BALLY TOTAL FITNESS HOLDING CORP
Form 10-Q
November 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 September 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 October 31, 2002, 33,163,642 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

(In thousands)

(Unaudited)

	September 30 2002	December 31 2001
ASSETS		
Current assets:		
Cash and equivalents	$ 13,335	$ 9,310
Installment contracts receivable, net	336,984	284,611
Other current assets	81,719	68,899
Total current assets	432,038	362,820
Installment contracts receivable, net	288,767	273,607
Property and equipment, less accumulated depreciation and amortization of $526,161 and $490,116	663,114	628,634
Intangible assets, less accumulated amortization of $80,015 and $80,256	253,092	237,037
Deferred income taxes	68,938	76,104
Deferred membership origination costs	119,764	112,959
Other assets	32,402	25,729
	$1,858,115	$1,716,890
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 63,735	$ 50,471
Income taxes payable	240	1,974
Deferred income taxes	31,157	32,346
Accrued liabilities	84,297	75,309
Current maturities of long-term debt	29,048	25,302
Deferred revenues	296,305	294,930
Total current liabilities	504,782	480,332
Long-term debt, less current maturities	702,018	639,869
Other liabilities	12,658	12,555
Deferred revenues	70,960	71,400
Stockholders' equity	567,697	512,734

$1,858,115	$1,716,890

See accompanying notes.

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BALLY TOTAL FITNESS HOLDING CORPORATION

Consolidated Statement of Income

(In thousands, except per share data)

(Unaudited)

	Three months ended September 30	
	2002	**2001**
Net revenues:		
Membership revenues	$ 180,480	$ 168,665
Products and services	57,398	37,105
Miscellaneous revenue	5,228	4,081
	243,106	209,851
Operating costs and expenses:		
Fitness center operations	140,946	121,992
Products and services	36,681	23,241
Member processing and collection centers	11,686	10,718
Advertising	12,221	11,512
General and administrative	8,443	7,151
Special charges	6,500	6,700
Depreciation and amortization	19,587	19,155
	236,064	200,469
Operating income	7,042	9,382
Finance charges earned	16,815	16,986
Interest expense	(13,796)	(14,606)
Other, net	(556)	161
	2,463	2,541
Income before income taxes	9,505	11,923
Income tax (provision) benefit	(2,281)	14,600
Net income	$ 7,224	$ 26,523
Basic earnings per common share	$ .22	$ .92
Diluted earnings per common share	$ .22	$ .88

See accompanying notes.

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BALLY TOTAL FITNESS HOLDING CORPORATION

Consolidated Statement of Income

(In thousands, except per share data)

(Unaudited)

	Nine months ended September 30	
	2002	**2001**
Net revenues:		
Membership revenues	$ 551,544	$ 516,070
Products and services	163,133	111,105
Miscellaneous revenue	15,256	13,088
	729,933	640,263
Operating costs and expenses:		
Fitness center operations	418,848	368,549
Products and services	103,466	69,998
Member processing and collection centers	33,679	31,697
Advertising	45,143	43,929
General and administrative	25,304	21,350
Special charges	6,500	6,700
Depreciation and amortization	55,995	55,036
	688,935	597,259
Operating income	40,998	43,004
Finance charges earned	51,937	52,140
Interest expense	(41,986)	(45,239)
Other, net	(393)	645
	9,558	7,546
Income before income taxes	50,556	50,550
Income tax (provision) benefit	(7,855)	13,850
Net income	$ 42,701	$ 64,400
Basic earnings per common share	$ 1.33	$ 2.35
Diluted earnings per common share	$ 1.29	$ 2.17

See accompanying notes.

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BALLY TOTAL FITNESS HOLDING CORPORATION

Consolidated Statement of Stockholders' Equity

(In thousands, except share data)

(Unaudited)

	Common stock					
	Shares	Par value	Contributed capital	Accumulated deficit	Unearned compensation (restricted stock)	Co sto tre
Balance at December 31, 2001	32,380,557	$ 329	$ 657,546	$ (107,807)	$ (26,559)	$ (1
Net income				42,701		
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	123,551	1	1,752			
Issuance of common stock for acquisitions of businesses	382,827	4	8,851			
Purchases of common stock for treasury	(54,500)					
Balance at September 30, 2002	33,192,435	$ 338	$ 675,278	$ (65,106)	$ (31,178)	$ (1

See accompanying notes.

