

TOWN SPORTS INTERNATIONAL HOLDINGS INC

Form 10-Q

October 24, 2013

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**Form 10-Q**

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

**For the quarterly period ended September 30, 2013**

**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 000-52013**

**TOWN SPORTS INTERNATIONAL HOLDINGS, INC.**

**(Exact name of Registrant as specified in its charter)**

**Delaware**  
**(State or other Jurisdiction of**  
**Incorporation or Organization)**

**5 Penn Plaza (4th Floor)**

**New York, New York 10001**

**Telephone: (212) 246-6700**

**20-0640002**  
**(I.R.S. Employer**  
**Identification Number)**

**(Address, zip code, and telephone number, including**  
**area code, of registrant's principal executive office.)**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if smaller reporting company) Smaller reporting company

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

As of October 18, 2013, there were 24,106,139 shares of Common Stock of the registrant outstanding.

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**For the Quarter Ended September 30, 2013**

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Table of Contents**TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****September 30, 2013 and December 31, 2012****(All figures in thousands except share and per share data)****(Unaudited)**

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 67,961	\$ 37,758
Accounts receivable (less allowance for doubtful accounts of \$2,247 and \$3,249 as of September 30, 2013 and December 31, 2012, respectively)	3,429	6,508
Inventory	417	438
Deferred tax assets, net	22,493	24,897
Prepaid corporate income taxes	226	550
Prepaid expenses and other current assets	11,067	9,866
Total current assets	105,593	80,017
Fixed assets, net	244,831	256,871
Goodwill	32,850	32,824
Intangible assets, net	1,037	
Deferred tax assets, net	4,217	9,296
Deferred membership costs	9,194	10,811
Other assets	11,150	14,091
Total assets	\$ 408,872	\$ 403,910
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>		
Current liabilities:		
Current portion of long-term debt	\$ 40,500	\$ 15,787
Accounts payable	5,711	7,467
Accrued expenses	26,460	27,053
Accrued interest	87	89
Dividends payable	297	305
Deferred revenue	36,454	37,138
Total current liabilities	109,509	87,839
Long-term debt	270,556	294,552
Dividends payable	677	799
Deferred lease liabilities	58,455	61,732
Deferred revenue	2,535	3,889

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Other liabilities	7,537	10,595
<b>Total liabilities</b>	<b>449,269</b>	<b>459,406</b>
Commitments and Contingencies (Note 12)		
Stockholders' deficit:		
Common stock, \$.001 par value; issued and outstanding 24,102,450 and 23,813,106 shares at September 30, 2013 and December 31, 2012, respectively	24	24
Additional paid-in capital	(14,631)	(16,326)
Accumulated other comprehensive income	1,582	1,226
Accumulated deficit	(27,372)	(40,420)
<b>Total stockholders' deficit</b>	<b>(40,397)</b>	<b>(55,496)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 408,872</b>	<b>\$ 403,910</b>

See notes to condensed consolidated financial statements.

Table of Contents**TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****For the Three and Nine Months Ended September 30, 2013 and 2012****(All figures in thousands except share and per share data)****(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>				
Club operations	\$ 115,639	\$ 117,365	\$ 352,568	\$ 359,903
Fees and other	1,403	2,247	3,750	4,862
	117,042	119,612	356,318	364,765
<b>Operating Expenses</b>				
Payroll and related	43,433	43,654	131,986	136,293
Club operating	45,300	46,270	133,616	136,012
General and administrative	7,245	5,641	20,985	17,709
Depreciation and amortization	12,549	12,148	37,108	37,427
Insurance recovery related to damaged property	(694)		(3,194)	
Impairment of fixed assets	439	239	567	239
	108,272	107,952	321,068	327,680
Operating income	8,770	11,660	35,250	37,085
Loss on extinguishment of debt		1,010		1,010
Interest expense	5,523	6,542	16,308	18,027
Interest income		(25)	(1)	(43)
Equity in the earnings of investees and rental income	(594)	(632)	(1,843)	(1,852)
Income before provision for corporate income taxes	3,841	4,765	20,786	19,943
Provision for corporate income taxes	1,250	1,613	7,767	7,524
Net income	\$ 2,591	\$ 3,152	\$ 13,019	\$ 12,419
<b>Earnings per share:</b>				
Basic	\$ 0.11	\$ 0.13	\$ 0.54	\$ 0.53
Diluted	\$ 0.10	\$ 0.13	\$ 0.53	\$ 0.52

