

BALLY TOTAL FITNESS HOLDING CORP

Form 10-Q

August 14, 2001

**FORM 10-Q**

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

☒ Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the period ended June 30, 2001

or

☐ Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

Commission file number: **0-27478**

**BALLY TOTAL FITNESS HOLDING CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

**36-3228107**

(State or other  
jurisdiction of  
incorporation)

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

**8700 West Bryn  
Mawr Avenue,  
Chicago, Illinois**

**60631**

(Address of  
principal  
executive  
offices)

(Zip Code)

Registrant's telephone number, including area code: (773) 380-3000

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: X  
No: \_\_\_\_\_

As of July 31, 2001, 28,967,820 shares of the registrant's common stock were outstanding.

## BALLY TOTAL FITNESS HOLDING CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BALLY TOTAL FITNESS HOLDING CORPORATION

Condensed Consolidated Balance Sheet

(Unaudited)

	June 30 2001	December 31 2000
	-----	-----
	(In thousands)	
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 12,137	\$ 13,074
Installment contracts receivable, net	293,347	286,053
Other current assets	66,160	61,516
	-----	-----
Total current assets	371,644	360,643
Installment contracts receivable, net	275,549	273,421
Property and equipment, less accumulated depreciation and amortization of \$460,600 and \$435,860	588,417	558,277
Intangible assets, less accumulated amortization of \$76,130 and \$72,071	151,081	153,113
Deferred income taxes	58,904	68,115
Deferred membership origination costs	117,747	114,129
Other assets	35,316	32,926
	-----	-----
	\$1,598,658	\$1,560,624
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 53,158	\$ 54,819
Income taxes payable	3,375	3,703
Deferred income taxes	39,263	49,217
Accrued liabilities	70,007	66,566

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Current maturities of long-term debt	20,192	17,589
Deferred revenues	305,489	306,493
	-----	-----
Total current liabilities	491,484	498,387
Long-term debt, less current maturities	613,949	674,349
Other liabilities	6,841	7,299
Deferred revenues	83,220	82,747
Stockholders' equity	403,164	297,842
	-----	-----
	\$1,598,658	\$1,560,624
	=====	=====

See accompanying notes.

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## BALLY TOTAL FITNESS HOLDING CORPORATION

### Consolidated Statement of Income

(Unaudited)

	Three months ended June 30	
	2001	2000
	-----	-----
(In thousands, except per share data)		
Net revenues:		
Membership revenues--		
Initial membership fees on financed memberships originated	\$ 137,381	\$ 134,621
Initial membership fees on paid-in-full memberships originated	5,793	5,624
Dues collected	72,808	71,752
Change in deferred revenues	5,652	(5,882)
	-----	-----
	221,634	206,115
Finance charges earned	17,323	17,103
Products and services	37,564	26,765
Miscellaneous revenue	4,761	2,750
	-----	-----
	281,282	252,733
Operating costs and expenses:		
Fitness center operations	125,577	117,845
Products and services	23,636	17,665
Member processing and collection centers	10,556	11,053
Advertising	16,558	14,077
General and administrative	6,956	6,674

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Provision for doubtful receivables	47,409	40,352
Depreciation and amortization	17,969	15,662
Change in deferred membership origination costs	(1,468)	(2,279)
	-----	-----
	247,193	221,049
	-----	-----
Operating income	34,089	31,684
Interest income	218	445
Interest expense	(14,675)	(16,009)
	-----	-----
Income before income taxes	19,632	16,120
Income tax provision	(400)	(250)
	-----	-----
Net income	\$ 19,232	\$ 15,870
	=====	=====
Basic earnings per common share	\$ 0.67	\$ 0.67
	=====	=====
Diluted earnings per common share	\$ 0.63	\$ 0.58
	=====	=====

See accompanying notes.

