TOWN SPORTS INTERNATIONAL HOLDINGS INC
Form 10-Q
April 28, 2010

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

Form 10-Q

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

For the quarterly period ended March 31, 2010

or

o **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	**20-0640002**
(State or other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification Number)*

5 Penn Plaza (4th Floor)
New York, New York 10001
Telephone: (212) 246-6700

(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 þ No o

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 o No o

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.:

o Large accelerated filer	þ Accelerated filer	o Non-accelerated filer	o Smaller reporting company
		(Do not check if smaller reporting company)	

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

As of April 23, 2010, there were 22,613,748 shares of Common Stock of the registrant outstanding.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES
FORM 10-Q
For the Three Months Ended March 31, 2010
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TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
March 31, 2010 and December 31, 2009
(All figures in $ 000s except share data)
(Unaudited)

	March 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,046	$ 10,758
Accounts receivable (less allowance for doubtful accounts of $2,415 and $2,410 as of March 31, 2010 and December 31, 2009, respectively)	5,035	4,295
Inventory	298	224
Prepaid corporate income taxes	442	1,274
Prepaid expenses and other current assets	7,383	10,264
Total current assets	38,204	26,815
Fixed assets, net	328,401	340,277
Goodwill	32,636	32,636
Intangible assets, net	100	149
Deferred tax assets, net	52,480	50,581
Deferred membership costs	5,089	6,079
Other assets	10,466	10,929
Total assets	$ 467,376	$ 467,466
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Current portion of long-term debt	$ 1,850	$ 1,850
Accounts payable	4,772	6,011
Accrued expenses	26,388	23,656
Accrued interest	2,778	6,573
Deferred revenue	38,813	35,346
Total current liabilities	74,601	73,436
Long-term debt	316,050	316,513
Deferred lease liabilities	70,642	71,438
Deferred revenue	2,040	1,488
Other liabilities	12,750	12,824
Total liabilities	476,083	475,699
Contingencies (Note 9)		
Stockholders deficit :		
Common stock, $.001 par value; issued and outstanding 22,613,748 and 22,603,199 shares at March 31, 2010 and December 31, 2009, respectively	23	23
Paid-in capital	(22,185)	(22,572)
Accumulated other comprehensive income (currency translation adjustment)	1,198	1,327

Retained earnings	12,257	12,989
Total stockholders deficit	(8,707)	(8,233)
Total liabilities and stockholders deficit	$ 467,376	$ 467,466

See notes to condensed consolidated financial statements.

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the three months ended March 31, 2010 and 2009
(All figures in $ 000s except share and per share data)
(Unaudited)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Revenues:		
Club operations	$ 116,595	$ 125,468
Fees and other	1,164	1,241
	117,759	126,709
Operating Expenses:		
Payroll and related	48,511	50,747
Club operating	43,468	46,610
General and administrative	8,939	8,347
Depreciation and amortization	13,654	14,296
Impairment of fixed assets	389	1,131
	114,961	121,131
Operating income	2,798	5,578
Interest expense	5,184	5,277
Interest income	(18)	(1)
Equity in the earnings of investees and rental income	(536)	(611)
(Loss) income before provision for corporate income taxes	(1,832)	913
(Benefit) provision for corporate income taxes	(1,100)	274
Net (loss) income	$ (732)	$ 639
(Loss) earnings per share:		
Basic	$ (0.03)	$ 0.03
Diluted	$ (0.03)	$ 0.03
Weighted average number of shares used in calculating (loss) earnings per share:		
Basic	22,605,236	23,207,417
Diluted	22,605,236	23,245,843
Statements of Comprehensive (Loss) Income		
Net (loss) income	$ (732)	$ 639
Foreign currency translation adjustments	(129)	(320)
Comprehensive (loss) income	$ (861)	$ 319

See notes to condensed consolidated financial statements.

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2010 and 2009
(All figures in $ 000s)
(Unaudited)

	Three Months Ended March 31,	
	2010	**2009**
Cash flows from operating activities:		
Net (loss) income	$ (732)	$ 639
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	13,654	14,296
Impairment of fixed assets	389	1,131
Non-cash interest expense on Senior Discount Notes		1,203
Amortization of debt issuance costs	253	200
Non-cash rental expense, net of non-cash rental income	(934)	(245)
Compensation expense incurred in connection with stock options and common stock grants	369	415
Increase in deferred tax asset	(1,899)	(1,000)
Net change in certain operating assets and liabilities	5,485	2,042
Decrease in deferred membership costs	990	469
Landlord contributions to tenant improvements	100	1,958
(Decrease) increase in insurance reserves	(229)	1,512
Other	172	(41)
Total adjustments	18,350	21,940
Net cash provided by operating activities	17,618	22,579
Cash flows from investing activities:		
Capital expenditures	(2,809)	(18,460)
Net cash used in investing activities	(2,809)	(18,460)
Cash flows from financing activities:		
Proceeds from borrowings on Revolving Loan Facility		41,000
Repayment of borrowings on Revolving Loan Facility		(42,000)
Repayment of long term borrowings	(463)	(463)
Change in book overdraft		174
Repurchase of common stock		(5,355)
Tax benefit from stock option exercises	18	
Net cash used in financing activities	(445)	(6,644)

