, there were no outstanding borrowings on the Revolving Credit Facility and there were \$31.7 million of outstanding letters of credit, resulting in total revolver availability of \$443.3 million, which was available at intervals ranging from 30 to 180 days at interest rates ranging from LIBOR plus 4.25% or base rate plus 3.25%.

The weighted average interest rate and debt outstanding under the Revolving Credit Facility for the nine months ended September 30, 2022 was 4.97% and \$43.1 million, respectively. The highest month-end balance during that same period was \$100.0 million.

Secured Notes

On January 22, 2021, Life Time, Inc. issued the Secured Notes in an aggregate principal amount of \$25.0 million. These notes mature in January 2026 and interest only payments are due semi-annually in arrears at 5.75%. Life Time, Inc. has the option to call the Secured Notes, in whole or in part, on one or more occasions, beginning on January 15, 2023, subject to the payment of a redemption price that includes a call premium that varies depending on the year of redemption. In addition, at any time prior to January 15, 2023, Life Time, Inc. may redeem up to 40.00% of the aggregate principal amount of the Secured Notes outstanding with the net proceeds of certain equity offerings by us at a redemption price equal to 105.75% of the principal amount of the Secured Notes, plus accrued and unpaid interest, if any, to, but not including, the redemption date. The Secured Notes and the related guarantees are our senior secured obligations and are secured on a first-priority basis by security interests on substantially all of our assets.

Unsecured Notes

On February 5, 2021, Life Time, Inc. issued the Unsecured Notes in the original principal amount of \$75.0 million. The Unsecured Notes mature in April 2026 and interest only payments are due semi-annually in arrears at 8.00%. Life Time, Inc. has the option to redeem the Unsecured Notes, in whole or in part, on one or more occasions, beginning on February 1, 2023, subject to the payment of a redemption price that includes a call premium that varies depending on the year of redemption. In addition, at any time prior to February 1, 2023, Life Time, Inc. may redeem up to 40.00% of the aggregate principal amount of the Unsecured Notes outstanding with the net proceeds of certain equity offerings by us at a redemption price equal to 108.00% of the principal amount of the Unsecured Notes, plus accrued and unpaid interest, if any, to, but not including, the redemption date. The Unsecured Notes and the related guarantees are our general senior unsecured obligations and will rank equally in right of payment with all of our existing and future senior indebtedness without giving effect to collateral arrangements.

Mortgage Notes

Certain of our subsidiaries have entered into mortgage facilities with various financial institutions (collectively, the “Mortgage Notes”), which are collateralized by certain of our related real estate and buildings, including one of our corporate headquarters properties. The Mortgage Notes have varying maturity dates from February 2024 through August 2027 and carried a weighted average interest rate of 4.72% and 4.70% at September 30, 2022 and December 31, 2021, respectively. Payments of principal and interest on each of the Mortgage Notes are payable monthly on the first business day of each month. The Mortgage Notes contain customary affirmative covenants, including but not limited to, payment of property taxes, granting of lender access to inspect the properties, maintenance of the properties, providing financial statements, providing estoppel certificates and lender consent to leases. The Mortgage Notes also contain various customary negative covenants, including, but not limited to, restrictions on transferring the property, change in control of the borrower and changing the borrower’s business or principal place of business. As of September 30, 2022, we were

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either in compliance in all material respects with the covenants associated with the Mortgage Notes or the covenants were not applicable.

During the nine months ended September 30, 2022, we closed on a sale-leaseback transaction that included certain properties that served as collateral for one of the Mortgage Notes. Accordingly, we used a portion of the net cash proceeds we received from the sale-leaseback transaction to pay off in full the then outstanding principal balance of \$4.6 million associated with this Mortgage Note. For more information regarding the sale-leaseback transactions that were consummated during the nine months ended September 30, 2022, see Note 7, Leases.

Construction Loan

On January 22, 2021, we closed on a construction loan (the "Construction Loan") providing up to \$8.0 million to partially finance the construction of a Life Time Living location. The Construction Loan has a maturity date of February 15, 2026 and is collateralized by the property. Borrowings under the Construction Loan bear interest at a variable annual rate of no less than 4.80%. Interest only payments are due monthly beginning April 15, 2022 and continuing through February 15, 2024. Beginning March 15, 2024, based on the principal balance due as of February 15, 2024, monthly principal and interest installment payments will be due in an amount sufficient to fully amortize the principal balance at maturity. At September 30, 2022, there were \$8.7 million of outstanding borrowings on the Construction Loan. There were no outstanding borrowings as of December 31, 2021.

Debt Discounts and Issuance Costs

Unamortized debt discounts and issuance costs associated with the Term Loan Facility, Secured Notes, Unsecured Notes and Construction Loan of \$1.0 million and \$25.9 million are included in Long-term debt, net of current portion on our condensed consolidated balance sheets at September 30, 2022 and December 31, 2021, respectively.

Unamortized revolver-related debt issuance costs of \$3.3 million and \$4.0 million are included in Other assets on our condensed consolidated balance sheets at September 30, 2022 and December 31, 2021, respectively.

Debt Covenants

We are required to comply with certain affirmative and restrictive covenants under our Credit Facilities, Secured Notes and Unsecured Notes. We are also required to comply with a first lien net leverage ratio covenant under the Revolving Credit Facility, which requires us to maintain a first lien net leverage ratio, if 30.00% or more of the Revolving Credit Facility commitments are outstanding shortly after the end of any fiscal quarter (excluding all cash collateralized undrawn letters of credit and other undrawn letters of credit up to \$20.0 million). During the first three quarterly test periods of 2022, certain financial measures used in the calculation of the first lien net leverage ratio will be calculated on a pro forma basis by annualizing the respective financial measures recognized during those test periods.

As of September 30, 2022, we were either in compliance in all material respects with the covenants under the Credit Facilities, or the covenants were not applicable.

Future Maturities of Long-Term Debt

Aggregate annual future maturities of long-term debt, excluding unamortized discounts, issuance costs and fair value adjustments, at September 30, 2022 were as follows:

October 2022 through September 2023	\$	15,046
October 2023 through September 2024		64,033
October 2024 through September 2025		286,140
October 2025 through September 2026		1,421,714
October 2026 through September 2027		19,953
Thereafter		3,097
Total future maturities of long-term debt	\$	<u>1,809,983</u>

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7. Leases
Lease Cost

Lease cost included in our condensed consolidated statements of operations for the three months ended September 30, 2022 and 2021 consisted of the following:

	Three Months Ended September 30,		Classification in Condensed Consolidated Statements of Operations
	2022	2021	
Lease cost:			
Operating lease cost	\$ 60,761	\$ 50,987	Rent
Short-term lease cost	610	281	Rent
Variable lease cost	1,842	1,245	Rent
Finance lease cost:			
Amortization of right-of-use assets	336	380	Depreciation and amortization
Interest on lease liabilities	22	42	Interest expense, net of interest income
Total lease cost	<u>\$ 63,571</u>	<u>\$ 52,935</u>	

Lease cost included in our condensed consolidated statements of operations for the nine months ended September 30, 2022 and 2021 consisted of the following:

	Nine Months Ended September 30,		Classification in Condensed Consolidated Statements of Operations
	2022	2021	
Lease cost:			
Operating lease cost	\$ 173,670	\$ 150,475	Rent
Short-term lease cost	1,485	747	Rent
Variable lease cost	4,011	3,330	Rent
Finance lease cost:			
Amortization of right-of-use assets	1,026	1,119	Depreciation and amortization
Interest on lease liabilities	79	140	Interest expense, net of interest income
Total lease cost	<u>\$ 180,271</u>	<u>\$ 155,811</u>	

Operating and Finance Lease Right-of-Use Assets and Lease Liabilities

Operating and finance lease right-of-use assets and lease liabilities were as follows:

	September 30, 2022	December 31, 2021	Classification on Condensed Consolidated Balance Sheets
	Lease right-of-use assets:		
Operating leases	\$ 2,148,828	\$ 1,864,528	Operating lease right-of-use assets
Finance leases ⁽¹⁾	1,180	2,073	Other assets
Total lease right-of-use assets	<u>\$ 2,150,008</u>	<u>\$ 1,866,601</u>	
Lease liabilities:			
Current			
Operating leases	\$ 50,746	\$ 46,315	Current maturities of operating lease liabilities
Finance leases	921	1,374	Accrued expenses and other current liabilities
Non-Current			
Operating leases	2,206,753	1,909,883	Operating lease liabilities, net of current portion
Finance leases	298	757	Other liabilities
Total lease liabilities	<u>\$ 2,258,718</u>	<u>\$ 1,958,329</u>	

(1) Finance lease right-of-use assets were reported net of accumulated amortization of \$2.8 million and \$2.4 million at September 30, 2022 and December 31, 2021, respectively.

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Remaining Lease Terms and Discount Rates

The weighted-average remaining lease terms and discount rates associated with our operating and finance lease liabilities at September 30, 2022 were as follows:

	September 30, 2022
Weighted-average remaining lease term ⁽¹⁾	
Operating leases	18.0 years
Finance leases	1.4 years
Weighted-average discount rate	
Operating leases	8.23%
Finance leases	6.06%

(1) The weighted-average remaining lease term associated with our operating and finance lease liabilities does not include all of the optional renewal periods available to us under our current lease arrangements. Rather, the weighted-average remaining lease term only includes periods covered by an option to extend a lease if we are reasonably certain to exercise that option.