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BALLY TOTAL FITNESS HOLDING CORPORATION

Consolidated Statement of Cash Flows

(In thousands)

(Unaudited)

	Nine months ended September 30	
	2002	**2001**
Operating:		
Net income	$ 42,701	$ 64,400
Adjustments to reconcile--		
Depreciation and amortization, including amortization included in interest expense	58,895	57,800
Change in operating assets and liabilities	(66,533)	(4,199)
Cash provided by operating activities	35,063	118,001
Investing:		
Purchases and construction of property and equipment	(61,991)	(67,101)
Purchases of real estate	(11,510)	
Acquisitions of businesses and other	(6,217)	(2,570)
Cash used in investing activities	(79,718)	(69,671)
Financing:		
Debt transactions--		
Net borrowings (repayments) under revolving credit agreement	35,900	(55,000)
Net borrowings (repayments) of other long-term debt	9,643	(60,686)
Debt issuance and refinancing costs	(270)	
Cash provided by (used in) debt transactions	45,273	(115,686)
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	1,754	2,706
Purchases of common stock for treasury	(860)	
Cash provided by (used in) financing transactions	48,680	(47,544)
Increase in cash and equivalents	4,025	786
Cash and equivalents, beginning of period	9,310	13,074

Cash and equivalents, end of period	$ 13,335	$ 13,860
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See accompanying notes.

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BALLY TOTAL FITNESS HOLDING CORPORATION

Consolidated Statement of Cash Flows (continued)

(In thousands)

(Unaudited)

	Nine months ended September 30	
	2002	**2001**
Supplemental Cash Flows Information:		
Changes in operating assets and liabilities:		
(Increase) decrease in installment contracts receivable	$ (67,488)	$ 23,834
Increase in other current and other assets	(12,857)	(3,969)
Increase in deferred membership origination costs	(6,805)	(1,796)
Increase (decrease) in accounts payable	13,264	(1,226)
Increase (decrease) in income taxes payable and deferred income taxes	7,043	(15,319)
Increase in accrued and other liabilities	8,175	5,640
Decrease in deferred revenues	(7,865)	(11,363)
Change in operating assets and liabilities	$ (66,533)	$ (4,199)
Cash payments for interest and income taxes were as follows--		
Interest paid	$ 34,139	$ 38,577
Interest capitalized	(2,442)	(3,122)
Income taxes paid, net	909	1,469
Investing and financing activities exclude the following non-cash transactions--		
Acquisitions of property and equipment through capital leases/borrowings	$ 11,231	$ 20,240
Acquisitions of businesses with common stock	8,855	
Common stock issued under long-term incentive plan	4,619	1,470
Assumed debt related to acquisitions of businesses	2,846	
Tax benefit from exercise of employee stock options		4,000

See accompanying notes.

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

Installment contracts receivable

	September 30 2002	December 31 2001
Current:		
Installment contracts receivable	$ 443,189	$ 397,180
Unearned finance charges	(42,264)	(44,898)
Allowance for doubtful receivables and cancellations	(63,941)	(67,671)
	$ 336,984	$ 284,611

Long-term:		
Installment contracts receivable	$ 381,415	$ 358,115
Unearned finance charges	(22,878)	(21,675)
Allowance for doubtful receivables and cancellations	(69,770)	(62,833)
	$ 288,767	$ 273,607

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BALLY TOTAL FITNESS HOLDING CORPORATION

Notes to Condensed Consolidated Financial Statements (continued)

(All dollar amounts in thousands, except share data)

(Unaudited)