Effect of exchange rate changes on cash		(76)		(263)
Net increase (decrease) in cash and cash equivalents		14,288		(2,788)
Cash and cash equivalents beginning of period		10,758		10,399
Cash and cash equivalents end of period	$	25,046	$	7,611
Summary of the change in certain operating assets and liabilities:				
Increase in accounts receivable	$	(752)	$	(958)
Increase in inventory		(74)		(179)
Decrease in prepaid expenses and other current assets		2,740		1,148
Increase (decrease) in accounts payable, accrued expenses and accrued interest		2,527		(1,550)
(Decrease) increase in accrued interest on Senior Discount Notes		(3,807)		2,538
Change in prepaid corporate income taxes and corporate income taxes payable		831		546
Increase in deferred revenue		4,020		497
Net change in certain working capital components	$	5,485	$	2,042
Supplemental disclosures of cash flow information:				
Cash payments for interest	$	8,971	$	1,723
Cash payments for income taxes	$	30	$	460

See notes to condensed consolidated financial statements.

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In $ 000s except share and per share data)
(Unaudited)

1. Basis of Presentation

As of March 31, 2010, Town Sports International Holdings, Inc. (the Company or TSI Holdings), through its wholly-owned subsidiary, Town Sports International, LLC (TSI, LLC), operated 161 fitness clubs (clubs) comprised of 109 clubs in the New York metropolitan market under the New York Sports Clubs brand name, 25 clubs in the Boston market under the Boston Sports Clubs brand name, 18 clubs (two of which are partly-owned) in the Washington, D.C. market under the Washington Sports Clubs brand name, six clubs in the Philadelphia market under the Philadelphia Sports Clubs brand name and three clubs in Switzerland. The Company s operating segments are New York Sports Clubs, Boston Sports Clubs, Philadelphia Sports Clubs, Washington Sports Clubs and Swiss Sports Clubs. The Company has determined that our operating segments have similar economic characteristics and meet the criteria which permit them to be aggregated into one reportable segment.

The condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). The condensed consolidated financial statements should be read in conjunction with the Company s December 31, 2009 consolidated financial statements and notes thereto, included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (US GAAP). Certain information and footnote disclosures that are normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to SEC rules and regulations. The information reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the interim periods set forth herein. The results for the three months ended March 31, 2010 are not necessarily indicative of the results for the entire year ending December 31, 2010.

As disclosed in Note 2 Correction of an Accounting Error to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed with the SEC, the results for the year ended December 31, 2009 include the correction of an accounting error that resulted in a cumulative charge to payroll and related expense and a related decrease in deferred membership costs on the Company s consolidated statement of operations and consolidated balance sheet, respectively. The Company determined that the impact of this error on all prior periods, as well as the correction of the error in the quarter ended December 31, 2009, was immaterial to all periods and accordingly, the Company did not restate its prior period results. The Company is no longer deferring a portion of membership consultants salaries and related taxes and benefits, however it will continue to defer membership consultants commissions and bonuses and portions of taxes and benefits related to those commissions and bonuses. The results for the three months ended March 31, 2009 include an overstatement of payroll and related expense for costs related to prior periods of $188, net of taxes.

Certain reclassifications were made to the reported amounts as of December 31, 2009 to conform to the presentation as of March 31, 2010 and to the reported amounts for the three months ended March 31, 2009 to conform to the presentation for the three months ended March 31, 2010.

2. Recent Accounting Pronouncements

In May 2009, the FASB issued guidance regarding subsequent events, which was subsequently updated in February 2010. This guidance established general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. In particular, this guidance set forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This guidance was effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009, and was therefore adopted by the Company for the second quarter 2009 reporting. The adoption did not have a significant impact on the subsequent events that the Company reports, either through recognition or disclosure, in the condensed consolidated financial statements. In February 2010, the FASB amended its guidance on subsequent events to remove the requirement to disclose the date through which an entity has evaluated subsequent events, alleviating conflicts with current SEC guidance. This amendment was effective immediately.