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## BALLY TOTAL FITNESS HOLDING CORPORATION

### Consolidated Statement of Income

(Unaudited)

	Six months ended June 30	
	2001	2000
	-----	-----
(In thousands, except per share data)		
Net revenues:		
Membership revenues--		
Initial membership fees on financed memberships originated	\$ 283,582	\$ 279,083
Initial membership fees on paid-in-full memberships originated	13,355	12,341
Dues collected	145,989	139,746
Change in deferred revenues	531	(22,183)
	-----	-----
	443,457	408,987
Finance charges earned	35,154	33,477
Products and services	74,000	53,380

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Miscellaneous revenue	9,007	6,774
	-----	-----
	561,618	502,618
Operating costs and expenses:		
Fitness center operations	249,994	232,683
Products and services	46,757	35,034
Member processing and collection centers	21,160	21,881
Advertising	32,417	28,910
General and administrative	14,199	13,819
Provision for doubtful receivables	96,052	83,759
Depreciation and amortization	35,881	30,947
Change in deferred membership origination costs	(3,618)	(5,912)
	-----	-----
	492,842	441,121
	-----	-----
Operating income	68,776	61,497
Interest income	484	935
Interest expense	(30,633)	(30,820)
	-----	-----
Income before income taxes	38,627	31,612
Income tax provision	(750)	(475)
	-----	-----
Net income	\$ 37,877	\$ 31,137
	=====	=====
Basic earnings per common share	\$ 1.42	\$ 1.31
	=====	=====
Diluted earnings per common share	\$ 1.28	\$ 1.13
	=====	=====

See accompanying notes.

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## BALLY TOTAL FITNESS HOLDING CORPORATION

### Consolidated Statement of Stockholders' Equity

(Unaudited)

	Common stock		Contributed capital	Accumulated deficit	Unearned compensation (restricted stock)	Co sto tre
	Shares	Par value				
	-----	-----	-----	-----	-----	-----
	(In thousands, except share data)					
Balance at December 31, 2000	24,352,946	\$ 249	\$ 508,639	\$ (188,514)	\$ (11,757)	\$ (1
Net income				37,877		

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Issuance of common stock through public offering	2,238,821	22	53,805			
Exercise of warrants	2,207,104	22	11,587			
Issuance of common stock under stock purchase and option plans	175,853	2	2,246			
Other	(11,361)		(344)		105	
	-----	-----	-----	-----	-----	-----
Balance at June 30, 2001	28,963,363	\$ 295	\$ 575,933	\$ (150,637)	\$ (11,652)	\$ (1,652)
	=====	=====	=====	=====	=====	=====

See accompanying notes.

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**BALLY TOTAL FITNESS HOLDING CORPORATION**

**Consolidated Statement of Cash Flows**

(Unaudited)

	<b>Six months ended June 30</b>	
	<b>2001</b>	<b>2000</b>
	-----	-----
	(In thousands)	
Operating:		
Net income	\$ 37,877	\$ 31,137
Adjustments to reconcile to cash provided--		
Depreciation and amortization, including		
amortization included in interest expense	37,753	33,122
Provision for doubtful receivables	96,052	83,759
Change in operating assets and liabilities	(118,502)	(125,264)
	-----	-----
Cash provided by operating activities	53,180	22,754
Investing:		
Purchases and construction of property and		
equipment	(47,966)	(57,245)
Acquisitions of businesses and other	(2,379)	(3,327)
	-----	-----
Cash used in investing activities	(50,345)	(60,572)
Financing:		
Debt transactions--		

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Net borrowings (repayments) under revolving credit agreement	(61,500)	36,500
Net repayments of other long-term debt	(9,956)	(9,379)
	-----	-----
Cash provided by (used in) debt transactions	(71,456)	27,121
Equity transactions--		
Proceeds from issuance of common stock through public offering	53,827	
Proceeds from exercise of warrants	11,609	
Proceeds from issuance of common stock under stock purchase and options plans	2,248	1,555
	-----	-----
Cash provided by (used in) financing activities	(3,772)	28,676
	-----	-----
Decrease in cash and equivalents	(937)	(9,142)
Cash and equivalents, beginning of period	13,074	23,450
	-----	-----
Cash and equivalents, end of period	\$ 12,137	\$ 14,308
	=====	=====

See accompanying notes.