Sale-Leaseback Transactions

During the nine months ended September 30, 2022, we entered into and consummated sale-leaseback transactions involving nine properties with two unrelated third parties. Under these transactions, we sold nine properties with a combined net book value of \$285.6 million for \$375.0 million, which was reduced by transaction costs of \$1.5 million, for net cash proceeds of \$373.5 million. The estimated fair value of the properties sold was \$385.1 million. Accordingly, the aggregate sales price associated with these arrangements was increased by \$10.1 million, which resulted in the recognition of a gain of \$98.0 million on these transactions. This gain is included in Other operating (income) expense in our condensed consolidated statements of operations.

Supplemental Cash Flow Information

Supplemental cash flow information associated with our operating and finance leases is as follows:

	Nine Months Ended September 30,	
	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 146,366	\$ 137,942
Operating cash flows from finance leases	79	140
Financing cash flows from finance leases	1,043	1,133
Non-cash information:		
Right-of-use assets obtained in exchange for initial lease liabilities:		
Operating leases	316,071	194,021
Finance leases	142	1,150
Right-of-use asset adjustments recognized as a result of the remeasurement of existing lease liabilities:		
Operating leases	7,366	(5,357)
Non-cash increase in operating lease right-of-use assets associated with below-market sale-leaseback transactions	10,090	9,500

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Maturities of Operating and Finance Lease Liabilities

The maturities associated with our operating and finance lease liabilities at September 30, 2022 are as follows:

	Operating Leases	Finance Leases	Total
October 2022 through September 2023	\$ 220,452	\$ 964	\$ 221,416
October 2023 through September 2024	235,766	262	236,028
October 2024 through September 2025	238,287	43	238,330
October 2025 through September 2026	241,690	2	241,692
October 2026 through September 2027	242,275	1	242,276
Thereafter	3,316,891	—	3,316,891
Total lease payments	4,495,361	1,272	4,496,633
Less: Imputed interest	2,237,862	53	2,237,915
Present value of lease liabilities	\$ 2,257,499	\$ 1,219	\$ 2,258,718

8. Stockholders' Equity***2021 Equity Incentive Plan***

In connection with the IPO and effective October 6, 2021, we adopted the 2021 Incentive Award Plan (the "2021 Equity Plan"), under which we may grant cash and equity-based incentive awards to our employees, consultants and directors. The maximum number of shares of our common stock available for issuance under the 2021 Equity Plan is equal to the sum of (i) approximately 14.5 million shares of our common stock, (ii) an annual increase on the first day of each year beginning in 2022 and ending in and including 2031, equal to the lesser of (A) 4% of the outstanding shares of our common stock on the last day of the immediately preceding fiscal year and (B) such lesser amount as determined by our board of directors, and (iii) the approximately 1.0 million shares of our common stock that were available for issuance under the 2015 Equity Plan as of October 6, 2021. Effective January 1, 2022, the number of shares of our common stock available for issuance under the 2021 Equity Plan increased by approximately 7.7 million shares pursuant to the evergreen feature described in part (ii) of the immediately preceding sentence. Additionally, the number of shares of our common stock available for issuance under the 2021 Equity Plan may increase with respect to awards under the 2015 Equity Plan and any other prior equity incentive plans of the Company or its predecessor which are forfeited or lapse unexercised and which following the effective date of the 2021 Equity Plan are not issued under such prior plan; provided, however, no more than 14.5 million shares may be issued upon the exercise of incentive stock options. The share reserve formula under the 2021 Equity Plan is intended to provide us with the continuing ability to grant equity awards to eligible employees, directors and consultants for the ten-year term of the 2021 Equity Plan.

As of September 30, 2022, approximately 19.1 million shares were available for future awards to employees and other eligible participants under the 2021 Equity Plan.

2021 Employee Stock Purchase Plan

In connection with the IPO and effective October 6, 2021, we adopted the 2021 Employee Stock Purchase Plan (the "ESPP"). The ESPP is designed to allow our eligible employees to purchase shares of our common stock, at periodic intervals, with their accumulated payroll deductions. The ESPP consists of two components: an Internal Revenue Service ("IRS") Code section 423 ("Section 423") component, which is intended to qualify under Section 423 of the IRS Code and a non-Section 423 component, which need not qualify under Section 423 of the IRS Code. The aggregate number of shares of our common stock that has initially been reserved for issuance under the ESPP is equal to (i) approximately 2.9 million shares of our common stock, and (ii) an annual increase on the first day of each year beginning in 2022 and ending in and including 2031, equal to the lesser of (A) 1% of the aggregate number of shares of our common stock outstanding on the final day of the immediately preceding calendar year and (B) such smaller number of our shares of common stock as determined by our board of directors; provided that in no event will more than 29.0 million shares of our common stock be available for issuance under the Section 423 component of the ESPP. Our board of directors determined that no additional shares would become available under the ESPP as of January 1, 2022 pursuant to the evergreen feature described in part (ii) of the immediately preceding sentence. Our board of directors or the compensation committee will have authority to interpret the terms of the ESPP and determine eligibility of participants.

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The ESPP will permit participants to purchase common stock through payroll deductions of up to 5% of their eligible compensation, which includes a participant's gross base compensation for services to us. On the first trading day of each offering period, each participant will automatically be granted an option to purchase shares of our common stock. The option will expire at the end of the applicable offering period and will be exercised on each purchase date during such offering period to the extent of the payroll deductions accumulated during the offering period. We expect to have consecutive offering periods of approximately six months in length commencing on each June 1 and December 1 during the term of the ESPP. The purchase price for a share of our common stock will be 90% of the fair market value of a share on the enrollment date for such offering period or on the purchase date, whichever is lower, and subject to adjustment by our board of directors or compensation committee. Participants may voluntarily end their participation in the ESPP prior to the end of the applicable offering period and will be paid their accrued payroll deductions that have not yet been used to purchase shares of common stock. Upon exercise, the participant will purchase the number of whole shares that his or her accumulated payroll deductions will buy at the option purchase price, subject to the certain participation limitations. Participation will end automatically upon a participant's termination of employment. No offering periods commenced under the ESPP during the three and nine months ended September 30, 2022.

Stock Options

During the nine months ended September 30, 2022, the Company granted approximately 1.0 million stock option awards under the 2021 Equity Plan. These options have a 10-year contractual term from the date of grant and vest in four ratable annual installments on each of the first four anniversaries of the grant date, subject to continuous employment or service from the grant date through the applicable vesting date. The exercise price associated with each of these awards is not less than the fair market value per share of our common stock at the time of grant. The fair value of the options granted during the nine months ended September 30, 2022 was calculated using the Black-Scholes option pricing model. Approximately 0.2 million and 0.3 million of stock options were exercised during the three and nine months ended September 30, 2022, respectively. No stock options were exercised during the three and nine months ended September 30, 2021. As of September 30, 2022, options to purchase approximately 25.1 million shares of our common stock were outstanding, of which approximately 21.8 million were exercisable.

Share-based compensation expense associated with stock options for the three months ended September 30, 2022 was \$2.7 million, of which \$0.2 million, \$2.4 million and \$0.1 million is included in Center operations, General, administrative and marketing and Other operating (income) expense, respectively, in our condensed consolidated statements of operations. Share-based compensation expense associated with stock options for the nine months ended September 30, 2022 was \$17.4 million, of which \$1.5 million, \$15.4 million and \$0.5 million is included in Center operations, General, administrative and marketing and Other operating (income) expense, respectively, in our condensed consolidated statements of operations. No share-based compensation expense related to stock options was recognized during the three and nine months ended September 30, 2021. As of September 30, 2022, unrecognized share-based compensation expense related to stock options was approximately \$0.1 million, which is expected to be recognized over a weighted average remaining period of 2.9 years.

Restricted Stock Units

During the nine months ended September 30, 2022, the Company granted approximately 1.6 million restricted stock unit awards under the 2021 Equity Plan, of which approximately 1.3 million are time vesting awards and approximately 0.3 million are time vesting awards with a performance qualifier. Of the 1.6 million restricted stock unit awards that were granted during the nine months ended September 30, 2022, approximately 1.5 million vest in four ratable annual installments, approximately 0.1 million vest in two ratable annual installments and less than 0.1 million vest in approximately one annual installment, in each case subject to continuous employment or service from the grant date through the applicable vesting date. The majority of the awards that vest in two ratable annual installments were granted to executives as part of their incentive compensation for 2021, which had been recognized as an accrued compensation liability at December 31, 2021. The fair value of these restricted stock unit awards issued to executives was approximately \$0.5 million. Accordingly, effective with the grant date associated with these restricted stock units, we recognized a \$0.5 million decrease in Accrued expenses and other current liabilities and a \$0.5 million increase in Additional paid-in capital on our condensed consolidated balance sheets. At September 30, 2022, approximately 2.8 million restricted stock units were outstanding.

