BALLY TOTAL FITNESS HOLDING CORP
Form 10-Q
August 14, 2002

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 for the period ended June 30, 2002

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, 2002, 33,121,457 shares of the registrant s common stock were outstanding.

BALLY TOTAL FITNESS HOLDING CORPORATION

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BALLY TOTAL FITNESS HOLDING CORPORATION

Condensed Consolidated Balance Sheet

(In thousands)

(Unaudited)

	June 30 2002	December 31 2001
ASSETS		
Current assets:		
Cash and equivalents	$ 13,286	$ 9,310
Installment contracts receivable, net	325,550	284,611
Other current assets	68,393	68,899
Total current assets	407,229	362,820
Installment contracts receivable, net	295,779	273,607
Property and equipment, less accumulated depreciation and amortization of $512,137 and $490,116	660,059	628,634
Intangible assets, less accumulated amortization of $80,567 and $80,256	253,331	237,037
Deferred income taxes	73,042	76,104
Deferred membership origination costs	117,470	112,959
Other assets	33,351	25,729
	$1,840,261	$1,716,890
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 62,093	$ 50,471
Income taxes payable	1,325	1,974
Deferred income taxes	32,068	32,346

Accrued liabilities	80,480	75,309
Current maturities of long-term debt	28,089	25,302
Deferred revenues	301,358	294,930
Total current liabilities	505,413	480,332
Long-term debt, less current maturities	688,777	639,869
Other liabilities	12,666	12,555
Deferred revenues	73,362	71,400
Stockholders' equity	560,043	512,734
	$1,840,261	$1,716,890

See accompanying notes.

1

BALLY TOTAL FITNESS HOLDING CORPORATION

Consolidated Statement of Income

(In thousands, except per share data)

(Unaudited)

	Three months ended June 30	
	2002	**2001**
Net revenues:		
Membership revenues	$ 188,370	$ 174,225
Products and services	53,318	37,564
Miscellaneous revenue	4,713	4,761
	246,401	216,550
Operating costs and expenses:		
Fitness center operations	140,098	124,182
Products and services	33,752	23,636
Member processing and collection centers	11,041	10,483
Advertising	16,413	16,558
General and administrative	8,961	6,956
Depreciation and amortization	18,969	17,969
	229,234	199,784
Operating income	17,167	16,766

Finance charges earned	17,442	17,323
Interest expense	(13,547)	(14,675)
Other interest income	89	218
	3,984	2,866
Income before income taxes	21,151	19,632
Income tax provision	(5,076)	(400)
Net income	$ 16,075	$ 19,232
Basic earnings per common share	$ .50	$ .67
Diluted earnings per common share	$ .48	$ .63

See accompanying notes.

2

BALLY TOTAL FITNESS HOLDING CORPORATION

Consolidated Statement of Income

(In thousands, except per share data)

(Unaudited)

	Six months ended June 30	
	2002	**2001**
Net revenues:		
Membership revenues	$ 371,064	$ 347,405
Products and services	105,735	74,000
Miscellaneous revenue	10,028	9,007
	486,827	430,412
Operating costs and expenses:		
Fitness center operations	277,902	246,557
Products and services	66,785	46,757
Member processing and collection centers	21,993	20,979
Advertising	32,922	32,417
General and administrative	16,861	14,199
Depreciation and amortization	36,408	35,881

	452,871	396,790
Operating income	33,956	33,622
Finance charges earned	35,122	35,154
Interest expense	(28,190)	(30,633)
Other interest income	163	484
	7,095	5,005
Income before income taxes	41,051	38,627
Income tax provision	(5,574)	(750)
Net income	$ 35,477	$ 37,877
Basic earnings per common share	$ 1.11	$ 1.42
Diluted earnings per common share	$ 1.06	$ 1.28

See accompanying notes.