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## BALLY TOTAL FITNESS HOLDING CORPORATION

### Consolidated Statement of Cash Flows (continued)

(Unaudited)

	Six months ended June 30	
	2001	2000
	-----	-----
	(In thousands)	

#### SUPPLEMENTAL CASH FLOWS INFORMATION:

Changes in operating assets and liabilities, were as follows--

Increase in installment contracts receivable	\$ (105,606)	\$ (140,926)
Increase in other current and other assets	(8,864)	(3,312)
Increase in deferred membership origination costs	(3,618)	(5,912)
Decrease in accounts payable	(1,661)	(1,051)
Decrease in income taxes payable	(678)	(445)
Increase in accrued and other liabilities	2,456	4,199
Increase (decrease) in deferred revenues	(531)	22,183
	-----	-----
	\$ (118,502)	\$ (125,264)



	=====	=====
Cash payments for interest and income taxes		
were as follows--		
Interest paid	\$ 31,353	\$ 29,752
Interest capitalized	(2,197)	(1,249)
Income taxes paid, net	1,428	920
Investing and financing activities exclude the		
following non-cash transactions--		
Acquisitions of businesses with common stock		\$ 8,950
Acquisitions of property and equipment		
through capital leases/borrowings	\$ 13,573	9,652
Debt, including assumed debt, related to		
acquisitions of businesses		7,577

See accompanying notes.

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## BALLY TOTAL FITNESS HOLDING CORPORATION

### Notes to Condensed Consolidated Financial Statements

(All dollar amounts in thousands)

(Unaudited)

#### Basis of presentation

The accompanying condensed consolidated financial statements include the accounts of Bally Total Fitness Holding Corporation (the Company) and the subsidiaries that it controls. The Company, through its subsidiaries, is a commercial operator of fitness centers in North America with nearly 400 facilities concentrated in 28 states and Canada. The Company operated in one industry segment, and all significant revenues arise from the commercial operation of fitness centers, primarily in major metropolitan markets in the United States and Canada. Unless otherwise specified in the text, references to the Company include the Company and its subsidiaries. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

All adjustments have been recorded which are, in the opinion of management, necessary for a fair presentation of the condensed consolidated balance sheet of the Company at June 30, 2001, its consolidated statements of income for the three and six months ended June 30, 2001 and 2000, its consolidated statement of stockholders' equity for the six months ended June 30, 2001, and its consolidated statements of cash flows for the six months ended June 30, 2001 and 2000. All such adjustments were of a normal recurring nature.

The accompanying condensed consolidated financial statements have been prepared in conformity with generally

accepted accounting principles which require the Company's management to make estimates and assumptions that affect the amounts reported therein. Actual results could vary from such estimates. In addition, certain reclassifications have been made to prior period financial statements to conform with the 2001 presentation.

### Seasonal factors

The Company's operations are subject to seasonal factors and, therefore, the results of operations for the six months ended June 30, 2001 and 2000 are not necessarily indicative of the results of operations for the full year.

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### Installment contracts receivable

	June 30 2001	December 31 2000
	-----	-----
Current:		
Installment contracts receivable	\$ 413,802	\$ 403,777
Unearned finance charges	(51,395)	(49,601)
Allowance for doubtful receivables and cancellations	(69,060)	(68,123)
	-----	-----
	\$ 293,347	\$ 286,053
	=====	=====
Long-term:		
Installment contracts receivable	\$ 376,516	\$ 361,812
Unearned finance charges	(25,115)	(24,237)
Allowance for doubtful receivables and cancellations	(75,852)	(64,154)
	-----	-----
	\$ 275,549	\$ 273,421
	=====	=====

### Allowance for doubtful receivables and cancellations

	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
	-----	-----	-----	-----
Balance at beginning of period	\$ 135,616	\$ 143,236	\$ 132,277	\$ 126,038
Contract cancellations and write-offs of uncollectible amounts, net of recoveries	(78,947)	(77,983)	(166,583)	(154,187)
Provision for cancellations (classified as a direct reduction of revenues)	40,834	46,352	83,166	96,347
Provision for doubtful receivables	47,409	40,352	96,052	83,759