Share-based compensation expense associated with restricted stock units for the three months ended September 30, 2022 was \$3.1 million, of which \$0.4 million, \$2.6 million and \$0.1 million is included in Center operations, General, administrative and marketing and Other operating (income) expense, respectively, in our condensed consolidated statements of operations. Share-based compensation expense associated with restricted stock units for the nine months ended September 30, 2022 was \$10.8 million, of which \$0.9 million, \$9.7 million and \$0.2 million is included in Center

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operations, General, administrative and marketing and Other operating (income) expense, respectively, in our condensed consolidated statements of operations. Share-based compensation expense associated with restricted stock units for the three months ended September 30, 2021 was \$1.8 million, all of which is included in General, administrative and marketing in our condensed consolidated statements of operations. Share-based compensation expense associated with restricted stock units for the nine months ended September 30, 2021 was \$2.9 million, all of which is included in General, administrative and marketing in our condensed consolidated statements of operations. As of September 30, 2022, unrecognized share-based compensation expense related to restricted stock units was approximately \$5.3 million, which is expected to be recognized over a weighted average remaining period of 3.1 years.

Restricted Series A Preferred Stock

Share-based compensation expense associated with a restricted Series A convertible participating preferred stock (“Series A Preferred Stock”) award for the three and nine months ended September 30, 2021 was \$2.3 million and \$4.0 million, respectively, all of which is included in General, administrative and marketing in our condensed consolidated statements of operations. Upon the consummation of the IPO, the shares of restricted Series A Preferred Stock associated with this award automatically converted into shares of restricted common stock. As of the conversion date, all share-based compensation expense related to this award of restricted Series A Preferred Stock had been recognized. No share-based compensation expense related to restricted Series A Preferred Stock was recognized during the three and nine months ended September 30, 2022.

Restricted Common Stock

Share-based compensation expense associated with the shares of restricted common stock that were issued upon the automatic conversion of the restricted Series A Preferred Stock, as noted immediately above in “—Restricted Series A Preferred Stock,” for the nine months ended September 30, 2022 was \$5.0 million, all of which is included in General, administrative and marketing in our condensed consolidated statements of operations. These restricted shares were fully vested as of April 4, 2022, and there is no unrecognized share-based compensation expense related to these shares. No share-based compensation expense related to restricted common stock was recognized during the three and nine months ended September 30, 2021.

9. Income Taxes

For the three months ended September 30, 2022, the provision for income taxes was \$3.4 million. For the nine months ended September 30, 2022, the benefit from income taxes was \$3.5 million. The effective tax rate was 12.1% and 18.2% for these same periods, respectively. For the three and nine months ended September 30, 2021, the benefit from income taxes was \$12.0 million and \$58.9 million, respectively. The effective tax rate was 20.9% and 17.7% for these same periods, respectively. The effective tax rate applied to our pre-tax income for the three months ended September 30, 2022 is lower than our federal statutory rate of 21% and reflects a decrease in the projected valuation allowance associated with certain of our deferred tax assets, partially offset by deductibility limitations associated with executive compensation and an increase in the state income tax provision. The effective tax rate applied to our pre-tax loss for the nine months ended September 30, 2022 is lower than our federal statutory rate of 21% and reflects deductibility limitations associated with executive compensation, partially offset by a decrease in the projected valuation allowance associated with certain of our deferred tax assets.

Management regularly evaluates the future realization of deferred tax assets and provides a valuation allowance, if considered necessary, based on such evaluation. As part of the evaluation, management has evaluated taxable income in carryback years, future reversals of taxable temporary differences, feasible tax planning strategies and future expectations of income. Based upon this analysis, a decrease to the valuation allowance of \$4.5 million and \$3.4 million was recorded during the three and nine months ended September 30, 2022, respectively, to adjust our net deferred tax assets to an amount that is more likely than not to be realized.

10. Income (Loss) Per Share

For the three and nine months ended September 30, 2022, our potentially dilutive securities include stock options and restricted stock units. For the three and nine months ended September 30, 2021, our potentially dilutive securities include stock options, restricted stock units, outstanding shares of Series A Preferred Stock and unvested restricted Series A Preferred Stock. Due to the net loss that we recognized during the nine months ended September 30, 2022 and the three and nine months ended September 30, 2021, the potentially dilutive shares of common stock associated with these equity-based securities were determined to be antidilutive and, therefore, are excluded from the computation of diluted loss per share for the nine months ended September 30, 2022 and the three and nine months ended September 30, 2021.

LIFE TIME GROUP HOLDINGS, INC. AND SUBSIDIARIES
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(Table amounts in thousands except per share data)

The following table sets forth the calculation of basic and diluted income (loss) per share for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income (loss)	\$ 24,732	\$ (45,442)	\$ (15,519)	\$ (274,599)
Dividends accrued on Series A Preferred Stock	—	(6,126)	—	(16,414)
Income (loss) available to common stockholders	<u>\$ 24,732</u>	<u>\$ (51,568)</u>	<u>\$ (15,519)</u>	<u>\$ (291,013)</u>
Weighted-average common shares outstanding – basic	193,918	145,196	193,364	145,196
Dilutive effect of stock-based compensation awards	4,463	—	—	—
Weighted-average common shares outstanding – diluted	<u>198,381</u>	<u>145,196</u>	<u>193,364</u>	<u>145,196</u>
Income (loss) per common share – basic	\$ 0.13	\$ (0.36)	\$ (0.08)	\$ (2.00)
Income (loss) per common share – diluted	\$ 0.12	\$ (0.36)	\$ (0.08)	\$ (2.00)

The following is a summary of potential shares of common stock that were antidilutive and excluded from the weighted average share computations for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Stock options	6,060	24,118	25,139	24,118
Restricted stock units	2,658	610	2,786	610
Outstanding shares of Series A Preferred Stock	—	5,430	—	5,430
Unvested restricted Series A Preferred Stock	—	500	—	500
Potential common shares excluded from the weighted average share calculations	<u>8,718</u>	<u>30,658</u>	<u>27,925</u>	<u>30,658</u>

11. Commitments and Contingencies

Life Time, Inc. et al. v. Zurich American Insurance Company

On August 19, 2020, Life Time, Inc., several of its subsidiaries, and a joint venture entity, Bloomingdale Life Time Fitness LLC (collectively, the “Life Time Parties”) filed a complaint against Zurich American Insurance Company (“Zurich”) in the Fourth Judicial District of the State of Minnesota, County of Hennepin (Case No. 27-CV-20-10599) (the “Action”) seeking declaratory relief and damages with respect to Zurich’s failure under a property/business interruption insurance policy to provide certain coverage to the Life Time Parties related to the closure or suspension by governmental authorities of their business activities due to the spread or threatened spread of COVID-19. On March 15, 2021, certain of the Life Time Parties filed a First Amended Complaint in the Action adding claims against Zurich under a Builders’ Risk policy related to the suspension of multiple construction projects. The parties are currently in discovery. The Action is subject to many uncertainties, and the outcome of the matter is not predictable with any assurance.

Other

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

LIFE TIME GROUP HOLDINGS, INC. AND SUBSIDIARIES
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(Table amounts in thousands except per share data)

12. Subsequent Events

In preparing the accompanying condensed consolidated financial statements, we have evaluated the period from September 30, 2022 through the date the condensed consolidated financial statements were issued for material subsequent events. There have been no other such events or transactions during this time which would have a material effect on the condensed consolidated financial statements and therefore would require recognition or disclosure.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Certain statements in this discussion and analysis are “forward-looking statements” within the meaning of federal securities regulations. Forward-looking statements in this discussion and analysis include, but are not limited to, our plans, possible or assumed future actions, strategies and prospects, both business and financial, including our financial outlook, events and results of operations. Generally, forward-looking statements are not based on historical facts but instead represent only our current beliefs and assumptions regarding future events. All forward-looking statements are, by nature, subject to risks, uncertainties and other factors. This discussion and analysis does not purport to identify factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements. You should understand that forward-looking statements are not guarantees of performance or results and are preliminary in nature. Statements preceded by, followed by or that otherwise include the words “believe,” “expects,” “anticipates,” “intends,” “projects,” “estimates,” “plans,” “may increase,” “may result,” “will result,” “may fluctuate,” and similar expressions or future or conditional verbs such as “will,” “should,” “would,” “may,” and “could” are generally forward-looking in nature and not historical facts. In addition, any statements or information that refer to expectations, beliefs, plans, projections, objectives, performance or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking.

The forward-looking statements contained in this discussion and analysis are based on management’s current expectations and are not guarantees of future performance. The forward-looking statements are subject to various risks, uncertainties, assumptions or changes in circumstances that are difficult to predict or quantify. Actual results may differ materially from these expectations due to numerous factors, many of which are beyond our control, including risks relating to our business operations and competitive and economic environment, risks relating to our brand, risks relating to the growth of our business, risks relating to our technological operations, risks relating to our capital structure, risks relating to our human capital, risks relating to legal compliance and risk management, risks relating to our financial performance and risks relating to ownership of our common stock and the other important factors discussed under the caption “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission (the “SEC”) and as such risk factors may be updated from time to time in our periodic filings with the SEC that are accessible on the SEC’s website at www.sec.gov. Since it is not possible to foresee all such factors, these factors should not be considered as complete or exhaustive. Consequently, we caution investors not to place undue reliance on any forward-looking statements, as no forward-looking statement can be guaranteed, and actual results may vary materially.