BALLY TOTAL FITNESS HOLDING CORPORATION

Consolidated Statement of Stockholders' Equity

(In thousands, except share data)

(Unaudited)

	Common stock				Unearned compensation (restricted stock)	Co sto tre
	Shares	Par value	Contributed capital	Accumulated deficit		
Balance at December 31, 2001	32,380,557	$ 329	$ 657,546	$ (107,807)	$ (26,559)	$ (1
Net income				35,477		
Issuance of common stock under long-term incentive plan	110,000	1	4,619		(4,619)	

Exercise of warrants	250,000	3	2,510			
Issuance of common stock under stock purchase and option plans	81,916	1	1,322			
Issuance of common stock for acquisitions of businesses	382,827	4	8,851			
Purchases of common stock for treasury	(54,500)					
Balance at June 30, 2002	33,150,800	$ 338	$ 674,848	$ (72,330)	$ (31,178)	$ (1

See accompanying notes.

4

BALLY TOTAL FITNESS HOLDING CORPORATION

Consolidated Statement of Cash Flows

(In thousands)

(Unaudited)

	Six months ended June 30	
	2002	**2001**
Operating:		
Net income	$ 35,477	$ 37,877
Adjustments to reconcile--		
Depreciation and amortization, including amortization included in interest expense	38,440	37,753
Change in operating assets and liabilities	(53,563)	(22,450)
Cash provided by operating activities	20,354	53,180
Investing:		
Purchases and construction of property and equipment	(43,165)	(47,966)
Purchases of real estate	(11,510)	
Acquisitions of businesses and other	(6,092)	(2,379)
Cash used in investing activities	(60,767)	(50,345)

Financing:		
Debt transactions--		
Net borrowings (repayments) under revolving credit agreement	25,000	(61,500)
Net borrowings (repayments) of other long-term debt	16,412	(9,956)
Cash provided (used) by debt transactions	41,412	(71,456)
Equity transactions--		
Proceeds from sale of common stock		53,827
Proceeds from exercise of warrants	2,513	11,609
Proceeds from issuance of common stock under stock purchase and option plans	1,324	2,248
Purchases of common stock for treasury	(860)	
Cash provided (used) by financing transactions	44,389	(3,772)
Increase (decrease) in cash and equivalents	3,976	(937)
Cash and equivalents, beginning of period	9,310	13,074
Cash and equivalents, end of period	$ 13,286	$ 12,137

See accompanying notes.

BALLY TOTAL FITNESS HOLDING CORPORATION

Consolidated Statement of Cash Flows (continued)

(In thousands)

(Unaudited)

	Six months ended June 30	
	2002	**2001**
Supplemental Cash Flows Information:		
Changes in operating assets and liabilities:		
Increase in installment contracts receivable	$ (63,066)	$ (11,041)
Increase in other current and other assets	(6,551)	(7,377)
Increase in deferred membership origination costs	(4,511)	(3,618)
Increase (decrease) in accounts payable	11,622	(1,661)
Increase (decrease) in income taxes payable and deferred income taxes	4,935	(678)

Increase in accrued and other liabilities	4,418	2,456
Decrease in deferred revenues	(410)	(531)
Change in operating assets and liabilities	$ (53,563)	$ (22,450)
Cash payments for interest and income taxes were as follows--		
Interest paid	$ 28,141	$ 31,353
Interest capitalized	(1,840)	(2,197)
Income taxes paid, net	736	1,428
Investing and financing activities exclude the following non-cash transactions--		
Acquisitions of property and equipment through capital leases/borrowings	$ 7,716	$ 13,573
Acquisitions of businesses with common stock	8,855	
Common stock issued under long-term incentive plan	4,619	
Debt, including assumed debt related to acquisitions of businesses	2,846	

See accompanying notes.

6

BALLY TOTAL FITNESS HOLDING CORPORATION

Notes to Condensed Consolidated Financial Statements

(All dollar amounts in thousands, except share data)

(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 over 400 facilities concentrated in 29 states and Canada. The Company operates 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, 2001.

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, 2002, its consolidated statements of income for the three and six months ended June 30, 2002 and 2001, its consolidated statement of stockholders equity for the six months ended June 30, 2002, and its consolidated statements of cash flows for the six months ended June 30, 2002 and 2001. 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 2002 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, 2002 and 2001 are not necessarily indicative of the results of operations for the full year.

