TOWN SPORTS INTERNATIONAL HOLDINGS INC
Form 10-Q
November 10, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2014

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 000-52013

TOWN SPORTS INTERNATIONAL HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

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

5 Penn Plaza (4th Floor)

New York, New York 10001

Telephone: (212) 246-6700

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.:

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

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

As of November 6, 2014, there were 24,296,658 shares of Common Stock of the registrant outstanding.

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FORM 10-Q

For the Quarter Ended September 30, 2014

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

September 30, 2014 and December 31, 2013

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

(Unaudited)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 117,951	$ 73,598
Accounts receivable (less allowance for doubtful accounts of $2,044 and $2,309 as of September 30, 2014 and December 31, 2013, respectively)	3,732	3,704
Inventory	562	473
Deferred tax assets, net	8,182	17,010
Prepaid corporate income taxes	4,953	6
Prepaid expenses and other current assets	12,902	10,850
Total current assets	148,282	105,641
Fixed assets, net	236,169	243,992
Goodwill	32,641	32,870
Intangible assets, net	523	908
Deferred tax assets, net	43,928	11,340
Deferred membership costs	7,795	8,725
Other assets	13,260	10,316
Total assets	$ 482,598	$ 413,792
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Current portion of long-term debt	$ 3,250	$ 3,250
Accounts payable	5,664	8,116
Accrued expenses	32,610	31,536
Accrued interest	427	737
Dividends payable	302	259
Deferred revenue	36,347	33,913
Total current liabilities	78,600	77,811
Long-term debt	310,200	311,659
Building financing arrangement	83,400	
Dividends payable	438	407

Deferred lease liabilities		54,019		56,882
Deferred revenue		2,034		2,460
Other liabilities		7,738		8,089
Total liabilities		536,429		457,308
Commitments and Contingencies (Note 14)				
Stockholders deficit:				
Preferred stock, $0.001 par value; authorized 5,000,000 shares and no shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively				
Common stock, $0.001 par value; issued and outstanding 24,301,658 and 24,072,705 shares at September 30, 2014 and December 31, 2013, respectively		24		24
Additional paid-in capital		(10,619)		(13,846)
Accumulated other comprehensive income		1,549		2,052
Accumulated deficit		(44,785)		(31,746)
Total stockholders deficit		(53,831)		(43,516)
Total liabilities and stockholders deficit	$	482,598	$	413,792

See notes to condensed consolidated financial statements.

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

For the Three and Nine Months Ended September 30, 2014 and 2013

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

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Club operations	$ 110,956	$ 115,639	$ 339,600	$ 352,568
Fees and other	1,565	1,403	4,521	3,750
	112,521	117,042	344,121	356,318
Operating Expenses:				
Payroll and related	43,994	43,433	133,329	131,986
Club operating	46,664	45,300	144,877	133,616
General and administrative	7,813	7,245	23,600	20,985
Depreciation and amortization	11,638	12,549	35,289	37,108
Insurance recovery related to damaged property		(694)		(3,194)
Impairment of fixed assets		439	4,513	567
Impairment of goodwill			137	
	110,109	108,272	341,745	321,068
Operating income	2,412	8,770	2,376	35,250
Interest expense	4,519	5,523	13,927	16,308
Interest income				(1)
Equity in the earnings of investees and rental income	(580)	(594)	(1,820)	(1,843)
(Loss) income before provision for corporate income taxes	(1,527)	3,841	(9,731)	20,786
(Benefit) provision for corporate income taxes	(660)	1,250	(4,430)	7,767
Net (loss) income	$ (867)	$ 2,591	$ (5,301)	$ 13,019
(Loss) earnings per share:				
Basic	$ (0.04)	$ 0.11	$ (0.22)	$ 0.54
Diluted	$ (0.04)	$ 0.10	$ (0.22)	$ 0.53

Weighted average number of shares used in calculating (loss) earnings per share:				
Basic	24,301,677	24,101,239	24,251,682	24,007,310
Diluted	24,301,677	24,720,511	24,251,682	24,613,236
Dividends declared per common share	$	$	$ 0.32	$

See notes to condensed consolidated financial statements.