All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements. Forward-looking statements speak only as of the date of this report. We do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Overview

Initial Public Offering

On October 12, 2021, Life Time Group Holdings, Inc. consummated its initial public offering (“IPO”) of 39.0 million shares of its common stock at a public offering price of \$18.00 per share, resulting in total gross proceeds of \$702.0 million before deducting the underwriting discounts and other offering expenses. The shares of its common stock began trading on The New York Stock Exchange under the symbol “LTH” on October 7, 2021. A registration statement on Form S-1 relating to the offering of these securities was declared effective by the SEC on October 6, 2021. Additionally, on November 1, 2021, Life Time Group Holdings, Inc. consummated the sale of nearly 1.6 million additional shares of its common stock at the IPO price of \$18.00 per share pursuant to the partial exercise by the underwriters of their over-allotment option, resulting in total gross proceeds of approximately \$28.4 million before deducting the underwriting discounts and commissions.

Business

Life Time, the “Healthy Way of Life Company,” is a leading lifestyle brand offering premium health, fitness and wellness experiences to a community of more than 1.4 million individual members, who together comprise more than 776,000 memberships, as of September 30, 2022. Since our founding over 30 years ago, we have sought to continuously innovate ways for our members to lead healthy and happy lives by offering them the best places, programs and performers. We deliver high-quality experiences through our omni-channel physical and digital ecosystem that includes more than 150 centers—distinctive, resort-like athletic country club destinations—across 29 states in the United States and one province in Canada. Our track record of providing differentiated experiences to our members has fueled our strong, long-term financial performance.

Our luxurious athletic country clubs, which are located in both affluent suburban and urban locations, total more than 15 million square feet in the aggregate. As of September 30, 2022, we had 17 new centers under construction and we believe we have significant opportunities to continue expanding our portfolio of premium centers with 12 planned new centers for 2022 and 11 new centers planned for 2023 in increasingly affluent markets. We offer expansive fitness floors with top-of-the-line equipment, spacious locker rooms, group fitness studios, indoor and outdoor pools and bistros, indoor and outdoor tennis courts, pickleball courts, basketball courts, LifeSpa, LifeCafe and our childcare and Kids Academy learning spaces. Our premium service offerings are delivered by over 32,000 Life Time team members, including over 8,700 fitness professionals, ranging from personal trainers to studio performers. Our members are highly engaged and draw inspiration from the experiences and community we have created. Our center memberships increased from 649,373 at December 31, 2021 to 728,729 at September 30, 2022 as the trend of diminishing negative impacts from COVID-19 has continued.

We believe that no other company in the United States delivers the same quality and breadth of health, fitness and wellness experiences that we deliver, which enabled us to consistently grow our annual membership dues and in-center revenue for 20 consecutive years, prior to the impact of the COVID-19 pandemic. We have been focused on returning to consistent annual growth in our membership dues and in-center revenue. For the nine months ended September 30, 2022 and 2021, our recurring membership dues and enrollment fees represented 70.1% and 70.0%, respectively, of our total Center revenue, while our in-center revenue, consisting of Life Time Training, LifeCafe, LifeSpa, Life Time Swim and Life Time Kids, among other services, represented 29.9% and 30.0%, respectively, of our total Center revenue. Our average revenue per center membership increased to \$1,885 for the nine months ended September 30, 2022 compared to \$1,554 for the nine months ended September 30, 2021, which demonstrates the significant value that our members place on engaging with Life Time. As we delivered and continued to enhance and broaden the premium experiences for our members, we have strategically increased our membership dues across most of our new and existing centers. We believe we can continually refine our pricing as we deliver exceptional experiences and find the optimal balance among the number of memberships per center, the member experience and maximizing our return for each center. We expect average revenue per center membership to continue to increase compared to the same period in the prior year as we acquire new members and open new centers in increasingly affluent markets.

We offer a variety of convenient month-to-month memberships with no long-term contracts. We define memberships for our centers in two ways: Center memberships and Digital On-hold memberships. A Center membership is defined as one or more adults, plus any juniors under the age of 14. Our base memberships provide individuals general access (with some amenities excluded) to a selected home center and all centers with the same or lower base monthly dues rate. Our optimized pricing for a Center membership is determined center-by-center based on a variety of factors, including geography, market presence, demographic nature, population density, competition, initial investment in the center and available services and amenities. Digital On-hold memberships do not provide access to our centers and are for those members who want to maintain certain member benefits including our Life Time Digital membership and the right to convert to a Center membership without paying enrollment fees.

We continue to evolve our premium lifestyle brand in ways that elevate and broaden our member experiences and allow our members to more easily and regularly integrate health, fitness and wellness into their lives. For example, we are offering new types of Center memberships and communities, including our signature membership that includes unlimited small group training and priority registrations, and our ARORA community focused on members aged 55 years and older. We also continue to enhance our digital platform to deliver a true omni-channel experience for our members. Our Life Time Digital offering delivers live streaming fitness classes, remote goal-based personal training, nutrition and weight loss support and curated award-winning health, fitness and wellness content. In addition, our members are able to purchase a wide variety of equipment, wearables, apparel, beauty products and nutritional supplements via our digital health store. We are continuing to invest in our digital capabilities in order to strengthen our relationships with our members and more comprehensively address their health, fitness and wellness needs so that they can remain engaged and connected with Life Time at any time or place. Elevating our member experience and delivering a connected and digital environment requires investment in our team members, programs, products, services and centers. These investments may impact our short-term results of operations and cash flows as our investments in our business may be made more quickly than we see the returns on our investments.

We also continue to expand our “Healthy Way of Life” ecosystem in response to our members’ desire to more holistically integrate health and wellness into every aspect of their daily lives. In 2018, we launched Life Time Work, an asset-light branded co-working model that offers premium work spaces in close proximity to our centers and integrates ergonomic furnishings and promotes a healthy working environment. Life Time Work members also generally receive access to all of our resort-like athletic destinations across the United States and Canada. At September 30, 2022, 10 Life Time Work locations were open and operating. Additionally, we opened our first two Life Time Living locations, another asset-light extension of our “Healthy Way of Life” ecosystem, which offer luxury wellness-oriented residences. As we expand our footprint with new centers and nearby work and living spaces, as well as strengthen our digital capabilities, we expect to continue to grow our omni-channel platform to support the “Healthy Way of Life” journey of our members.

We have continued to actively monitor the macroeconomic environment and its impact on our business, including with respect to inflation, interest rates, labor and supply chain issues, as well as a potential economic recession. The inflation rate continues to be elevated in 2022, which has had an impact on our expenses in several areas, including wages, construction costs and other operating expenses. These inflationary impacts have resulted in pressure on our margin performance and an increase in our capital expenditures. The rising interest rate environment has also increased the cost of our Term Loan Facility and Revolving Credit Facility and may result in increased cap rates on future sale-leaseback transactions. We anticipate the remainder of fiscal year 2022 will continue to be a dynamic macroeconomic environment, including elevated levels of inflation and interest rates. We remain focused on providing exceptional experiences to our members, while also focusing on center efficiencies and expense control given our recovery of a significant portion of our center memberships and membership dues.

Non-GAAP Financial Measures

This discussion and analysis includes certain financial measures that are not presented in accordance with the generally accepted accounting principles in the United States (“GAAP”), including Adjusted EBITDA and free cash flow before growth capital expenditures and ratios related thereto. These non-GAAP financial measures are not based on any comprehensive set of accounting rules or principles and should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. In addition, these non-GAAP financial measures should be read in conjunction with our financial statements prepared in accordance with GAAP. The reconciliations of the Company’s non-GAAP financial measures to the corresponding GAAP measures should be carefully evaluated. We use Adjusted EBITDA as an important performance metric for the Company. In addition, free cash flow before growth capital expenditures is an important liquidity metric we use to evaluate our ability to make principal payments on our indebtedness and to fund our capital expenditures and working capital requirements.

Adjusted EBITDA

We define Adjusted EBITDA as net income (loss) before interest expense, net, provision for (benefit from) income taxes and depreciation and amortization, excluding the impact of share-based compensation expense, (gain) loss on sale-leaseback transactions, capital transaction costs, legal settlements, asset impairment, severance and other items that are not indicative of our ongoing operations, including incremental costs related to COVID-19.

Management uses Adjusted EBITDA to evaluate the Company's performance. We believe that Adjusted EBITDA is an important metric for management, investors and analysts as it removes the impact of items that we do not believe are indicative of our core operating performance and allows for consistent comparison of our operating results over time and relative to our peers. We use Adjusted EBITDA to supplement GAAP measures of performance in evaluating the effectiveness of our business strategies, and to establish annual budgets and forecasts. We also use Adjusted EBITDA or variations thereof to establish short-term incentive compensation for management.

Free Cash Flow Before Growth Capital Expenditures

We define free cash flow before growth capital expenditures as net cash provided by (used in) operating activities less center maintenance capital expenditures and corporate capital expenditures. We believe free cash flow before growth capital expenditures assists investors and analysts in evaluating our liquidity and cash flows, including our ability to make principal payments on our indebtedness and to fund our capital expenditures and working capital requirements. Our management considers free cash flow before growth capital expenditures to be a key indicator of our liquidity and we present this metric to our board of directors. Additionally, we believe free cash flow before growth capital expenditures is frequently used by analysts, investors and other interested parties in the evaluation of companies in our industry. We also believe that investors, analysts and rating agencies consider free cash flow before growth capital expenditures as a useful means of measuring our ability to make principal payments on our indebtedness and evaluating our liquidity, and management uses this measurement for one or more of these purposes.