Installment contracts receivable

	June 30 2002	December 31 2001
Current:		
Installment contracts receivable	$ 437,848	$ 397,180
Unearned finance charges	(44,227)	(44,898)
Allowance for doubtful receivables and cancellations	(68,071)	(67,671)
	$ 325,550	$ 284,611
Long-term:		
Installment contracts receivable	$ 379,754	$ 358,115
Unearned finance charges	(21,186)	(21,675)
Allowance for doubtful receivables and cancellations	(62,789)	(62,833)
	$ 295,779	$ 273,607

7

Allowance for doubtful receivables and cancellations

	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001
Balance at beginning of period	$ 134,032	$ 135,616	$ 130,504	$ 132,277
Contract cancellations and write-offs of uncollectible amounts, net of recoveries	(86,347)	(78,947)	(177,180)	(166,583)

Provision for cancellations and doubtful receivables	83,175	88,243	177,536	179,218
Balance at end of period	$ 130,860	$ 144,912	$ 130,860	$ 144,912

Membership revenues

Gross committed membership fees represent the gross contracted value of memberships originated during the periods, inclusive of initial membership fees, monthly dues, finance charges, and products and services included in membership programs. This data is presented in order to expand the presentation of originating membership data as the Company now operates under several brands, membership structures and an evolving menu of products and services accompanying certain membership programs. The following is a reconciliation of gross committed membership fees to initial membership fees originated, net:

	Three months ended June 30		Six months ended June 30	
	2002	**2001**	**2002**	**2001**
Gross committed membership fees	$ 279,981	$ 277,641	$ 600,728	$ 570,099
Less: Committed monthly dues	(56,875)	(38,006)	(121,215)	(78,156)
Provision for cancellations and doubtful receivables	(83,175)	(88,243)	(177,536)	(179,218)
Unearned finance charges and other	(37,716)	(41,220)	(80,232)	(83,348)
Products and services revenues included in membership programs	(17,658)	(14,407)	(36,999)	(28,492)
Initial membership fees originated, net	$ 84,557	$ 95,765	$ 184,746	$ 200,885

The following presents the components of membership revenues as presented in the accompanying consolidated statement of income:

	Three months ended June 30		Six months ended June 30	
	2002	**2001**	**2002**	**2001**
Initial membership fees:				
Originated, net	$ 84,557	$ 95,765	$ 184,746	$ 200,885
Decrease (increase) in deferral	6,507	4,617	(1,963)	(1,117)
	91,064	100,382	182,783	199,768
Dues:				

Dues collected	95,393	72,808	185,908	145,989
Decrease in deferral	1,913	1,035	2,373	1,648
	97,306	73,843	188,281	147,637
Membership revenues	$ 188,370	$ 174,225	$ 371,064	$ 347,405

Products and services

	Three months ended June 30		Six months ended June 30	
	2002	**2001**	**2002**	**2001**
Net revenues:				
Retail and nutritional supplements--				
Membership programs	$ 6,725	$ 8,013	$ 15,510	$ 16,411
Direct sales	14,409	10,921	28,233	21,325
Personal training--				
Membership programs	10,933	6,394	21,489	12,081
Direct sales	19,695	9,858	37,396	20,367
Financial services	1,556	2,378	3,107	3,816
	53,318	37,564	105,735	74,000
Operating costs and expenses:				
Retail and nutritional supplements	15,699	13,326	32,045	26,574
Personal training	18,053	10,310	34,740	20,183
	33,752	23,636	66,785	46,757
Contribution margin	$ 19,566	$ 13,928	$ 38,950	$ 27,243

9

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 32,079,795 and 28,620,179 for the three months ended June 30, 2002 and 2001, respectively, and 31,911,543 and 26,728,988 for the six months ended June 30, 2002 and 2001, respectively. Diluted earnings per common share for each period includes the addition of common stock equivalents of 1,484,481 and 1,961,111 for the three months ended June 30, 2002 and 2001, respectively, and 1,436,788 and 2,941,009 for the six months ended June 30, 2002 and 2001, respectively. Common stock equivalents represent the dilutive effect of the assumed exercise of outstanding warrants and stock options.