Allowance for doubtful receivables and cancellations

	Three months ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Balance at beginning of period	$ 130,860	$ 144,912	$ 130,504	$ 132,277
Contract cancellations and write-offs of uncollectible amounts, net of recoveries	(81,268)	(78,307)	(258,448)	(244,890)
Provision for cancellations and doubtful receivables	84,119	84,237	261,655	263,455
Balance at end of period	$ 133,711	$ 150,842	$ 133,711	$ 150,842

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 September 30		Nine months ended September 30	
	2002	2001	2002	2001
Gross committed membership fees	$ 287,389	$ 265,697	$ 888,117	$ 835,796
Less: Committed monthly dues	(59,385)	(33,369)	(180,600)	(111,525)
Provision for cancellations and doubtful receivables	(84,119)	(84,237)	(261,655)	(263,455)
Unearned finance charges and other	(42,134)	(41,944)	(122,366)	(125,291)
Products and services revenues included in membership programs	(20,349)	(14,584)	(57,348)	(43,077)
Initial membership fees				

originated, net	$ 81,402	$ 91,563	$ 266,148	$ 292,448

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BALLY TOTAL FITNESS HOLDING CORPORATION

Notes to Condensed Consolidated Financial Statements (continued)

(All dollar amounts in thousands, except share data)

(Unaudited)

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

	Three months ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Initial membership fees:				
Originated, net	$ 81,402	$ 91,563	$ 266,148	$ 292,448
Decrease in deferral	4,848	7,748	2,885	6,631
	86,250	99,311	269,033	299,079
Dues:				
Dues collected	91,624	66,270	277,532	212,259
Decrease in deferral	2,606	3,084	4,979	4,732
	94,230	69,354	282,511	216,991
Membership revenues	$ 180,480	$ 168,665	$ 551,544	$ 516,070

Products and services

	Three months ended September 30		Nine months ended September 30	
	2002	2001	2002	2001
Net revenues:				
Retail and nutritional supplements--				
Membership programs	$ 7,305	$ 7,357	$ 22,815	$ 23,768
Direct sales	13,791	11,777	42,024	33,101
Personal training--				
Membership programs	13,044	7,227	34,533	19,309
Direct sales	21,389	9,498	58,785	29,864
Financial services	1,869	1,246	4,976	5,063
	57,398	37,105	163,133	111,105
Operating costs and expenses:				
Retail and nutritional supplements	16,221	13,241	48,266	39,815
Personal training	20,460	10,000	55,200	30,183

	36,681	23,241	103,466	69,998
Contribution margin	$ 20,717	$ 13,864	$ 59,667	$ 41,107

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BALLY TOTAL FITNESS HOLDING CORPORATION

Notes to Condensed Consolidated Financial Statements (continued)

(All dollar amounts in thousands, except share data)

(Unaudited)

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 32,379,261 and 28,703,778 for the three months ended September 30, 2002 and 2001, respectively, and 32,069,163 and 27,394,485 for the nine months ended September 30, 2002 and 2001, respectively. Diluted earnings per common share for each period includes the addition of common stock equivalents of 625,467 and 1,568,790 for the three months ended September 30, 2002 and 2001, respectively, and 1,021,453 and 2,306,202 for the nine months ended September 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* (SFAS No. 142), in the first quarter of 2002. As a result, the Company ceased amortization of goodwill in 2002 in accordance with the provisions of this standard. Upon adoption, the Company determined that the value of recorded goodwill was not impaired. Based on the decline in the Company s common stock price below book value per share, the Company has performed an internal assessment of business valuation and has concluded that no impairment of goodwill has occurred based on current projections of future cash flows. The Company will, during the fourth quarter of 2002, seek expert assistance to confirm its internal assessment. The following table presents prior year third quarter and year to date net income and earnings per share adjusted to add back goodwill amortization:

	Three months ended September 30, 2001		
		Earnings per share	
	Net income	Basic	Diluted
As reported	$ 26,523	$ 0.92	$ 0.88
Add back: goodwill amortization	1,935	0.07	0.06
As adjusted	$ 28,458	$ 0.99	$ 0.94