Adjusted EBITDA and free cash flow before growth capital expenditures should be considered in addition to, and not as a substitute for or superior to, financial measures calculated in accordance with GAAP. These are not measurements of our financial performance under GAAP and should not be considered as alternatives to net income (loss) or any other performance measures derived in accordance with GAAP or as an alternative to net cash provided by (used in) operating activities as a measure of our liquidity and may not be comparable to other similarly titled measures of other businesses. Adjusted EBITDA and free cash flow before growth capital expenditures have limitations as analytical tools, and you should not consider these measures in isolation or as a substitute for analysis of our operating results or cash flows as reported under GAAP. Furthermore, we compensate for the limitations described above by relying primarily on our GAAP results and using Adjusted EBITDA and free cash flow before growth capital expenditures only for supplemental purposes. See our condensed consolidated financial statements included elsewhere in this report for our GAAP results.

Non-GAAP Measurements and Key Performance Indicators

We prepare and analyze various non-GAAP performance metrics and key performance indicators to assess the performance of our business and allocate resources. For more information regarding our non-GAAP performance metrics, see “—Non-GAAP Financial Measures” above. These are not measurements of our financial performance under GAAP and should not be considered as alternatives to any other performance measures derived in accordance with GAAP.

Set forth below are certain GAAP and non-GAAP measurements and key performance indicators for the three and nine months ended September 30, 2022 and 2021. The following information has been presented consistently for all periods presented.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
(\$ in thousands, except for Average Center revenue per center membership data)				
Membership Data				
Center memberships	728,729	668,310	728,729	668,310
Digital On-hold memberships	47,273	85,045	47,273	85,045
Total memberships	776,002	753,355	776,002	753,355
Revenue Data				
Membership dues and enrollment fees	69.9%	70.2%	70.1%	70.0%
In-center revenue	30.1%	29.8%	29.9%	30.0%
Total Center revenue	100.0%	100.0%	100.0%	100.0%
Membership dues and enrollment fees	\$ 335,717	\$ 261,033	\$ 916,895	\$ 653,584
In-center revenue	144,278	110,967	390,603	280,106
Total Center revenue	\$ 479,995	\$ 372,000	\$ 1,307,498	\$ 933,690
Average Center revenue per center membership ⁽¹⁾	\$ 660	\$ 555	\$ 1,885	\$ 1,554
Comparable center sales ⁽²⁾	25.6%	58.7%	35.7%	29.9%
Center Data				
Net new center openings ⁽³⁾	3	2	5	6
Total centers (end of period) ⁽³⁾	156	155	156	155
Total center square footage (end of period) ⁽⁴⁾	15,600,000	15,300,000	15,600,000	15,300,000
GAAP and Non-GAAP Financial Measures				
Net income (loss)	\$ 24,732	\$ (45,442)	\$ (15,519)	\$ (274,599)
Net income (loss) margin ⁽⁵⁾	5.0 %	(11.8)%	(1.1)%	(28.7)%
Adjusted EBITDA ⁽⁶⁾	\$ 70,975	\$ 47,031	\$ 174,697	\$ 32,277
Adjusted EBITDA margin ⁽⁶⁾	14.3 %	12.2 %	12.9 %	3.4 %
Center operations expense	\$ 295,253	\$ 231,996	\$ 814,383	\$ 625,322
Pre-opening expenses ⁽⁷⁾	\$ 5,350	\$ 633	\$ 9,296	\$ 5,304
Rent	\$ 63,213	\$ 52,513	\$ 179,166	\$ 154,552
Non-cash rent expense (open properties) ⁽⁸⁾	\$ 6,762	\$ 2,161	\$ 14,850	\$ 3,824
Non-cash rent expense (properties under development) ⁽⁸⁾	\$ 4,907	\$ 3,166	\$ 12,454	\$ 7,722
Net cash provided by (used in) operating activities	\$ 44,995	\$ (2,283)	\$ 125,320	\$ (15,322)
Free cash flow before growth capital expenditures ⁽⁹⁾	\$ 7,359	\$ (38,633)	\$ 5,506	\$ (99,458)

- (1) We define Average Center revenue per center membership as Center revenue less Digital On-hold revenue, divided by the average number of Center memberships for the period, where the average number of Center memberships for the period is an average derived from dividing the sum of the total Center 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.
- (2) We measure the results of our centers based on how long each center has been open as of the most recent measurement period. We include a center, for comparable center sales purposes, beginning on the first day of the 13th full calendar month of the center's operation, in order to assess the center's growth rate after one year of operation.
- (3) Net new center openings are the number of centers that opened for the first time to members during the period, less any centers that closed during the period. Total centers (end of period) is the number of centers operational as of the last day of the period. As of September 30, 2022, all of our 156 centers were open.
- (4) Total center square footage (end of period) reflects the aggregate fitness square footage, which we use as a metric for evaluating the efficiencies of a center as of the end of the period. The square footage figures exclude areas used for tennis courts, outdoor swimming pools, outdoor play areas and stand-alone Work, Sport and Swim locations. These figures are approximations.
- (5) Net income (loss) margin is calculated as net income (loss) divided by total revenue.
- (6) We present Adjusted EBITDA as a supplemental measure of our performance. We define Adjusted EBITDA as net income (loss) before interest expense, net, provision for (benefit from) income taxes and depreciation and amortization, excluding the impact of share-based compensation expense, (gain) loss on sale-leaseback transactions, capital transaction costs, legal settlements, asset impairment, severance and other items that are not indicative of our ongoing operations, including incremental costs related to COVID-19.

Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by total revenue.

The following table provides a reconciliation of net income (loss), the most directly comparable GAAP measure, to Adjusted EBITDA:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income (loss)	\$ 24,732	\$ (45,442)	\$ (15,519)	\$ (274,599)
Interest expense, net of interest income ^(a)	27,696	39,849	84,732	176,144
Provision for (benefit from) income taxes	3,401	(11,981)	(3,456)	(58,867)
Depreciation and amortization	56,400	57,977	171,680	177,005
Share-based compensation expense ^(b)	5,803	4,078	33,214	6,959
COVID-19 related expenses (credits) ^(c)	354	(221)	937	(410)
(Gain) loss on sale-leaseback transactions ^(d)	(48,583)	2,227	(98,167)	3,057
Capital transaction costs ^(e)	—	588	255	588
Legal settlements ^(f)	—	(44)	—	(44)
Other ^(g)	1,172	—	1,021	2,444
Adjusted EBITDA	\$ 70,975	\$ 47,031	\$ 174,697	\$ 32,277

- (a) For the nine months ended September 30, 2021, we incurred a non-cash expense of \$41.0 million related to the extinguishment of a related party secured loan and \$18.3 million related to the write-off of debt discounts and issuances costs in connection with the extinguishment of our prior term loan facility, senior unsecured notes and the related party secured loan.
- (b) Share-based compensation expense recognized during the three and nine months ended September 30, 2022 is associated with stock options, restricted stock and restricted stock units. Share-based compensation expense recognized during the three and nine months ended September 30, 2021 was associated with restricted stock and restricted stock units. No share-based compensation expense was recognized during the three and nine months ended September 30, 2021 related to stock options because the vesting and exercisability of stock options granted by the Company up through September 30, 2021 was contingent upon the occurrence of a change of control or an initial public offering.
- (c) Represents the incremental net expenses (credits) we recognized related to the COVID-19 pandemic. We adjust for these costs as they do not represent costs associated with our normal ongoing operations. We believe that adjusting for these costs provides a more accurate and consistent representation of our actual operating performance from period to period. For the three and nine months ended September 30, 2022, COVID-19 related expenses primarily consisted of legal-related costs in pursuit of our claim against Zurich. For more information regarding this claim, see Note 11, Commitments and Contingencies, to our condensed consolidated financial statements in this report. For the three and nine months ended September 30, 2021, COVID-19 related credits primarily consisted of the recovery of certain qualifying expenses under the CARES Act, partially offset by COVID-19 legal-related costs in pursuit of our claim against Zurich.

- (d) We adjust for the impact of gains or losses on the sale-leaseback of our properties as they do not reflect costs associated with our ongoing operations. For details on the gain on sale-leaseback transactions in the three and nine months ended September 30, 2022, see “Sale-Leaseback Transactions” within Note 7, Leases, to our condensed consolidated financial statements in this report.
 - (e) Represents one-time costs related to capital transactions, including debt and equity offerings that are non-recurring in nature but excluding direct costs related to the IPO that were netted against the proceeds of the IPO.
 - (f) We adjust for the impact of large class action and unusual legal settlements paid or recoveries received. These are non-recurring in nature and do not reflect costs associated with our normal ongoing operations.
 - (g) Includes costs associated with incremental expenses related to a winter storm that resulted in historical freezing temperatures affecting our Texas region in 2021, severance and other transactions which are unusual and non-recurring in nature.
- (7) Represents non-capital expenditures associated with opening new centers, which are incurred prior to the commencement of a new center opening. The number of centers under construction or development, the types of centers and our costs associated with any particular center opening can vary significantly from period to period.
- (8) Reflects the non-cash portion of our annual GAAP operating lease expense that is greater or less than the cash operating lease payments. Non-cash rent expense for our open properties represents non-cash expense associated with properties that were operating at the end of each period presented. Non-cash rent expense for our properties under development represents non-cash expense associated with properties that are still under development at the end of each period presented.
- (9) Free cash flow before growth capital expenditures, a non-GAAP financial measure, is calculated as net cash provided by (used in) operating activities less center maintenance capital expenditures and corporate capital expenditures.

