

TOWN SPORTS INTERNATIONAL HOLDINGS INC

Form 10-Q

April 27, 2018

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2018

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 001-36803

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)

1001 US North Highway 1, Suite 201, Jupiter, Florida 33477

Telephone: (212) 246-6700

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

399 Executive Boulevard, Elmsford, New York 10523

(Mailing address)

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 Website, 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, 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

Accelerated filer

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

Emerging growth company

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 April 23, 2018, there were 27,205,277 shares of Common Stock of the registrant outstanding.

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Table of Contents

FORM 10-Q

For the Quarter Ended March 31, 2018

INDEX

Page

PART I. FINANCIAL INFORMATION

|         |  |           |
|---------|--|-----------|
| Item 1. | <u>Financial Statements (Unaudited)</u>  |           |
|         | <u>Condensed Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017</u>                                    | <u>3</u>  |
|         | <u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2018 and 2017</u>                  | <u>4</u>  |
|         | <u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2018 and 2017</u> | <u>5</u>  |
|         | <u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017</u>                  | <u>6</u>  |
|         | <u>Notes to Condensed Consolidated Financial Statements</u>  | <u>7</u>  |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                               | <u>21</u> |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | <u>32</u> |
| Item 4. | <u>Controls and Procedures</u>   | <u>32</u> |

PART II. OTHER INFORMATION

|          |  |           |
|----------|--|-----------|
| Item 1.  | <u>Legal Proceedings</u>   | <u>33</u> |
| Item 1A. | <u>Risk Factors</u>  | <u>33</u> |
| Item 2.  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>33</u> |
| Item 3.  | <u>Defaults Upon Senior Securities</u>                             | <u>33</u> |
| Item 4.  | <u>Mine Safety Disclosures</u>                                     | <u>33</u> |
| Item 5.  | <u>Other Information</u>   | <u>33</u> |
| Item 6.  | <u>Exhibits</u>  | <u>33</u> |

SIGNATURES 35

INDEX TO EXHIBITS 36

Table of ContentsTOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

March 31, 2018 and December 31, 2017

(All figures in thousands except share and per share data)

(Unaudited)

|  | March 31,<br>2018 | December 31,<br>2017 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| Current assets:  |                   |                      |
| Cash and cash equivalents  | \$54,428          | \$ 30,321            |
| Accounts receivable (less allowance for doubtful accounts of \$4,317 and \$4,237 as of March 31, 2018 and December 31, 2017, respectively)     | 2,506             | 2,216                |
| Prepaid corporate income taxes   | 13,565            | 13,563               |
| Prepaid rent expense   | 75                | 9,153                |
| Prepaid expenses and other current assets  | 9,085             | 12,894               |
| Total current assets   | 79,659            | 68,147               |
| Fixed assets, net  | 150,812           | 151,498              |
| Goodwill   | 8,444             | 6,217                |
| Intangible assets, net   | 5,858             | 5,134                |
| Deferred membership costs  | 2,717             | 959                  |
| Other assets   | 4,318             | 4,716                |
| Total assets   | \$251,808         | \$ 236,671           |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   |                   |                      |
| Current liabilities:   |                   |                      |
| Current portion of long-term debt  | \$2,082           | \$ 2,082             |
| Accounts payable   | 3,067             | 2,247                |
| Accrued expenses   | 28,772            | 24,669               |
| Accrued interest   | 103               | 118                  |
| Capital lease liabilities  | 379               | 160                  |
| Deferred revenue   | 39,406            | 33,473               |
| Total current liabilities  | 73,809            | 62,749               |
| Long-term debt   | 193,753           | 193,947              |
| Deferred lease liabilities   | 46,792            | 47,356               |
| Capital lease liabilities  | 931               | —                    |
| Deferred tax liabilities   | 131               | 93                   |
| Deferred revenue   | 173               | 351                  |
| Other liabilities  | 9,722             | 10,132               |
| Total liabilities  | 325,311           | 314,628              |
| Commitments and Contingencies (Note 13)  |                   |                      |
| Stockholders' deficit:   |                   |                      |
| Preferred stock, \$0.001 par value; no shares issued and outstanding at both March 31, 2018 and December 31, 2017                              |                   |                      |
| Common stock, \$0.001 par value; issued and outstanding 27,205,277 and 27,149,135 shares at March 31, 2018 and December 31, 2017, respectively | 25                | 25                   |
| Additional paid-in capital   | (3,364 )          | (4,290 )             |
| Accumulated other comprehensive income   | 1,996             | 1,201                |
| Accumulated deficit  | (72,160 )         | (74,893 )            |
| Total stockholders' deficit  | (73,503 )         | (77,957 )            |

|   |           |            |
|---|-----------|------------|
| Total liabilities and stockholders' deficit | \$251,808 | \$ 236,671 |
|---|-----------|------------|

See notes to condensed consolidated financial statements.

3

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Table of ContentsTOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three Months Ended March 31, 2018 and 2017

(All figures in thousands except share and per share data)

(Unaudited)

|   | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2018                            | 2017       |
| Revenues:   |                                 |            |
| Club operations   | \$105,675                       | \$97,671   |
| Fees and other  | 1,436                           | 1,409      |
|   | 107,111                         | 99,080     |
| Operating Expenses:   |                                 |            |
| Payroll and related   | 39,474                          | 37,385     |
| Club operating  | 48,364                          | 45,174     |
| General and administrative  | 5,911                           | 6,330      |
| Depreciation and amortization                                       | 9,128                           | 10,309     |
|   | 102,877                         | 99,198     |
| Operating income (loss)   | 4,234                           | (118 )     |
| Interest expense  | 3,168                           | 3,108      |
| Interest income   | (36 )                           | —          |
| Equity in earnings of investee                                      | (105 )                          | (92 )      |
| Income (loss) before provision (benefit) for corporate income taxes | 1,207                           | (3,134 )   |
| Provision (benefit) for corporate income taxes                      | 78                              | (199 )     |
| Net income (loss)   | \$1,129                         | \$(2,935 ) |
| Earnings (loss) per share:  |                                 |            |
| Basic   | \$0.04                          | \$(0.11 )  |
| Diluted   | \$0.04                          | \$(0.11 )  |