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

For the Three and Nine Months Ended September 30, 2014 and 2013

(All figures in thousands)

(Unaudited)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Statements of Comprehensive (Loss) Income				
Net (loss) income	$ (867)	$ 2,591	$ (5,301)	$ 13,019
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments, net of tax of $0 for each of the three and nine months ended September 30, 2014 and 2013, respectively	(364)	158	(253)	102
Interest rate swap, net of tax of ($333) and $193 for the three and nine months ended September 30, 2014, respectively, and ($32) and ($196) for the comparable prior-year periods	433	42	(250)	255
Total other comprehensive income (loss), net of tax	69	200	(503)	357
Total comprehensive (loss) income	$ (798)	$ 2,791	$ (5,804)	$ 13,376

See notes to condensed consolidated financial statements.

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended September 30, 2014 and 2013

(All figures in thousands)

(Unaudited)

	Nine Months Ended September 30, 2014	2013
Cash flows from operating activities:		
Net (loss) income	$ (5,301)	$ 13,019
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	35,289	37,108
Insurance recovery related to damaged property		(3,194)
Impairment of fixed assets	4,513	567
Impairment of goodwill	137	
Amortization of debt discount	978	717
Amortization of debt issuance costs	443	818
Non-cash rental income, net of non-cash rental expense	(4,913)	(4,285)
Share-based compensation expense	1,563	1,592
(Increase) decrease in deferred tax asset	(23,567)	8,147
Net change in certain operating assets and liabilities	(10,172)	(5,333)
Decrease in membership costs	930	1,617
Landlord contributions to tenant improvements	1,302	934
Increase (decrease) in insurance reserve	760	(1,036)
Other	(60)	(410)
Total adjustments	7,203	37,242
Net cash provided by operating activities	1,902	50,261
Cash flows from investing activities:		
Capital expenditures	(29,196)	(20,658)
Acquisition of businesses		(2,939)
Insurance recovery related to damaged property		3,194
Net cash used in investing activities	(29,196)	(20,403)
Cash flows from financing activities:		
Proceeds from building financing arrangement	83,400	
Building financing arrangement costs	(3,160)	

Principal payments on 2013 Term Loan Facility		(2,437)		
Cash dividends paid		(7,666)		(101)
Proceeds from stock option exercises		47		403
Tax benefit from restricted stock vesting		1,692		
Net cash provided by financing activities		71,876		302
Effect of exchange rate changes on cash		(229)		43
Net increase in cash and cash equivalents		44,353		30,203
Cash and cash equivalents beginning of period		73,598		37,758
Cash and cash equivalents end of period	$	117,951	$	67,961
Summary of the change in certain operating assets and liabilities:				
(Increase) decrease in accounts receivable	$	(44)	$	3,130
(Increase) decrease in inventory		(90)		20
Increase in prepaid expenses and other current assets		(1,496)		(1,611)
Decrease in accounts payable, accrued expenses and accrued interest		(4,612)		(4,177)
Change in prepaid corporate income taxes and corporate income taxes payable		(6,166)		29
Increase (decrease) in deferred revenue		2,236		(2,724)
Net change in certain working capital components	$	(10,172)	$	(5,333)
Supplemental disclosures of cash flow information:				
Cash payments for interest, net of capitalized interest	$	12,741	$	14,706
Cash payments for income taxes	$	23,552	$	278

See notes to condensed consolidated financial statements.