	Nine months ended September 30, 2001		
		Earnings per share	
	Net income	Basic	Diluted

As reported	$ 64,400	$ 2.35	$ 2.17
Add back: goodwill amortization	5,713	0.21	0.19
As adjusted	$ 70,113	$ 2.56	$ 2.36

Income taxes

At September 30, 2002, for accounting purposes, the Company had approximately $69 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 increased to 20% during the second quarter of 2002. 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

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BALLY TOTAL FITNESS HOLDING CORPORATION

Notes to Condensed Consolidated Financial Statements (continued)

(All dollar amounts in thousands, except share data)

(Unaudited)

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 $380 million and AMT net operating loss carryforwards in excess of $224 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.

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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 September 30, 2002 and 2001

Net revenues for the third quarter of 2002 were $243.1 million compared to $209.8 million in 2001, an increase of $33.3 million (16%), inclusive of $17.1 million (8%) attributable to the acquisition of 19 Crunch Fitness centers on December 31, 2001. Net revenues from comparable fitness centers increased 4%. The increase in total net revenues resulted from the following:

- Membership revenues increased $11.8 million (7%) over the prior year quarter, including a 36% increase in dues revenue (18% related to Crunch Fitness) recognized during the period. Dues revenue for the third 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 $20.3 million (55%) 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 increased $1.1 million (28%) over the prior year quarter, reflecting increases in sub-rental income, franchise fees and co-marketing arrangements.

The weighted-average number of fitness centers increased to 416 from 384 in the third quarter of 2001, an increase of 8%, including a 54% increase in the weighted-average number of centers operating under the Company s upscale brands from 37 to 57, largely resulting from the acquisition of Crunch Fitness.

Gross committed membership fees during the third quarter increased 8% compared to the 2001 quarter. The gross committed monthly membership fees originated during the third quarter of 2002 averaged $41 versus $39 in the year ago quarter, a 5% 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 6% during the third quarter of 2002 compared with the same quarter a year ago, with a 1% increase at our Bally Total Fitness clubs. The average committed duration of memberships originated during the third quarter of 2002 was 30.6 months versus 31.0 months in the prior year quarter, a 1% decrease. This decrease results 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 third quarter of 2002, excluding special charges, was $13.5 million compared to $16.1 million in 2001. Net revenues increased $33.3 million (16%) for the third quarter of 2002, offset by a $35.4 million (20%) increase in operating costs and expenses, excluding special charges, and an increase in depreciation and amortization of $.4 million. In the third quarter of 2002, we recorded a non-recurring charge of $6.5 million ($.15 per diluted share on an after tax basis) to settle a class action lawsuit arising in the early 1990 s. In the prior year quarter, we recorded a non-recurring charge of $6.7 million ($.21 per diluted share on an after tax basis) related to costs from disruptions and shutdowns of various club operations resulting from the September 11th terrorist attacks and a one-time inventory markdown related to our repositioning of in-club retail stores. Earnings before interest, taxes, depreciation and amortization, including finance charges earned (EBITDA), exclusive of special charges, were $49.9 million versus $52.2 million for the last year quarter, a 4% decrease. The EBITDA margin, before special charges, was 19% in the third quarter of 2002 compared to 23% in the 2001 period. This decrease is due, in part, to the initially lower margins attributable to the acquisition of 19 Crunch Fitness centers on December 31, 2001, 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, and the continuing trend of lower new membership originations at our mature clubs. Fitness center operating expenses increased $19.0 million (16%) due principally to incremental costs of operating new fitness centers, including Crunch Fitness, which represented approximately $9.6 million of the increase. Products and services expenses increased $13.4 million (58%) to support the revenue growth of product and service offerings. Contribution margin from products and services increased to

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BALLY TOTAL FITNESS HOLDING CORPORATION

Management's Discussion and Analysis of Financial Condition and

Results of Operations (continued)

$20.7 million from $13.9 million in the 2001 quarter, a 49% increase (12% related to Crunch Fitness), with a contribution margin percentage of 36% in the 2002 quarter compared to 37% during the prior year period. Member processing and collection center expenses increased $1.0 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 increased $.7 million (6%) compared to the prior year quarter. General and administrative expenses increased $1.3 million (18%) compared to the prior year quarter to support our overall growth strategy. Depreciation and amortization expense increased $.4 million (2%), resulting from additional depreciation and amortization expense of $2.3 million due to additional 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* (SFAS No. 142). The Company has performed an internal business valuation and has concluded that no impairment of goodwill has occurred based on current projections of future cash flows.