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	-----	-----	-----	-----
Balance at end of period	\$ 144,912	\$ 151,957	\$ 144,912	\$ 151,957
	=====	=====	=====	=====

## Earnings per common share

Basic earnings per common share for each period is computed based on the weighted average number of shares of common stock outstanding of 28,620,179 and 23,816,907 for the three months ended June 30, 2001 and 2000, respectively, and 26,728,988 and 23,693,687 for the six months ended June 30, 2001 and 2000, respectively. Diluted earnings per common share for each period includes the addition of common stock equivalents of 1,961,111 and 3,738,812 for the three months ended June 30, 2001 and 2000, respectively, and 2,941,009 and 3,777,161 for the six months ended June 30, 2001 and 2000, respectively. Common stock equivalents represent the dilutive effect of the assumed exercise of outstanding warrants and stock options.

## Income taxes

As a result of the Company's improved operating results and trends, the Company continues to evaluate the need for its approximate \$100,000 valuation allowance offsetting the deferred tax assets that otherwise arise from its approximate \$440,000 of tax loss carryforwards. As required by Financial Accounting Standard No. 109, *Accounting for Income Taxes*, management expects, during the third quarter of 2001, to complete its re-evaluation of the tax valuation allowance and determine an appropriate amount to be reversed. The Company believes this reduction will range between \$15,000 to \$25,000. Any reversal of the tax valuation allowance will be reflected as a reduction of the income tax provision, therefore increasing net income.

## New accounting pronouncements

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, which requires companies to recognize all derivatives as either assets or liabilities in the balance sheet and measure such instruments at fair value. The Company has adopted SFAS 133, as amended, as of January 1, 2001. There has been no impact on the Company's consolidated financial statements resulting from the adoption of SFAS 133, as amended.

**BALLY TOTAL FITNESS HOLDING CORPORATION**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Comparison of the Three Months Ended June 30, 2001 and 2000**

Net revenue for the second quarter of 2001 was \$281.3 million compared to \$252.7 million in 2000, an increase of \$28.5 million (11%). Net revenues from comparable fitness centers increased 8%. This increase in net revenues resulted from the following:

- New membership units sold increased 2% over the prior year period while the weighted-average selling price of membership contracts sold was generally unchanged compared to last year as a result of the continued availability of a selection of shorter-term and seasonal membership programs designed to attract incremental members with lower average initiation fees than the Company's full membership plans. As a result, membership fees originated increased \$2.9 million (2%). After deferral accounting, revenues from initial membership fees grew \$8.6 million or 6% over the prior year's quarter.
- Dues collected increased \$1.1 million over the prior year period despite the unusually high prepayments as reported during last year's second quarter, reflecting continued improvements in member retention and pricing trends. Total dues revenue included in income, net of changes in prepaid dues, increased by \$6.9 million (10%) as a result of a \$5.8 million increase in deferred dues revenue, related to the aforementioned prepayments, realized over the prior year quarter.
- Finance charges earned during the second quarter of 2001 were up 1% compared to the 2000 quarter reflecting continued growth in member receivables, notwithstanding the impact of the March 2001 sale of approximately 8% of the Company's receivable portfolio to a major financial institution. Membership receivables written off in the current period, as a percent of average membership receivables, was consistent with prior periods. The percentage of accounts current with all contractual payments, which varies seasonally, was 88% at the end of both periods. The average interest rate for finance charges to members was substantially unchanged between the periods.
- Products and services revenue increased \$10.8 million (40%) over the 2000 quarter, primarily reflecting the continued growth of personal training services and nutritional and other retail product sales.
- Miscellaneous revenue increased \$2.0 million over the 2000 quarter, primarily reflecting additional revenue from co-marketing partnerships.

The weighted-average number of fitness centers increased to 386 in the second quarter of 2001 from 375 in the second quarter of 2000, an increase of 3%, including an increase in the weighted-average number of centers operating under the Company's four upscale brands from 34 to 37.