In September 2009, the FASB issued new accounting guidance related to the revenue recognition of multiple element arrangements. The new guidance states that if vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, companies will be required to develop a best estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. The accounting guidance will be applied prospectively and will become effective during the first quarter of 2011. The

Company does not expect this accounting guidance to have a material impact on our financial position or results of operations.

Effective January 1, 2010, the Company adopted the FASB issued guidance which changes the way that companies account for Variable Interest Entities (VIEs). The adoption of this guidance did not have an impact on our consolidated financial statements. The Company has investments in two partly-owned clubs, Capitol Hill Squash Club Associates (CHSCA) and Kalorama Sports Management Associates (KSMA) (collectively, the Affiliates). The Company accounts for these Affiliates in accordance with the equity method of accounting.

The Company has a limited partnership interest in CHSCA, which provides the Company with approximately 20% of the CHSCA profits. The Company has a co-general partnership and limited partnership interests in KSMA, which entitles it to receive approximately 45% of the KSMA profits. The Affiliates have operations, which are similar, and related to, those of the Company. The Company has determined that the Affiliates are VIEs, however, the Company is not the primary beneficiary.

The Company s maximum exposure to loss as a result of its involvement with the Affiliates is limited to its investment balance plus any outstanding intercompany receivable. The assets, liabilities, equity and operating results of the Affiliates and the Company s pro rata share of the Affiliates net assets and operating results were not material for all periods presented.

3. Long-Term Debt

	March 31, 2010	December 31, 2009
Term Loan Facility	$ 179,450	$ 179,913
11% Senior Discount Notes	138,450	138,450
	317,900	318,363
Less: Current portion due within one year	1,850	1,850
Long-term portion	$ 316,050	$ 316,513

On February 27, 2007, the Company entered into a $260,000 senior secured credit facility (the 2007 Senior Credit Facility). The 2007 Senior Credit Facility consists of an $185,000 term loan facility (the Term Loan Facility) and a $75,000 revolving credit facility (the Revolving Loan Facility).

On July 15, 2009, the Company and TSI, LLC entered into the First Amendment to the 2007 Senior Credit Facility (the Amendment), which amended the definition of Consolidated EBITDA as defined in the 2007 Senior Credit Facility, to permit TSI, LLC (as Borrower), solely for purposes of determining compliance with the maximum total leverage ratio covenant, to add back the amount of non-cash charges relating to the impairment or write-down of fixed assets, intangible assets and goodwill. The Amendment also reduced the total Revolving Loan Facility by 15%, from $75,000 to $63,750. Additionally, the Company incurred an aggregate of approximately $615 in fees and expenses related to the Amendment.

Borrowings under the Term Loan Facility, at TSI, LLC s option, bear interest at either the administrative agent s base rate plus 0.75% or its Eurodollar rate plus 1.75%, each as defined in the 2007 Senior Credit Facility. The Term Loan Facility matures on the earlier of February 27, 2014, or August 1, 2013, if the 11% Senior Discount Notes are still outstanding. TSI, LLC is required to repay 0.25% of principal, or $463 per quarter. As of March 31, 2010, the Company has paid $5,550 of the outstanding principal.

The Revolving Loan Facility expires on February 27, 2012 and borrowings under the facility currently, at TSI, LLC s option, bear interest at the administrative agent s base rate plus 1.25% or the Eurodollar rate plus 2.25%, as defined in the 2007 Senior Credit Facility. The Revolving Loan Facility contains a maximum total leverage covenant ratio of 4.25:1.00, which covenant is subject to compliance, on a consolidated basis, only during the period in which borrowings and letters of credit are outstanding thereunder. As of March 31, 2010, the Company s leverage ratio was

2.39:1.00. As of March 31, 2010, there were no outstanding Revolving Loan Facility borrowings and outstanding letters of credit issued totaled $15,056. The unutilized portion of the Revolving Loan Facility as of March 31, 2010 was $48,694.

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Fair Market Value

Based on quoted market prices, the 11% Senior Discount Notes and the Term Loan Facility had a fair value of approximately $119,240 and $168,683, respectively at March 31, 2010 and $83,762 and $165,519, respectively at December 31, 2009.

4. (Loss) Earnings Per Share

Basic (loss) earnings per share is computed by dividing net income applicable to common stockholders by the weighted average numbers of shares of common stock outstanding during the period. Diluted earnings per share is computed similarly to basic earnings per share, except that the denominator is increased for the assumed exercise of dilutive stock options and unvested restricted stock using the treasury stock method.