New accounting pronouncements

The Company adopted the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets,* in the first quarter of 2002. As a result, the Company ceased amortization of goodwill in 2002 and, in accordance with the provisions of this standard, has determined that recorded goodwill is not impaired. The following table presents prior year second quarter and year to date net income and earnings per share adjusted to add back goodwill amortization:

	Three months ended June 30, 2001		
		Earnings per share	
	Net income	Basic	Diluted
As reported	$ 19,232	$ 0.67	$ 0.63
Add back: goodwill amortization	1,910	0.07	0.06
As adjusted	$ 21,142	$ 0.74	$ 0.69

	Six months ended June 30, 2001		
		Earnings per share	
	Net income	Basic	Diluted
As reported	$ 37,877	$ 1.42	$ 1.28
Add back: goodwill amortization	3,778	0.14	0.12
As adjusted	$ 41,655	$ 1.56	$ 1.40

Income Taxes

At June 30, 2002, for accounting purposes, the Company had approximately $80 million of unrecognized federal net operating loss carryforwards. Separately, the Company s alternative minimum tax (AMT) net operating loss carryforwards have been substantially recognized. Therefore, having fully recognized AMT net operating loss carryforwards for reporting purposes, the Company s federal income tax rate has increased to 20% for second quarter and subsequent periods. The 20% federal rate will remain in effect until such time as all of the Company s AMT credits are fully utilized, which is not currently expected before 2004. The balance of the provision consists primarily of taxes owed to states where local earnings are no longer offset by state net operating loss carryforwards.

For federal income tax payment purposes, the Company has available net operating loss carryforwards exceeding $350 million and AMT net operating loss carryforwards in excess of $230 million. Therefore, the Company currently does not expect to make any significant federal tax payments earlier than 2004. At such time, the Company will be required to pay taxes at the 20% AMT rate for periods currently estimated to extend beyond 2005, including those periods benefited by AMT credits. For accounting purposes, the 2002 federal tax provision consists entirely of non-cash deferred income tax charges.

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

Comparison of the Three Months Ended June 30, 2002 and 2001

Net revenues for the second quarter of 2002 were $246.4 million compared to $216.5 million in 2001, an increase of $29.9 million (14%), inclusive of $18.3 million (8%) attributable to the acquisition of 19 Crunch Fitness centers on December 31, 2001. Net revenues from comparable fitness centers increased 3%. This increase in net revenues resulted from the following:

- Membership revenues increased $14.1 million (8%) over the prior year quarter, including a 32% increase in dues revenue (18% related to Crunch Fitness) recognized during the period. Dues revenue for the second quarter of 2002 equaled more than half of total membership revenue. The provision for doubtful receivables and cancellations, included as a direct reduction of membership revenue, was 41% of the gross financed portion of membership fee originations for both periods.
- Products and services revenue increased $15.8 million (42%) over the 2001 quarter, primarily reflecting the continued growth of personal training services, nutritional product sales and the addition of Crunch Fitness, which accounted for $5.0 million of the increase.
- Miscellaneous revenue of $4.7 million was unchanged from the 2001 quarter.

The weighted-average number of fitness centers increased to 412 from 386 in the second quarter of 2001, an increase of 7%, including a 49% increase in the weighted-average number of centers operating under the Company s upscale brands from 37 to 55, largely resulting from the acquisition of Crunch Fitness.