The following table provides a reconciliation from net cash provided by (used in) operating activities to free cash flow before growth capital expenditures:

(\$ in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Net cash provided by (used in) operating activities	\$ 44,995	\$ (2,283)	\$ 125,320	\$ (15,322)
Center maintenance capital expenditures	(22,462)	(18,078)	(57,915)	(43,045)
Corporate capital expenditures	(15,174)	(18,272)	(61,899)	(41,091)
Free cash flow before growth capital expenditures	\$ 7,359	\$ (38,633)	\$ 5,506	\$ (99,458)

Factors Affecting the Comparability of our Results of Operations

Impact of COVID-19 on our Business

Overview

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic, the United States declared a National Public Health Emergency and we closed all of our centers based on orders and advisories from federal, state and local governmental authorities regarding COVID-19. Throughout this report, including this “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” when we refer to “COVID-19,” such as when we describe the “impact of COVID-19” on our operations, we mean the coronavirus-related orders issued by governmental authorities affecting our operations and/or the presence of coronavirus in our centers, including COVID-19 positive members or team members.

We re-opened our first center on May 8, 2020, and continued to re-open our centers as state and local governmental authorities permitted, subject to operating processes and protocols that we developed in consultation with an epidemiologist (MD/PhD) to provide a healthy and clean environment for our members and team member and to meet various governmental requirements and restrictions. The performance of our centers has improved significantly with that improvement having varied depending on various factors, including how early we were able to re-open them, whether we were required to close them again, their geographic location and applicable governmental restrictions. The performance of our centers was also impacted in 2021 as a result of the Delta variant and then again later in 2021 and into 2022 with the Omicron variant.

We have experienced a slightly faster recovery in our membership dues revenue compared to our in-center revenue. We expect membership dues revenue to remain a higher percentage of our total revenue in the near term and return to more historical levels over time. We continue to be encouraged by our improved business performance and the diminishing negative impacts from COVID-19; however, the full extent of the impact of COVID-19, including any new variants and any resulting operating restrictions, remains uncertain and is dependent on future developments that cannot be accurately predicted at this time.

Operations

As of September 30, 2022, all of our 156 centers were open and our total memberships were 776,002, an increase of 3.0% compared to 753,355 at September 30, 2021. Center memberships were 728,729, an increase of 9.0% compared to 668,310 at September 30, 2021. Digital On-hold memberships were 47,273, a decrease of 44.4% compared to 85,045 at September 30, 2021.

As the first nine months of 2022 have progressed, we have experienced a significant decrease in the COVID-19 related restrictions on our operations. While we are still utilizing certain of the processes we implemented to provide a healthy and clean environment for our members and team members, we are no longer subject to the stricter requirements such as face coverings, vaccine mandates or negative test results. We will continue to monitor governmental orders regarding the operations of our centers, as well as our center operating processes and protocols.

The rates of recovery for our centers and in-center businesses have progressed differently based upon considerations such as their geographic location, vaccination rates, impacts of variants, applicable government restrictions and guidance, and team member and member sentiment with respect to our center operating processes and protocols and working in and/or using our centers. While this uneven performance may continue, we are hopeful that as we continue to emerge from the COVID-19 pandemic and more time passes since the restrictive operating requirements have been lifted, our performance will begin to improve across the country and we will continue to see an increase in Center memberships and center utilization.

Cash Flows and Liquidity

Although there is uncertainty related to the full impact of COVID-19 on our financial position, results of operations, liquidity and cash flows, we believe that the combination of our current cash position, our availability under the Revolving Credit Facility, the actions we have taken with respect to our debt and equity and strengthening our balance sheet, as well as the actions we have taken to reduce our cash outflows, leave us well-positioned to manage our business. If our available liquidity were not sufficient to meet our operating and debt service obligations as they come due, we would need to pursue alternative arrangements through additional debt or equity financing to meet our cash requirements. There can be no assurance that any such financing would be available on commercially acceptable terms, or at all.

We also intend to continue to explore sale-leaseback transactions. During the nine months ended September 30, 2022, we completed sale-leaseback transactions associated with nine properties for aggregate gross proceeds of \$375.0 million. For more information regarding the sale-leaseback transactions that were consummated during the nine months ended September 30, 2022, see Note 7, Leases, to our condensed consolidated financial statements included elsewhere in this report.

Investment in Business

We have continued to invest in our business to elevate and broaden our member experiences and drive additional revenue per center membership, including introducing new types of memberships, providing concierge-type member services, expanding our omni-channel offerings and improving our in-center services and products. Elevating our member experiences requires investment in our team members, programs, products, services and centers. These investments may impact our short-term results of operations and cash flows as our investments in our business may be made more quickly than we achieve additional revenue per center membership. While we remain focused on providing exceptional experiences to our members, we are also focusing on center efficiencies and expense control given our recovery of a significant portion of our center memberships and membership dues.

Impact of Our Asset-light, Flexible Real Estate Strategy on Rent Expense

Our asset-light, flexible real estate strategy has allowed us to expand our business by leveraging operating leases and sale-leaseback transactions. Approximately 64% of our centers are now leased, including approximately 92% of our new centers opened within the last five years, versus a predominantly owned real estate strategy prior to 2015. Rent expense, which includes both cash and non-cash rent expense, will continue to increase as we lease more centers and will therefore impact the comparability of our results of operations. The impact of these increases is dependent upon the timing of our centers under development and the center openings and terms of the leases for the new centers or sale-leaseback transactions.

Macroeconomic Trends

We have been actively monitoring the macroeconomic environment and its impact on our business, including with respect to inflation, interest rates, labor and supply chain issues, as well as a potential economic recession. See “—Overview—Business” for additional information.

Share-Based Compensation

During the nine months ended September 30, 2022, we recognized share-based compensation expense associated with stock options, restricted stock and restricted stock units totaling approximately \$33.2 million. During the nine months ended September 30, 2021, we recognized share-based compensation expense associated with restricted stock and restricted stock units totaling approximately \$7.0 million. No share-based compensation expense related to stock options was recognized during the nine months ended September 30, 2021, because the vesting and exercisability of stock options granted by the Company up through September 30, 2021 was contingent upon the occurrence of a change of control or an initial public offering.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with 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 revise the recorded estimates when better information is available, facts change or we can determine actual amounts. These revisions can affect operating results.

Management has evaluated the development and selection of our critical accounting policies and estimates used in the preparation of the Company’s unaudited condensed consolidated financial statements and related notes and believes these policies to be reasonable and appropriate. Certain of these policies involve a higher degree of judgment or complexity and are most significant to reporting our results of operations and financial position, and are, therefore, discussed as critical. Our most significant estimates and assumptions that materially affect the Company’s unaudited condensed consolidated financial statements involve difficult, subjective or complex judgments which management used while performing goodwill, indefinite-lived intangible and long-lived asset impairment analyses. Given the additional effects from the COVID-19 pandemic, these estimates can be more challenging, and actual results could differ materially from our estimates. As it relates to the long-lived asset impairment analyses that we have performed during both the three and nine months ended September 30, 2022 and 2021, we determined that certain projects were no longer deemed viable for construction, and that the previously capitalized site development costs associated with these projects were impaired. Accordingly, as it relates to these long-lived assets, we recognized impairment charges of \$0.2 million and \$0.7 million for the three months ended September 30, 2022 and 2021, respectively, and \$0.2 million and \$2.5 million for the nine months ended September 30, 2022 and 2021, respectively.

More information on all of our significant accounting policies can be found in Note 2, “Summary of Significant Accounting Policies” to our audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC. There have been no material changes to our critical accounting policies as compared to the critical accounting policies described in such Annual Report on Form 10-K.

Results of Operations

Three Months Ended September 30, 2022 Compared to Three Months Ended September 30, 2021

The following table sets forth our condensed consolidated statements of operations data (amounts in thousands) and data as a percentage of total revenue for the three months ended September 30, 2022 and 2021:

	Three Months Ended September 30,			
	2022		2021	
			As a Percentage of Total Revenue	
	2022	2021	2022	2021
Revenue:				
Center revenue	\$ 479,995	\$ 372,000	96.7 %	96.6 %
Other revenue	16,386	13,040	3.3 %	3.4 %
Total revenue	496,381	385,040	100.0 %	100.0 %
Operating expenses:				
Center operations	295,253	231,996	59.5 %	60.3 %
Rent	63,213	52,513	12.7 %	13.6 %
General, administrative and marketing	57,139	45,304	11.5 %	11.8 %
Depreciation and amortization	56,400	57,977	11.4 %	15.1 %
Other operating (income) expense	(31,358)	14,796	(6.3)%	3.8 %
Total operating expenses	440,647	402,586	88.8 %	104.6 %
Income (loss) from operations	55,734	(17,546)	11.2 %	(4.6)%
Other (expense) income:				
Interest expense, net of interest income	(27,696)	(39,849)	(5.5)%	(10.3)%
Equity in earnings (loss) of affiliate	95	(28)	— %	— %
Total other expense	(27,601)	(39,877)	(5.5)%	(10.3)%
Income (loss) before income taxes	28,133	(57,423)	5.7 %	(14.9)%
Provision for (benefit from) income taxes	3,401	(11,981)	0.7 %	(3.1)%
Net income (loss)	\$ 24,732	\$ (45,442)	5.0 %	(11.8)%

Total revenue. The \$111.3 million increase in Total revenue for the three months ended September 30, 2022 as compared to the three months ended September 30, 2021 reflects the continued improvement of our operations after the adverse impacts of COVID-19, which has been supported by our strategic investments in our business, the pricing initiatives we have implemented at the majority of our centers since the third quarter of 2021, which have resulted in higher average Center membership dues being charged during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021, as well as the opening of three and five new centers during the three and nine months ended September 30, 2022, respectively.