Operating income for the second quarter of 2001 was \$34.1 million compared to \$31.7 million in 2000. The increase of \$2.4 million (8%) was due to a \$28.5 million (11%) increase in net revenue, offset, in part, by an increase in operating costs and expenses of \$23.8 million (12%) and a \$2.3 million increase in depreciation and amortization. The operating margin before depreciation and amortization was 19% in each period. The 2001 margin was negatively impacted by 2% as a result of higher energy costs and the lower margins associated with a greater number of new clubs opened over the previous 12 months. Excluding the provision for doubtful receivables, depreciation and amortization and the effect of deferral accounting, operating costs and expenses increased \$16.0 million (10%) from 2000. Fitness center operating expenses increased \$7.7 million (7%) due principally to incremental costs of operating new fitness centers and higher energy costs. Products and services expenses increased \$6.0 million (34%) to support the revenue growth of product and service offerings. Operating income from products and services increased to \$13.9 million from \$9.1 million in the prior year quarter, with an operating margin of 37% in 2001 compared to 34% in the 2000 quarter. Member processing and collection center expenses decreased \$.5 million as a result of an expense reimbursement from servicing

fees associated with servicing the portion of the receivable portfolio that was sold in March 2001 to a major financial institution. Advertising expenses increased \$2.5 million (18%) compared to the prior year due to a change in advertising strategy to reach new segments of prospective customers and to support clubs in new markets. General and administrative expenses increased 4% compared to the prior year quarter to support the Company's overall growth. Depreciation and amortization expense increased \$2.3 million (15%) as a result of increased expenditures for property and equipment and acquired fitness centers during the past two years.

The provision for doubtful receivables combined with the provision for cancellations, which is reported in the financial statements as a direct reduction of initial membership fees on financed memberships originated, totaled 41% of the gross financed portion of originations for both periods. However, the provision for cancellations for the 2001 quarter was 19% compared to 21% for the second quarter of 2000 reflecting the continued improvement in the experience of actual cancellations from sales during the June 2001 quarter. Notwithstanding this improvement, which may have residual positive effects, the provision for doubtful receivables for the second quarter of 2001 was increased to offset this improvement and maintain a combined provision rate of 41%. The Company believes it is prudent to measure sustained collection improvements over a longer period before changing the overall provision rate.

Excluding the aforementioned decrease in prepaid dues, deferral accounting increased earnings by \$5.5 million for 2001 compared to an increase in earnings of \$.6 million in 2000.

Interest expense was \$14.7 million for the second quarter of 2001 compared to \$16.0 million in 2000. The \$1.3 million decrease was primarily due to lower average levels of debt outstanding during the 2001 period as compared to 2000.

The income tax provisions for the second quarters of 2001 and 2000 reflect state income taxes only. The federal provisions were offset by the utilization of prior years' net operating losses.

### **Comparison of the Six Months Ended June 30, 2001 and 2000**

Net revenue for the first six months of 2001 was \$561.6 million compared to \$502.6 million in 2000, an increase of \$59.0 million (12%). Net revenues from comparable fitness centers increased 9%. This increase in revenues resulted from the following:

- New membership units sold increased 1% over the prior year period while the weighted-average selling price of membership contracts sold increased 1% as a result of the continued availability of a selection of shorter-term and seasonal membership programs. As a result, membership fees originated increased \$5.5 million (2%). After deferral accounting, revenues from initial membership fees grew \$22.7 million or 8% over the prior year period.
- Dues collected increased \$6.2 million (4%) from the 2000 period despite the unusually high prepayments as reported during last year's period, reflecting continued improvements in member retention and pricing trends. Total dues revenue included in income, net of changes in prepaid dues, increased by \$11.8 million (9%) in part as a result of a \$5.6 million increase in deferred dues revenue, related to the aforementioned prepayments, realized over the prior year period.
- Finance charges earned during the first six months of 2001 increased \$1.7 million (5%) compared to the 2000 period reflecting continued growth in member receivables, notwithstanding the impact of the March 2001 sale

of appropriately 8% of the Company's receivable portfolio to a major financial institution. Membership receivables written off in the current period, as a percent of average membership receivables, was consistent with prior periods. The average interest rate for finance charges to members was substantially unchanged between the periods.