The income tax provision for the three months ended September 30, 2002, increased $16.9 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, our federal income tax rate increased to 20% beginning in the second quarter of 2002. The 20% rate will remain in effect until such time as all our 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. In the prior year quarter, in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes,* we reviewed the likelihood of realizing the future benefit of our unrecognized tax loss carryforwards. Based on consistent and growing profitability, we reduced our valuation allowance against tax loss carryforwards resulting in a federal tax benefit in the prior year quarter of $15 million. 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 $3.0 million in the third quarter of 2002, an increase of $.6 million over the prior year period resulting principally from lower interest rates on the Company s borrowings.

Comparison of the Nine Months Ended September 30, 2002 and 2001

Net revenues for the first nine months of 2002 were $729.9 million compared to $640.2 million in 2001, an increase of $89.7 million (14%), inclusive of $49.6 million (8%) attributable to Crunch Fitness. Net revenues from comparable fitness centers increased 3%. The increase in total net revenues resulted from the following:

- Membership revenues increased $35.5 million (7%) over the prior year period, including a 30% increase in dues revenue (18% related to Crunch Fitness) recognized during the period. Dues revenue for the first nine 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 $52.0 million (47%) 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 $14.9 million of the increase.
- Miscellaneous revenue increased $2.2 million (17%) over the prior year period, reflecting increases in sub-rental income, franchise fees and co-marketing arrangements.

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BALLY TOTAL FITNESS HOLDING CORPORATION

Management's Discussion and Analysis of Financial Condition and

Results of Operations (continued)

The weighted-average number of fitness centers increased to 412 from 385 in the first nine months of 2001, an increase of 7%, including a 56% increase in the weighted-average number of centers operating under the Company s upscale brands from 36 to 56, largely resulting from the acquisition of Crunch Fitness.

Gross committed membership fees increased 6% compared to the 2001 period. The gross committed monthly membership fees originated during the first nine months of 2002 averaged $43 versus $40 in the year ago period, 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 increased 3% during the first nine months of 2002 compared with the same period a year ago, with a 2% reduction at our Bally Total Fitness clubs. The average committed duration of memberships originated during the first nine months of 2002 was 30.5 months versus 31.3 months in the prior year period, a 3% decrease. This decrease results primarily from the shorter committed 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 first nine months of 2002, excluding special charges, was $47.5 million compared to $49.7 million in 2001. Net revenues increased by $89.7 million (14%) for the first nine months of 2002, offset by a $90.9 million (17%) increase in operating costs and expenses, excluding special charges, and an increase in depreciation and amortization of $1.0 million. Earnings before interest, taxes, depreciation and amortization, including finance charges earned, exclusive of special charges, were $155.4 million versus $156.9 million for the prior year period, a 1% decrease. The EBITDA margin, before special charges, was 20% in the first nine months of 2002 compared to 23% in the 2001 period. This decrease is due, in part, to the initially lower margins attributable to the Crunch Fitness centers, 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, and the continuing trend of lower new membership originations at our mature clubs. Fitness center operating expenses increased $50.3 million (14%) due principally to incremental costs of operating new fitness centers, including Crunch Fitness, which represented approximately $29.8 million of the increase. Products and services expenses increased $33.5 million (48%) to support the revenue growth of product and service offerings. Contribution margin from products and services increased to $59.7 million from $41.1 million in the 2001 period, a 45% increase (12% related to Crunch Fitness), with a contribution margin percentage of 37% in both periods. Member processing and collection center expenses increased $2.0 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 $1.2 million (3%) compared to the prior year. General and administrative expenses increased $4.0 million (19%) compared to the prior year period to support our overall growth strategy. Depreciation and amortization expense increased $1.0 million resulting from additional depreciation and amortization expense of $6.7 million due to additional expenditures for property and equipment and acquired fitness centers during the past two years, offset by the elimination of goodwill amortization of $5.7 million in the prior year period as a result of the adoption of SFAS No. 142.