Gross committed membership fees during the second quarter increased 1% compared to the 2001 quarter. The gross committed monthly membership fees originated during the second quarter of 2002 averaged $43 versus $40 in the year ago quarter, an 8% increase. This increase results primarily from higher monthly dues included in memberships originated at our Bally Total Fitness clubs and the addition of Crunch Fitness with its higher membership fee structure. The number of new members joining decreased 5% during the second quarter of 2002 compared with the same quarter a year ago, with a 9% decrease at our Bally Total Fitness clubs. Weak economic conditions during the quarter, combined with a price increase resulting from the strategic curtailment of the prior year s discounting, contributed to the decline in memberships. During July 2002, this strategy produced a recovery with both an increase in the number and price of new memberships sold. The average committed duration of memberships originated during the second quarter of 2002 was 29.8 months versus 30.1 months in the prior year quarter, a 1% decrease. This decrease resulted primarily from the shorter commitment term of memberships offered at Crunch Fitness and the addition of five new clubs in states and provinces that limit contract duration to twelve months.

Operating income for the second quarter of 2002 was $17.2 million compared to $16.8 million in 2001. Net revenues increased $29.9 million (14%) for the second quarter of 2002, offset by a $28.5 million (16%) increase in operating costs and expenses, and an increase in depreciation and amortization of $1.0 million. Earnings before interest, taxes, depreciation and amortization, including finance charges earned (EBITDA) was $53.6 million versus $52.1 million for the last year quarter, a 3% increase. The EBITDA margin was 20% in the 2002 quarter compared to 22% in the 2001 period. This decrease is due, in part, to the initially lower margins attributable to the Crunch Fitness centers and the growing proportion of clubs open less than three years which, due to deferred revenue accounting and their immature membership dues base, yield below-average margins compared to mature clubs. Fitness center operating expenses increased $15.9 million (13%) due principally to incremental costs of operating new fitness centers, including Crunch Fitness, which represented approximately $8.7 million of the increase. Products and services expenses increased $10.1 million (43%) to support the revenue growth of product and service offerings.

Contribution margin from products and services increased to $19.6 million from $13.9 million in the prior year quarter, a 41% increase (12% related to Crunch Fitness), with a contribution margin percentage of 37% in both periods. Member processing and collection center expenses increased $.6 million from the prior year quarter, reflecting increased costs to serve the higher number of clubs and members as compared to the prior year period. Advertising expenses were

essentially unchanged compared to the prior year quarter. General and administrative expenses increased $2.0 million (29%) compared to the prior year quarter to support the Company s overall growth strategy. Depreciation and amortization expense increased $1.0 million (6%), resulting from additional depreciation and amortization expense of $2.9 million due to increased expenditures for property and equipment and acquired fitness centers during the past two years, offset by the elimination of goodwill amortization of $1.9 million in the prior year quarter as a result of the adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

The income tax provision for the three months ended June 30, 2002, increased $4.7 million compared to the prior year quarter. This increase is attributable to the Company having fully recognized alternative minimum tax (AMT) net operating loss carryforwards for reporting purposes. As a result, the Company s federal income tax rate increased to 20% beginning in the second quarter of 2002. This 20% rate will remain in effect until such time as all of the Company s AMT credits are fully utilized, which is not currently expected before 2004. For accounting purposes, the 2002 federal tax provision consists entirely of non-cash deferred income tax charges. The balance of the provision consists primarily of taxes owed to states where local earnings are no longer offset by state net operating loss carryforwards.

Finance charges earned in excess of interest expense totaled $4.0 million in the second quarter of 2002, an increase of $1.1 million over the prior year period resulting principally from lower interest rates on the Company s borrowings.

Comparison of the Six Months Ended June 30, 2002 and 2001

Net revenues for the first six months of 2002 were $486.8 million compared to $430.4 million in 2001, an increase of $56.4 million (13%), inclusive of $37.9 million (9%) attributable to Crunch Fitness. Net revenues from comparable fitness centers increased 3%. This increase in net revenues resulted from the following:

- Membership revenues increased $23.7 million (7%) over the prior year period, including a 28% increase in dues revenue (19% related to Crunch Fitness) recognized during the period. Dues revenue for the first six months of 2002 equaled more than half of total membership revenue. The provision for doubtful receivables and cancellations, included as a direct reduction of membership revenue, was 41% of the gross financed portion of membership fee originations for both periods.
- Products and services revenue increased $31.7 million (43%) over the prior year period, primarily reflecting the continued growth of personal training services, nutritional product sales and the addition of Crunch Fitness, which accounted for $10.0 million of the increase.
- Miscellaneous revenue increased $1.0 million (11%) over the prior year period, primarily reflecting additional revenue from co-marketing arrangements.