With respect to the \$108.0 million increase in Center revenue for the three months ended September 30, 2022 compared to the three months ended September 30, 2021:

- 69.2% was from membership dues and enrollment fees, which increased \$74.7 million for the three months ended September 30, 2022 as compared to the three months ended September 30, 2021. This increase reflects the improvement in our Center memberships, which increased to 728,729 as of September 30, 2022 from 668,310 as of September 30, 2021 for the reasons noted above for Total revenue; and
- 30.8% was from in-center revenue, which increased \$33.3 million for the three months ended September 30, 2022 as compared to the three months ended September 30, 2021. This increase was recognized across all of our primary in-center businesses and reflects the higher utilization of our services by our members as our operations continue to improve after the adverse impacts of COVID-19, which has been supported by our strategic investments in our business.

The \$3.3 million increase in Other revenue for the three months ended September 30, 2022 as compared to the three months ended September 30, 2021 was primarily driven by our athletic events business, as we experienced a higher level of event participation during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021 when COVID-19 had reduced our event participation rates.

Center operations expenses. The \$63.3 million increase in Center operations expenses for the three months ended September 30, 2022 as compared to the three months ended September 30, 2021 was primarily driven by increased staffing requirements resulting from increased usage of our centers and strategic investments in our business during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021, the opening of three and five new centers during the three and nine months ended September 30, 2022, respectively, as well as higher labor and utility costs due to inflation during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021.

Rent expense. The \$10.7 million increase in Rent expense for the three months ended September 30, 2022 as compared to the three months ended September 30, 2021 was primarily driven by our taking possession of nine properties since June 30, 2021 for future centers where we started incurring GAAP rent expense, most of which is non-cash, and the sale-leaseback of nine centers during the current year, five of which occurred during the three months ended September 30, 2022.

General, administrative and marketing expenses. The \$11.8 million increase in General, administrative and marketing expenses for the three months ended September 30, 2022 as compared to the three months ended September 30, 2021 was primarily driven by a \$2.2 million increase in overhead costs that was primarily labor-related to enhance and broaden our member services and experiences, a \$1.8 million increase in marketing and information technology expenses, a \$1.6 million increase in share-based and incentive compensation expenses, a \$1.4 million increase in public company-related expenses and a \$1.3 million increase in severance costs.

Depreciation and amortization. The \$1.6 million decrease in Depreciation and amortization for the three months ended September 30, 2022 as compared to the three months ended September 30, 2021 consists of \$1.7 million lower depreciation, driven by the timing of sale-leaseback transactions, partially offset by \$0.1 million higher amortization.

Other operating (income) expenses. Other operating income for the three months ended September 30, 2022 was \$31.4 million, as compared to Other operating expenses of \$14.8 million for the three months ended September 30, 2021. The \$46.2 million change was primarily attributable to the recognition of a gain of \$47.9 million on a sale-leaseback transaction associated with five properties that was completed during the three months ended September 30, 2022, partially offset by higher costs associated with our athletic events business, as we experienced a higher level of event participation during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021.

Interest expense, net of interest income. The \$12.2 million decrease in Interest expense, net of interest income for the three months ended September 30, 2022 as compared to the three months ended September 30, 2021 was driven by a lower average level of outstanding borrowings during the three months ended September 30, 2022 as compared to the three months ended September 30, 2021.

Provision for (benefit from) income taxes. The provision for income taxes was \$3.4 million for the three months ended September 30, 2022 as compared to the \$12.0 million benefit from income taxes for the three months ended September 30, 2021. The effective tax rate was 12.1% and 20.9% for those same periods, respectively. The effective tax rate applied to our pre-tax income for the three months ended September 30, 2022 is lower than our statutory rate of 21% and reflects a decrease in the valuation allowance associated with certain of our deferred tax assets, partially offset by deductibility limitations associated with executive compensation and an increase in the state income tax provision.

Net income (loss). As a result of the factors described above, net income was \$24.7 million for the three months ended September 30, 2022 as compared to a net loss of \$45.4 million for the three months ended September 30, 2021.

Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021

The following table sets forth our condensed consolidated statements of operations data (amounts in thousands) and data as a percentage of total revenue for the nine months ended September 30, 2022 and 2021:

	Nine Months Ended September 30,			
			As a Percentage of Total Revenue	
	2022	2021	2022	2021
Revenue:				
Center revenue	\$ 1,307,498	\$ 933,690	96.9 %	97.5 %
Other revenue	42,404	23,835	3.1 %	2.5 %
Total revenue	1,349,902	957,525	100.0 %	100.0 %
Operating expenses:				
Center operations	814,383	625,322	60.3 %	65.3 %
Rent	179,166	154,552	13.3 %	16.1 %
General, administrative and marketing	175,650	126,896	13.0 %	13.3 %
Depreciation and amortization	171,680	177,005	12.7 %	18.5 %
Other operating (income) expense	(56,605)	30,660	(4.2)%	3.2 %
Total operating expenses	1,284,274	1,114,435	95.1 %	116.4 %
Income (loss) from operations	65,628	(156,910)	4.9 %	(16.4)%
Other (expense) income:				
Interest expense, net of interest income	(84,732)	(176,144)	(6.3)%	(18.4)%
Equity in earnings (loss) of affiliate	129	(412)	— %	— %
Total other expense	(84,603)	(176,556)	(6.3)%	(18.4)%
Loss before income taxes	(18,975)	(333,466)	(1.4)%	(34.8)%
Benefit from income taxes	(3,456)	(58,867)	(0.3)%	(6.1)%
Net loss	\$ (15,519)	\$ (274,599)	(1.1)%	(28.7)%

Total revenue. The \$392.4 million increase in Total revenue for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021 reflects the continued improvement of our operations after the adverse impacts of COVID-19, which has been supported by our strategic investments in our business, the pricing initiatives we have implemented at the majority of our centers since the third quarter of 2021, which have resulted in higher average Center membership dues being charged during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021, as well as the opening of five new centers during the nine months ended September 30, 2022.

With respect to the \$373.8 million increase in Center revenue for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021:

- 70.4% was from membership dues and enrollment fees, which increased \$263.3 million for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021. This increase reflects the improvement in our Center memberships, which increased to 728,729 as of September 30, 2022 from 668,310 as of September 30, 2021 for the reasons noted above for Total revenue; and
- 29.6% was from in-center revenue, which increased \$110.5 million for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021. This increase was recognized across all of our primary in-center businesses and reflects the higher utilization of our services as our operations continue to improve after the adverse impacts of COVID-19, which has been supported by our strategic investments in our business.

The \$18.6 million increase in Other revenue for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021 was primarily driven by our athletic events business, as we experienced a higher level of event participation during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021 when COVID-19 had reduced our event participation rates. Also, we were able to produce more of our iconic events during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021 when COVID-19 restrictions forced the cancellation of certain of our events.

Center operations expenses. The \$189.1 million increase in Center operations expenses for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021 was driven by increased staffing requirements resulting from increased usage of our centers and strategic investments in our business during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021, the opening of five new centers during the nine months ended September 30, 2022, as well as higher labor and utility costs due to inflation during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021.

Rent expense. The \$24.6 million increase in Rent expense for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021 was primarily driven by our taking possession of nine properties since June 30, 2021 for future centers where we started incurring GAAP rent expense, most of which is non-cash, and the sale-leaseback of nine centers during the nine months ended September 30, 2022.

General, administrative and marketing expenses. The \$48.8 million increase in General, administrative and marketing expenses for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021 was primarily driven by a \$24.1 million increase in share-based and incentive compensation expenses, a \$9.4 million increase in overhead costs that was primarily labor-related to enhance and broaden our member services and experiences, a \$6.8 million increase in marketing and information technology expenses, a \$5.0 million increase in public company-related expenses and a \$0.8 million increase in severance costs. No share-based compensation expense related to stock options was recognized during the nine months ended September 30, 2021, because the vesting and exercisability of stock options granted by the Company up through September 30, 2021 was contingent upon the occurrence of a change of control or an initial public offering.

Depreciation and amortization. The \$5.3 million decrease in Depreciation and amortization for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021 consists of \$5.8 million lower depreciation, driven by the timing of sale-leaseback transactions, partially offset by \$0.5 million higher amortization, driven by a facility license associated with an outdoor enthusiast and bicycling event that we acquired during the third quarter of 2021.

Other operating (income) expenses. Other operating income for the nine months ended September 30, 2022 was \$56.6 million as compared to Other operating expenses of \$30.7 million for the nine months ended September 30, 2021. The \$87.3 million change was primarily attributable to the recognition of a gain of \$98.0 million on sale-leaseback transactions associated with nine properties that were completed during the nine months ended September 30, 2022, partially offset by higher costs associated with our athletic events business, as we experienced a higher level of event participation and we were able to produce more of our iconic events during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021.