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- Products and services revenue increased \$20.6 million (39%) from the 2000 period, primarily reflecting the continued growth of personal training services and nutritional and other retail product sales.
- Miscellaneous revenue increased \$2.2 million (33%) over the 2000 period, primarily reflecting additional revenue from co-marketing partnerships.

The weighted-average number of fitness centers increased to 385 in the first six months of 2001 from 371 in 2000, an increase of 4%, including an increase in the weighted-average number of centers operating under the Company's four upscale brands from 34 to 36.

Operating income for the first six months of 2001 was \$68.8 million compared to \$61.5 million in 2000. The increase of \$7.3 million (12%) was due to a \$59.0 million (12%) increase in net revenue, offset, in part, by an increase in operating costs and expenses of \$46.8 million (11%) and a \$4.9 million increase in depreciation and amortization. The operating margin before depreciation and amortization increased to 19% for the first six months of 2001 from 18% for the 2000 period. The 2001 margin was negatively impacted by 2% as a result of higher energy costs and the lower margins associated with a greater number of new clubs opened over the previous 12 months. Excluding the provision for doubtful receivables, depreciation and amortization and the effect of deferral accounting, operating costs and expenses increased \$32.2 million (10%) from 2000. Fitness center operating expenses increased \$17.3 million (7%) due principally to incremental costs of operating new fitness centers and higher energy costs. Products and services expenses increased \$11.7 million (33%) to support the revenue growth of product and service offerings. Operating income from products and services, increased to \$27.2 million from \$18.3 million in the prior year period, with an operating margin of 37% in 2001 compared to 34% in the 2000 period. Member processing and collection center expenses decreased \$.7 million as a result of an expense reimbursement from servicing fees associated with servicing the portion of the receivable portfolio that was sold in March 2001 to a major financial institution. Advertising expenses increased \$3.5 million (12%) compared to the prior year due to a change in advertising strategy to reach new segments of prospective customers and to support clubs in new markets. General and administrative expenses increased 3% compared to the prior year period to support the Company's overall growth. Depreciation and amortization expense increased \$4.9 million (16%) largely as a result of increased expenditures for property and equipment and acquired fitness centers during the past two years.

The provision for doubtful receivables combined with the provision for cancellations, which is reported in the financial statements as a direct reduction of initial membership fees on financed memberships originated, totaled 41% of the gross financed portion of originations for both periods. However, the provision for cancellations for the six months ended June 30, 2001 was 19% compared to 21% for the six months ended June 30, 2000 reflecting the continued improvement in the experience of actual cancellations from sales during the 2001 period. Notwithstanding this improvement, which may have residual positive effects, the provision for doubtful receivables for the six months ended June 30, 2001 was increased to offset this improvement and maintain a combined provision rate of 41%.

Excluding the aforementioned decrease in prepaid dues, deferral accounting increased earnings by \$1.9 million for 2001 compared to a reduction in earnings of \$12.9 million in 2000.

Interest expense was \$30.6 million for the first six months of 2001 compared to \$30.8 million in 2000.

The income tax provisions for the first six months of 2001 and 2000 reflect state income taxes only. The federal provisions were offset by the utilization of prior years' net operating losses.

### **Liquidity and Capital Resources**

In March 2001, we sold 2,238,821 shares of our common stock to the public and the Estate of Arthur M. Goldberg, our former Chairman, exercised an outstanding warrant to purchase 2,207,104 shares of common

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stock. We received net proceeds from these transactions of approximately \$65 million, which was used principally to reduce bank debt.

Also in March 2001, we sold to a major financial institution approximately 8% of our receivables portfolio at net book value. We received initial proceeds of approximately \$45 million from this transaction, and used the proceeds to reduce debt.