The following table summarizes the weighted average number of common shares for basic and diluted earnings (loss) per share (EPS) computations.

	Three Months Ended March 31,	
	2010	**2009**
Weighted average number of common share outstanding basic	22,605,236	23,207,417
Effect of dilutive stock options		38,426
Weighted average number of common shares outstanding diluted	22,605,236	23,245,843
(Loss) earnings per share:		
Basic	$ (0.03)	$ 0.03
Diluted	$ (0.03)	$ 0.03

For the three months ended March 31, 2009, we did not include options and restricted stock awards totaling 1,841,955 shares of the Company s common stock in the calculations of diluted EPS because the exercise prices of those options were greater than the average market price and their inclusion would be anti-dilutive.

For the three months ended March 31, 2010, there was no effect of dilutive stock options and restricted common stock on the calculation of diluted loss per share as the Company had a net loss for this period.

5. Common Stock and Stock-Based Compensation

The Company s 2006 Stock Incentive Plan, as amended and restated (the 2006 Plan), authorizes the Company to issue up to 2,500,000 shares of Common Stock to employees, non-employee directors and consultants pursuant to awards of stock options, stock appreciation rights, restricted stock, in payment of performance shares or other stock-based awards. Under the 2006 Plan, stock options must be granted at a price not less than the fair market value of the stock on the date the option is granted, generally are not subject to re-pricing, and will not be exercisable more than ten years after the date of grant. Options granted under the 2006 Plan generally qualify as non-qualified stock options under the U.S. Internal Revenue Code of 1986, as amended. The 2006 Plan was approved by stockholders at the 2008 Annual Meeting of Stockholders on May 15, 2008. Certain options granted under the Company s 2004 Common Stock Option Plan, as amended (the 2004 Plan), generally qualify as incentive stock options under the U.S. Internal Revenue Code; the exercise price of a stock option granted under this plan may not be less than the fair market value of Common Stock on the option grant date.

At March 31, 2010, the Company had 277,480 and 1,879,023 shares of restricted stock and stock options outstanding under the 2004 Plan and the 2006 Plan, respectively.

Option Grants

Options granted during the three months ended March 31, 2010 to employees of the Company and members of the Company s Board of Directors were as follows:

Date	Number of Options	Exercise Price	Black-Scholes Valuation	Volatility	Dividend Yield	Risk Free Interest Rate	Expected Term (Years)
January 4, 2010	7,000	$ 2.47	$ 1.73	83.99%	0.0%	2.83%	5.50
January 4, 2010	7,500	$ 2.47	$ 1.81	83.99%	0.0%	3.18%	6.25
Total	14,500						

The total compensation expense, classified within Payroll and related on the condensed consolidated statements of operations, related to options outstanding under the 2006 Plan and the 2004 Plan was $347 and $385 for the three months ended March 31, 2010 and March 31, 2009, respectively.

As of March 31, 2010, a total of $1,820 in unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 3.3 years.

Restricted Stock Grants

The total compensation expense, classified within Payroll and related on the condensed consolidated statements of operations, related to restricted stock granted under the 2006 Plan and the 2004 Plan was $9 for the three months ended March 31, 2010 and $13 for the three months March 31, 2009.

As of March 31, 2010, a total of $64 in unrecognized compensation expense related to restricted stock grants is expected to be recognized over a weighted-average period of 2.4 years. There was no restricted stock granted during the three months ended March 31, 2010.

Non-Restricted Stock Grants

In the three months ended March 31, 2010, the Company issued non-restricted common stock grants to the Company s Board of Directors. The total fair value of the shares issued was expensed upon the grant dates. Total shares issued were:

Date	Number of Shares	Price Per Share	Grant Date Fair Value
March 25, 2010	3,049	$4.10	$ 13

6. Fixed Asset Impairment

Fixed assets are evaluated for impairment periodically whenever events or changes in circumstances indicate that related carrying amounts may not be recoverable from undiscounted cash flows in accordance with FASB released guidance. The Company s long-lived assets and liabilities are grouped at the individual club level which is the lowest level for which there is identifiable cash flow. To the extent that estimated future undiscounted net cash flows attributable to the assets are less than the carrying amount, an impairment charge equal to the difference between the carrying value of such asset and its fair value is recognized. In the three months ended March 31, 2010, the Company tested seven underperforming clubs and recorded impairment losses of $389 on leasehold improvements and furniture and fixtures at two of these clubs that experienced decreased profitability and sales levels below expectations and were therefore written down to their fair values of zero. The five clubs tested that did not have impairment charges had an aggregate of $4,997 of net leasehold improvements and furniture and fixtures remaining as of March 31, 2010.