The weighted-average number of fitness centers increased to 409 from 385 in the first six months of 2001, an increase of 6%, including a 53% increase in the weighted-average number of centers operating under the Company s upscale brands from 36 to 55, largely resulting from the acquisition of Crunch Fitness.

Gross committed membership fees increased 5% compared to the 2001 period. The gross committed monthly membership fees originated during the first six months of 2002 averaged $44 versus $40 in the year ago period, a 10% increase. This increase results primarily from higher monthly dues included in memberships originated at our Bally Total Fitness clubs and the addition of Crunch Fitness with its higher membership fee structure. The number of new members joining increased 1% during the first six months of 2002 compared with the same period a year ago, with a 4% reduction at our Bally Total Fitness clubs. The average committed duration of memberships originated during the first six months of 2002 was 30.5 months versus 31.4 months in the prior year period, a 3% decrease. This decrease resulted primarily from the shorter committed term of

12

memberships offered at Crunch Fitness and the addition of five new clubs in states and provinces that limit contract duration to twelve months.

Operating income for the first six months of 2002 was $34.0 million compared to $33.6 million in 2001. Net revenues increased by $56.4 million (13%) for the first six months of 2002, offset by a $55.6 million (15%) increase in operating costs and expenses, and an increase in depreciation and amortization of $.5 million. Earnings before interest, taxes, depreciation and amortization, including finance charges earned (EBITDA) was $105.5 million versus $104.7 million for the prior year period, a 1% increase. The EBITDA margin was 20% for the first six months of 2002 compared to 22% in the 2001 period. This decrease is due, in part, to the initially lower margins attributable to the Crunch Fitness centers and the growing proportion of clubs open less than three years which, due to deferred revenue accounting and their immature membership dues base, yield below-average margins compared to mature clubs. Fitness center operating expenses increased $31.3 million (13%) due principally to incremental costs of operating new fitness centers, including Crunch Fitness, which represented approximately $17.6 million of the increase. Products and services expenses increased $20.0 million (43%) to support the revenue growth of product and service offerings. Contribution margin from products and services increased to $39.0 million from $27.2 million in the prior year period, a 43% increase (12% related to Crunch Fitness), with a contribution margin percentage of 37% in both periods. Member processing and collection center expenses increased $1.0 million from the prior year period, reflecting increased costs to serve the higher number of clubs and members as compared to the prior year period. Advertising expenses increased $.5 million (2%) compared to the prior year. General and administrative expenses increased $2.7 million (19%) compared to the prior year period to support the Company s overall growth strategy. Depreciation and amortization expense increased $.5 million resulting from additional depreciation and amortization expense of $4.3 million due to increased expenditures for property and equipment and acquired fitness centers during the past two years, offset by the elimination of goodwill amortization of $3.8 million in the prior year period as a result of the adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

The income tax provision for the six months ended June 30, 2002, increased $4.8 million compared to the prior year period. This increase is attributable to the Company having fully recognized alternative minimum tax (AMT) net operating loss carryforwards for reporting purposes. As a result, the Company s federal income tax rate increased to 20% beginning in the second quarter of 2002. This 20% rate will remain in effect until such time as all of the Company s AMT credits are fully utilized, which is not currently expected before 2004. For accounting purposes, the

2002 federal tax provision consists entirely of non-cash deferred income tax charges. The balance of the provision consists primarily of taxes owed to states where local earnings are no longer offset by state net operating loss carryforwards.

Finance charges earned in excess of interest expense totaled $7.1 million in the first six months of 2002, an increase of $2.1 million over the prior year period resulting principally from lower interest rates on the Company s borrowings.