The income tax provision for the nine months ended September 30, 2002, increased $21.7 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, our federal income tax rate increased to

20% beginning in the second quarter of 2002. The 20% rate will remain in effect until such time as all our our 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. In the prior year period, in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, we reviewed the likelihood of realizing the future benefit of our unrecognized tax loss carryforwards. Based on consistent and growing profitability, we reduced our valuation allowance against tax loss carryforwards resulting in a federal tax benefit in the prior year quarter of $15 million. 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

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Management's Discussion and Analysis of Financial Condition and

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Finance charges earned in excess of interest expense totaled $10.0 million in the first nine months of 2002, an increase of $3.1 million over the prior year period resulting principally from lower interest rates on the Company s borrowings.

Liquidity and Capital Resources

Cash flows from operating activities were $35.1 million in the first nine months of 2002, compared to $118.0 million in the 2001 period which included $79.5 million of accelerated collections from the sale of installment contracts receivable. During the first and third quarters of 2001, the Company sold a portion of its 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 $18.7 million in the third quarter of 2002, compared to $21.8 million in the prior year quarter, and $73.9 million in the first nine months of 2002, versus $47.6 million in the 2001 period, a $26.3 million increase. We continue to pursue sources of monetizing our installment accounts receivable portfolio, including additional bulk sales such as that recently announced in October 2002 which generated $24 million of initial cash proceeds.

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

	Three months ended September 30		Nine months ended September 30	
	2002	**2001**	**2002**	**2001**
Cash flows from operating activities, as reported	$ 8,146	$ 64,821	$ 35,063	$ 118,001
Acceleration of collections through bulk sale of installment contracts receivable		(60,000)		(105,000)
Collections on installment contracts receivable sold	11,719	12,499	42,819	25,532
Change in dues prepayments	(1,206)	4,438	(3,968)	9,095
Cash flows from operating activities on a comparable basis	$ 18,659	$ 21,758	$ 73,914	$ 47,628

Our bank credit facility 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 September 30, 2002, the Company had drawn $53.9 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 September 30, 2003 are approximately $79.0 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,

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Management's Discussion and Analysis of Financial Condition and

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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 $62.0 million for property and equipment and $11.5 million for purchases of real estate in the first nine months of 2002. Property and equipment expenditures are expected to total approximately $16 million during the fourth quarter of 2002. The Company does not anticipate any additional real estate purchases in 2002. Capital spending in 2003 is targeted to range between $50 million and $55 million as we further our goal to be free cash flow positive.

Forward-Looking Statements

Forward-looking statements in this Form 10-Q including, without limitation, statements relating to the Company s 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 the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such 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 filings of the Company with the Securities and Exchange Commission. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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Item 4. Evaluation of Disclosure Controls and Procedures

The Company s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company s disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company s disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company s reports filed or submitted under the Exchange Act.

Since the Evaluation Date, there have not been any significant changes in the Company s internal controls or in other factors that could significantly affect such controls.

PART II. OTHER INFORMATION

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
August 6, 2002	#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

By: /s/ John W. Dwyer

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

Dated: November 14, 2002

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I, Lee S. Hillman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bally Total Fitness Holding Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) Evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

   c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

   a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant s other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Lee S. Hillman

Lee S. Hillman
Chairman of the Board of Directors,
President and Chief Executive Officer

Date: November 14, 2002

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I, John W. Dwyer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bally Total Fitness Holding Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

    a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

    b) Evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

    c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

    a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant s other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ John W. Dwyer

John W. Dwyer
Executive Vice President and
Chief Financial Officer

Date: November 14, 2002