The fair values of fixed assets evaluated for impairment were calculated using Level 3 inputs using discounted cash flows, which are based on internal budgets and forecasts through the end of each respective lease. The most significant assumptions in those budgets and forecasts relate to estimated membership and ancillary revenue, attrition rates, and maintenance capital expenditures, which are estimated at approximately 3% of total revenues. The Company s non-financial assets and liabilities that are reported at fair value on a non-recurring basis in the accompanying condensed consolidated balance sheet, as of March 31, 2010, were as follows:

		Basis of Fair Value Measurements		
	Fair Value of Assets (Liabilities)	Quoted Prices in Active markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed assets	$	$	$	$

The impairment losses are included as a separate line in operating income on the condensed consolidated statement of operations.

7. Goodwill and Other Intangibles

Goodwill has been allocated to reporting units that closely reflect the regions served by our four trade names: New York Sports Clubs (NYSC), Boston Sports Clubs (BSC), Washington Sports Clubs (WSC) and Philadelphia Sports Clubs (PSC), with certain more remote clubs that do not benefit from a regional cluster being considered single reporting units (Outlier Clubs) and our three clubs located in Switzerland being considered a single reporting unit (SSC). The Company has one Outlier Club with goodwill. As of March 31, 2010, the BSC, WSC and PSC regions do not have goodwill balances.

In the three months ended March 31, 2010 and 2009, the Company performed its annual impairment test. The March 31, 2010 and 2009 impairment tests supported the recorded goodwill balances and as such no impairment of goodwill was required. The valuation of reporting units requires assumptions and estimates of many critical factors, including revenue and market growth, operating cash flows and discount rates.

Goodwill impairment testing is a two-step process. Step 1 involves comparing the fair value of the Company s reporting units to their carrying amounts. If the fair value of the reporting unit is greater than its carrying amount, there is no impairment. If the reporting unit s carrying amount is greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step 2 calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in Step 1. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized equal to the difference. The Company did not have a goodwill impairment charge in the reporting units with remaining goodwill as a result of the interim test given the profitability of these units.

Fair value was determined by using a weighted combination of two market-based approaches (weighted 25% each) and an income approach (weighted 50%), as this combination was deemed to be the most indicative of the Company s fair value in an orderly transaction between market participants. Under the market-based approaches, the Company utilized information regarding the Company, the Company s industry as well as publicly available industry information to determine earnings multiples and sales multiples that are used to value the Company s reporting units. Under the income approach, the Company determined fair value based on estimated future cash flows of each reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and operating margins, discount rates and future market conditions, among others.

Solely for purposes of establishing inputs for the fair value calculations described above related to goodwill impairment testing, the Company made the following assumptions. The Company developed long-range financial forecasts (five years or longer) for all reporting units. The Company used discount rates ranging between 12.5% and

16.6%, compounded annual revenue growth ranging from 1.0% to 6.3% and a terminal growth rate of 3%. These assumptions were calculated separately for each reporting unit. Given the current economic and consumer environment and the uncertainties regarding the impact on the Company s business, there can be no assurance that the Company s estimates and assumptions regarding the duration of the ongoing economic downturn, or the period or strength of recovery, made for purposes of the Company s goodwill impairment testing as of March 31, 2010, will prove to be accurate predictions of the future. If the Company s assumptions regarding forecasted revenue or margin growth rates of certain reporting units are not achieved, the Company may be required to record additional goodwill

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impairment charges in future periods, whether in connection with the Company s next annual impairment testing in the quarter ended March 31, 2011 or prior to that, if any such change constitutes a triggering event outside the quarter when the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result. As of March 31, 2010, the implied fair value of NYSC was 30% greater than book value and the estimated fair value of SSC was 73% greater than book value.

The changes in the carrying amount of goodwill from January 1, 2009 through March 31, 2010 are detailed in the charts below.

	NYSC	BSC	SSC	Outlier Clubs	Total
Balance as of January 1, 2009					
Goodwill	$ 31,403	$ 15,766	$ 1,070	$ 3,982	$ 52,221
Accumulated impairment of goodwill		(15,766)		(3,845)	(19,611)
	31,403		1,070	137	32,610
Changes due to foreign currency exchange rate fluctuations			26		26
Impairment of goodwill					
Balance as of December 31, 2009					
Goodwill	31,403	15,766	1,096	3,982	52,247
Accumulated impairment of goodwill		(15,766)		(3,845)	(19,611)
	31,403		1,096	137	32,636
Balance as of March 31, 2010					