Liquidity and Capital Resources

Net cash used for operating activities decreased $4.2 million during the quarter to $5.1 million, compared to a net use of $9.3 million in second quarter 2001. Cash flows from operating activities were $20.4 million in the first six months of 2002, compared to $53.2 million in the 2001 period which included $32 million of accelerated collections from the sale of installment contracts receivable. During the first and third quarters of 2001, we sold a portion of our installment contracts receivable portfolio to a major financial institution at net book value, with combined proceeds of $105 million. Excluding the impact of the sales of receivables in 2001, and net of the change in dues prepayments during the periods, cash flows from operating activities were $7.6 million in second quarter of 2002, compared to $3.6 million in the prior year quarter, and $48.7 million in the first half of 2002, versus $25.9 million in 2001, a $22.8 million increase.

13

The following table sets forth cash flows from operating activities on a comparable basis to exclude the impact of last year s first quarter sale of receivables, to add back actual cash collections on the sold portfolio, and to reflect the impact of changes in dues prepayments during each of the periods (in thousands):

	Three months ended June 30		Six months ended June 30	
	2002	**2001**	**2002**	**2001**
Cash flows from (used in) operating activities, as reported	$ (5,091)	$ (9,357)	$ 20,354	$ 53,180
Acceleration of collections through bulk sale of installment contracts receivable				(45,000)
Collections on installment contracts receivable sold	14,143	9,435	31,100	13,033
Change in dues prepayments	(1,437)	3,527	(2,762)	4,657
Cash flows from operating activities on a comparable basis	$ 7,615	$ 3,605	$ 48,692	$ 25,870

Our bank credit facility, dated November 10, 1999, as amended in December 2001, provides up to $225.0 million of availability consisting of a three-year $135.0 million term loan and a $90.0 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 July 31, 2002, the Company had drawn $50.5 million on its $90 million revolving credit line and had outstanding letters of credit totaling $4.6 million. The $135.0 million term loan is repayable in 13 installments. The first installment of $250,000 was paid in December 2001, 11 quarterly installments of $460,000 began March 31, 2002 and the final installment of $129,690,000 is due November 2004. We have no scheduled principal payments under our subordinated debt until October 2007. Our debt service requirements, including interest, through June 30, 2003 are approximately $76.1 million. During April 2002, the Company repaid the remaining balance outstanding on its 1996 securitization with proceeds from its 2001 securitization facility. We believe to the extent required, that we will be able to satisfy our short-term requirements for debt service and capital expenditures out of available cash balances, cash flows from operations and borrowings on the revolving credit facility. In addition to cash from operating activities, we believe our longer-term debt service requirements through 2004 can be satisfied by availability on our bank credit facility, including extensions, expansion of our securitization facility, other secured borrowings or through additional offerings of our common stock.

We are authorized to repurchase up to 1,500,000 shares of our common stock on the open market from time to time. We repurchased 625,100 shares between August 1998 and November 1999 at an average price of $18 per share, and 54,500 shares in February 2002 at $16 per share.

Capital expenditures totaled $43.2 million for property and equipment, and $11.5 million for purchases of real estate in the first six months of 2002. Property and equipment expenditures are expected to total approximately $35 million for the remainder of 2002. The Company does not anticipate any additional real estate purchases in 2002. Capital spending in 2003 is targeted to be at levels lower than the most recent periods, as the Company expects to target higher growth of free cash flows.

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 and service 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 7, 2002, the stockholders considered and voted on the following:

Two persons nominated by the Board of Directors for election as directors of Class III for three-year terms expiring in 2005 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
John W. Dwyer	30,143,325	98,278
J. Kenneth Looloian	30,140,187	101,416

In addition to the two directors elected at the meeting, the following directors term of office as directors continued after the meeting: Lee S. Hillman, George N. Aronoff, James F. McAnally, M.D., and Liza M. Walsh.

Item 6. Exhibits and reports on Form 8-K

(a) Exhibits:

Exhibit 99.1 Certification of Lee S. Hillman pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

Exhibit 99.2 Certification of John W. Dwyer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

(b) Reports on Form 8-K:

Date	Items	Financial Statements
May 2, 2002	#5 and #7	None

16

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, Chief Financial Officer and Director
(principal financial officer)

Dated: August 14, 2002

17