Weighted average number of shares used in  
calculating earnings per share:

Basic	24,101,239	23,581,631	24,007,310	23,331,877
Diluted	24,720,511	24,186,498	24,613,236	24,015,747

See notes to condensed consolidated financial statements.

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**TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**For the Three and Nine Months Ended September 30, 2013 and 2012**

(All figures in thousands)

(Unaudited)

	<b>Three Months Ended</b>		<b>Nine Months</b>	
	<b>September 30,</b>		<b>Ended</b>	
	<b>2013</b>	<b>2012</b>	<b>September 30,</b>	<b>2012</b>
<b>Statements of Comprehensive Income:</b>				
Net income	\$ 2,591	\$ 3,152	\$ 13,019	\$ 12,419
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net of tax	158	22	102	55
Interest rate swap, net of tax	42	(13)	255	(48)
Total other comprehensive income, net of tax	200	9	357	7
Total comprehensive income	\$ 2,791	\$ 3,161	\$ 13,376	\$ 12,426

See notes to condensed consolidated financial statements.

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	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 13,019	\$ 12,419
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37,108	37,427
Impairment of fixed assets	567	239
Loss on extinguishment of debt		1,010
Insurance recovery related to damaged property	(3,194)	
Amortization of debt discount	717	311
Amortization of debt issuance costs	818	866
Non-cash rental expense, net of non-cash rental income	(4,285)	(2,950)
Share-based compensation expense	1,592	787
Decrease in deferred tax asset	7,287	7,036
Net change in certain operating assets and liabilities	(4,604)	(11,033)
Decrease (increase) in deferred membership costs	1,617	(1,173)
Landlord contributions to tenant improvements	934	1,320
Decrease in insurance reserves	(1,036)	(2,124)
Other	(59)	(187)
Total adjustments	37,462	31,529
Net cash provided by operating activities	50,481	43,948
<b>Cash flows from investing activities:</b>		
Capital expenditures	(20,658)	(13,278)
Acquisition of businesses	(2,939)	
Insurance recovery related to damaged property	3,194	
Net cash used in investing activities	(20,403)	(13,278)
<b>Cash flows from financing activities:</b>		
Principal payments on 2011 Term Loan Facility		(36,007)
Proceeds from replacement 2011 Term Loan Facility lenders		13,796
Principal payments to non-consenting 2011 Term Loan Facility lenders		(13,796)

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Term loan repricing related financing costs			(2,707)
Cash dividends paid		(101)	
Proceeds from stock option exercises		403	2,279
Tax shortfall from stock option exercise and restricted stock vesting		(220)	
Net cash provided by (used in) financing activities		82	(36,435)
Effect of exchange rate changes on cash		43	(7)
Net increase (decrease) in cash and cash equivalents		30,203	(5,772)
Cash and cash equivalents beginning of period	\$	37,758	\$ 47,880
Cash and cash equivalents end of period	\$	67,961	\$ 42,108

**Summary of the change in certain operating assets and liabilities:**

Decrease (increase) in accounts receivable	\$	3,130	\$ (1,306)
Decrease (increase) in inventory		20	(34)
Increase in prepaid expenses and other current assets		(1,742)	(1,705)
Decrease in accounts payable, accrued expenses and accrued interest		(4,177)	(7,152)
Change in prepaid corporate income taxes and corporate income taxes payable		889	166
Decrease in deferred revenue		(2,724)	(1,002)