Interest expense, net of interest income. The \$91.4 million decrease in Interest expense, net of interest income for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021 was driven by \$41.0 million of non-cash expense that was recognized during the nine months ended September 30, 2021 in connection with the conversion of a related-party secured loan into Series A Preferred Stock, write-offs of debt issuance costs and original issuance discount costs totaling \$18.3 million that were recognized during the nine months ended September 30, 2021 in connection with extinguished debt instruments, as well as a lower average level of outstanding borrowings during the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021.

Benefit from income taxes. The benefit from income taxes was \$3.5 million for the nine months ended September 30, 2022 as compared to \$58.9 million for the nine months ended September 30, 2021. The effective tax rate was 18.2% and 17.7% for those same periods, respectively. The change in benefit from income taxes was primarily attributable to the decrease in our loss before income taxes for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021. The effective tax rate applied to our pre-tax loss for the nine months ended September 30, 2022 is lower than our statutory rate of 21% and reflects deductibility limitations associated with executive compensation, partially offset by a decrease in the projected valuation allowance associated with certain of our deferred tax assets.

Net loss. As a result of the factors described above, net loss decreased by \$259.1 million for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021.

Liquidity and Capital Resources

Liquidity

Our principal liquidity needs include the development of new centers, lease requirements and debt service, investments in our business and technology and expenditures necessary to maintain and update or enhance our centers and associated fitness equipment and member experiences. We have primarily satisfied our historical liquidity needs with cash flow from operations, drawing on the Revolving Credit Facility and through sale-leaseback transactions.

We have taken significant actions to improve our liquidity. During 2021, we refinanced a significant portion of our outstanding debt. For information regarding the refinancing actions we took during 2021, see Note 6, Debt, to our condensed consolidated financial statements in this report. Additionally, we consummated our IPO in October 2021. During the nine months ended September 30, 2022, we completed sale-leaseback transactions associated with nine properties. In addition, we continue to explore potential sale-leaseback opportunities for a number of our properties. For more information regarding the sale-leaseback transactions that were consummated during the nine months ended September 30, 2022, see Note 7, Leases, to our condensed consolidated financial statements included in this report. We believe the steps we have taken to strengthen our balance sheet and to reduce our cash outflows leave us well-positioned to manage our business.

As the opportunity arises or as our business needs require, we may seek to raise capital through additional debt financing or through equity financing. There can be no assurance that any such financing would be available on commercially acceptable terms, or at all. To date, we have not experienced difficulty accessing the credit and capital markets; however, volatility in these markets, particularly in light of the rising interest rate environment and any continued impacts of COVID-19, may increase costs associated with issuing debt instruments or affect our ability to access those markets, which could have an adverse impact on our ability to raise additional capital, to refinance existing debt and/or to react to changing economic and business conditions. In addition, it is possible that our ability to access the credit and capital markets could be limited at a time when we would like or need to do so.

As of September 30, 2022, there were no outstanding borrowings under our Revolving Credit Facility and there were \$31.7 million of outstanding letters of credit. As of September 30, 2022, total cash and revolver availability was \$540.7 million, consisting of total cash and cash equivalents, exclusive of restricted cash, of \$97.4 million and total revolver availability of \$443.3 million.

The following table sets forth our condensed consolidated statements of cash flows data (in thousands):

	Nine Months Ended	
	September 30,	
	2022	2021
Net cash provided by (used in) operating activities	\$ 125,320	\$ (15,322)
Net cash used in investing activities	(37,480)	(138,190)
Net cash (used in) provided by financing activities	(11,708)	165,129
Effect of exchange rates on cash and cash equivalents	(700)	15
Increase in cash and cash equivalents	\$ 75,432	\$ 11,632

Operating Activities

The \$140.6 million increase in cash provided by operating activities for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021 was primarily the result of higher profitability due to the recovery from the impact of COVID-19 on our business.

Investing Activities

Investing activities consist primarily of purchasing real property, constructing new centers, acquisitions and purchasing new fitness equipment. In addition, we invest in capital expenditures to maintain and update our existing centers. We finance the purchase of our property and equipment through operating cash flows, proceeds from sale-leaseback transactions, construction reimbursements and draws on our Revolving Credit Facility.

The \$100.7 million decrease in cash used in investing activities for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021 was primarily driven by a higher amount of proceeds that we received from sale-leaseback transactions, partially offset by a higher level of new center construction activity during the nine months ended September 30, 2022.

The following schedule reflects capital expenditures by type of expenditure (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2022	2021	2022	2021
Growth capital expenditures, net of construction reimbursements ⁽¹⁾	\$ 119,670	\$ 43,418	\$ 290,132	\$ 117,605
Center maintenance capital expenditures	22,462	18,078	57,915	43,045
Corporate capital expenditures	15,174	18,272	61,899	41,091
Total capital expenditures	\$ 157,306	\$ 79,768	\$ 409,946	\$ 201,741

(1) Growth capital expenditures include new center land and construction, growth initiatives, major remodels of acquired centers and the purchase of previously leased centers.

The \$208.2 million increase in total capital expenditures for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021 was primarily driven by higher growth capital expenditures for new centers, continued investments in technology and corporate capital expenditures related to Life Time Work.

Financing Activities

The \$176.8 million decrease in cash provided by financing activities for the nine months ended September 30, 2022 as compared to the nine months ended September 30, 2021 was primarily driven by net proceeds we received from borrowings under our Term Loan Facility, Secured Notes and Unsecured Notes during the nine months ended September 30, 2021.

We expect to satisfy our short-term and long-term obligations through a combination of cash on hand, funds generated from operations, sale-leaseback transactions and the borrowing capacity available under our Revolving Credit Facility.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks in the ordinary course of our business that include changes in interest rates and changes in foreign currency exchange rates. Information relating to quantitative and qualitative disclosures about these market risks is set forth below.

Interest rate risk

Our cash consists primarily of an interest-bearing account at a large United States bank with limited interest rate risk. At September 30, 2022, we held no investments in marketable securities.

We incur interest at variable rates under our Revolving Credit Facility. At September 30, 2022, there were no outstanding borrowings on the Revolving Credit Facility and \$31.7 million of outstanding letters of credit, resulting in total revolver availability of \$443.3 million, which was available at intervals ranging from 30 to 180 days at interest rates ranging from LIBOR plus 4.25% or base rate plus 3.25%. Our Term Loan Facility is also subject to variable rates of LIBOR plus 4.75% or base rate plus 3.75% and had an outstanding balance of \$273.6 million at September 30, 2022.

Assuming no prepayments of the Term Loan Facility and that the Revolving Credit Facility is fully drawn (and that LIBOR is in excess of the floor rate applicable to the Term Loan Facility), each one percentage point change in interest rates would result in an approximately \$7.5 million change in annual interest expense on the indebtedness under our senior secured credit facility.

Foreign currency exchange risk

We operate primarily in the United States with three centers operating in Canada. Given our limited amount of operations outside of the United States, fluctuations due to changes in foreign currency exchange rates would not have a material impact on our business.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, the Company's disclosure controls and procedures were effective at a reasonable assurance level.

Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are engaged in litigation or other proceedings incidental to the normal course of business, including investigations and claims regarding employment law including wage and hour and unfair labor practices; supplier, customer and service provider contract terms; products liability; and real estate. Other than as set forth in Note 11, Commitments and Contingencies, in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein, there are no pending material legal proceedings to which we are a party or to which our property is subject.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed under the caption "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC, which could materially affect our business, financial condition or future results. There have been no material changes from the risk factors previously disclosed in that Annual Report.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

All exhibits as set forth on the Exhibit Index.

Exhibit Index

Exhibit Number	Description of Exhibit	Form	File No.	Exhibit	Filing Date
10.1	Employment Agreement by and between Robert Houghton and Life Time Group Holdings, Inc., effective as of August 28, 2022.	8-K	001-40887	10.1	8/29/2022
31.1	Certification of the Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				Filed herewith
31.2	Certification of the Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				Filed herewith
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act 2002.				Furnished herewith
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act 2002.				Furnished herewith
101.INS	Inline XBRL Instance Document — the Instance Document does not appear in the interactive data file because its XBRL tags are Embedded within the Inline XBRL Document.				Filed herewith
101.SCH	Inline XBRL Schema Document.				Filed herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.				Filed herewith
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.				Filed herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.				Filed herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.				Filed herewith
104	Cover Page Interactive Data File — the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Life Time Group Holdings, Inc.

Date: November 9, 2022

By: /s/ Robert Houghton
Robert Houghton
Executive Vice President & Chief Financial Officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bahram Akradi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2022 of Life Time Group Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [omitted];
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2022

By:

/s/ Bahram Akradi

Bahram Akradi

*Chief Executive Officer
(Principal Executive Officer)*

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert Houghton, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2022 of Life Time Group Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [omitted];
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2022

By:

/s/ Robert Houghton

Robert Houghton
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the filing of the Quarterly Report on Form 10-Q of Life Time Group Holdings, Inc. (the "Company") for the quarterly period ended September 30, 2022 with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 9, 2022

By:

/s/ Bahram Akradi

Bahram Akradi

Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the filing of the Quarterly Report on Form 10-Q of Life Time Group Holdings, Inc. (the "Company") for the quarterly period ended September 30, 2022 with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 9, 2022

By:

/s/ Robert Houghton

Robert Houghton
Chief Financial Officer
(Principal Financial Officer)