Cash flow from operating activities was \$53.2 million for the first six months of 2001 compared to \$22.8 million in the 2000 period. The net effect of the sale of receivables in March 2001 was to increase cash flow from operating activities during the first six months of 2001 by \$31.8 million. Exclusive of the receivables sale offset by the aforementioned change in dues prepayments of \$5.6 million, cash flow from operating activities increased by 18%. Despite the \$31.8 million acceleration of receivables collections, as of June 30, 2001, net installment contracts receivable grew \$9.4 million in the preceding six months and \$25.2 million in the preceding twelve months.

Our bank credit facility, dated November 10, 1999, provides up to \$175.0 million of availability consisting of a five-year \$75.0 million term loan and a \$100.0 million three-year revolving credit facility. The amount available under the revolving credit facility is reduced by any outstanding letters of credit, which cannot exceed \$30.0 million. As of June 30, 2001, the Company had drawn \$8.0 million on its \$100 million revolving credit line and had outstanding letters of credit totaling \$5.6 million. The \$75.0 million term loan is repayable in 19 quarterly installments, commencing March 31, 2000, of \$250,000, with a final installment of \$70.3 million due in November 2004. We have no scheduled principal payments under our subordinated debt until October 2007, and the principal amount of the certificates under our securitization facility remains fixed at \$160.0 million through July 2001. Our debt service requirements, including interest, through June 30, 2002 are approximately \$78.3 million. The debt service requirements include principal payments on the securitization, which begin in August 2001. It is anticipated that we will either refinance our securitization facility or complete further bulk sales of a portion of our accounts receivable portfolio prior to year-end, although there can be no assurance we will be able to complete these transactions. We believe to the extent required, that we will be able to satisfy these requirements for debt service and capital expenditures out of available cash balances, cash flow from operations and borrowings on the revolving credit facility.

We are authorized to repurchase up to 1,500,000 shares of our common stock on the open market from time to time. We have repurchased 625,100 shares at an average price of \$18 per share. No purchases have been made since November 1999.

During the first six months of 2001, we invested approximately \$48.0 million in property and equipment, including approximately \$28.0 million related to new fitness centers and \$5.0 million related to major upgrades and expansions, including new equipment, of existing fitness centers.

### Forward-Looking Statements

Forward-looking statements in this Form 10-Q including, without limitation, statements relating to our plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These factors include, among others, the following: general economic and business conditions; competition; success of operating initiatives, advertising and promotional efforts; existence of adverse publicity or litigation; acceptance of new product offerings; changes in business strategy or plans; quality of management; availability, terms, and development of capital; business abilities and judgment of personnel; changes in, or the failure to comply with, government regulations; regional weather conditions; and other factors described in this Form 10-Q or in other of our filings with the Securities and Exchange Commission. We are under no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## BALLY TOTAL FITNESS HOLDING CORPORATION

### PART II. OTHER INFORMATION

#### Item 4. Submission of matters to a vote of security holders

At the Company's annual meeting of stockholders held on June 8, 2001, the stockholders considered and voted on the following:

Two persons nominated by the Board of Directors for election as directors of Class II for three-year terms expiring in 2004 or until their successors have been duly elected, along with the voting results which resulted in each nominee being elected as a director, were as follows:

Nominees	Votes cast for	Votes withheld
Lee S. Hillman	26,032,400	733,520
James F. McAnally, M.D.	26,692,194	73,726



**Item 6. Exhibits and reports on Form 8-K**

(b) Reports on Form 8-K:

Date	Items	Financial Statements
May 8, 2001	#5 and #7	None

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**BALLY TOTAL FITNESS HOLDING CORPORATION**

**SIGNATURE PAGE**

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, thereunto duly authorized.

**BALLY TOTAL FITNESS HOLDING CORPORATION**

\_\_\_\_\_  
Registrant

\_\_\_\_\_  
/s/ John W. Dwyer

\_\_\_\_\_  
John W. Dwyer  
Executive Vice President and Chief Financial Officer  
(principal financial officer)

Dated: August 14, 2001

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