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands except share and per share data)

(Unaudited)

1. Basis of Presentation

As of September 30, 2014, Town Sports International Holdings, Inc. (the Company or TSI Holdings), through its wholly-owned subsidiary, Town Sports International, LLC (TSI, LLC), operated 158 fitness clubs (clubs), comprised of 107 clubs in the New York metropolitan market under the New York Sports Clubs brand name, 28 clubs in the Boston market under the Boston Sports Clubs brand name, 15 clubs (two of which are partly-owned) in the Washington, D.C. market under the Washington Sports Clubs brand name, five clubs in the Philadelphia market under the Philadelphia Sports Clubs brand name and three clubs in Switzerland. The Company s operating segments are New York Sports Clubs, Boston Sports Clubs, Philadelphia Sports Clubs, Washington Sports Clubs and Swiss Sports Clubs which is the level at which the chief operating decision maker reviews discrete financial information and makes decisions about segment profitability based on earnings before income tax depreciation and amortization. The Company has determined that these operating segments have similar economic characteristics and meet the criteria which permit them to be aggregated into one reportable segment. In July 2014, the Company introduced its first BFX Studio in a soft opening with the grand opening in September 2014. The pre-tax net loss for this studio and other studios under development was approximately $1,200 and $2,700 for the three and nine months ended September 30, 2014, respectively, consisting primarily of start-up costs, occupancy costs and overhead payroll. The amounts related to this studio have not been allocated to the reportable segment.

The condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). The condensed consolidated financial statements should be read in conjunction with the Company s December 31, 2013 consolidated financial statements and notes thereto, included in the Company s Annual Report on Form 10-K for the year ended December 31, 2013. The year-end condensed consolidated balance sheet data included within this Form 10-Q was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (US GAAP). Certain information and footnote disclosures that are normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to SEC rules and regulations. The information reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the interim periods set forth herein. The results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results for the entire year ending December 31, 2014.

Change in Estimated Average Membership Life

The Company tracks the estimated average membership life of restricted members separately from unrestricted members. The restricted membership base currently includes student memberships introduced in April 2010, teacher memberships introduced in April 2011 and first responder memberships introduced as a one-time promotional offer in September 2011.

Joining fees and related direct and incremental expenses of membership acquisition, which include sales commissions, bonuses and related taxes and benefits, are currently deferred and recognized, on a straight-line basis, in operations over the estimated average membership life. As of July 1, 2014, the estimated average membership life of an unrestricted member and a restricted member is 22 months and 26 months, respectively. The Company monitors factors that might affect the estimated average membership life including retention trends, attrition trends, membership sales volumes, membership composition, competition, and general economic conditions, and adjusts the estimate as necessary on a quarterly basis. The table below summarizes the estimated average membership life of unrestricted members and restricted members that were in effect for each quarter presented.

	Estimated Average Membership Life of an Unrestricted Member		**Estimated Average Membership Life of a Restricted Member**	
Period	**2014**	**2013**	**2014**	**2013**
Three months ended March 31	22 months	25 months	28 months	27 months
Three months ended June 30	22 months	24 months	27 months	28 months
Three months ended September 30	22 months	23 months	26 months	28 months
Three months ended December 31		23 months		28 months

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If the estimated average membership life for restricted members had remained at 27 months for the three months ended September 30, 2014, the impact would have been a decrease in revenue and net income of approximately $14 and $7, respectively.

2. Recent Accounting Pronouncements

In August 2014, the FASB issued ASU No. 2014-15 Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern. The standard requires management to evaluate, at each annual and interim reporting period, the company s ability to continue as a going concern within one year of the date the financial statements are issued and provide related disclosures. This accounting guidance is effective for the Company on a prospective basis for the annual period ending December 31, 2016 and is not expected to have a material effect on the Company s Consolidated Financial Statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers . The standard provides a single, comprehensive revenue recognition model for all contracts with customers and supersedes current revenue recognition guidance. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The new standard also includes enhanced disclosures which are significantly more comprehensive than those in existing revenue standards. The guidance is effective for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted. The standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements. The Company will evaluate the impact of this standard on its financial statements.

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The new guidance changes the criteria for reporting discontinued operations and requires additional disclosures of both discontinued operations and certain other disposals that do not qualify for discontinued operations reporting. Under the new criteria, only a disposal of a component of an entity or a group of components of an entity that represent a strategic shift that has (or will have) a major effect on the Company s operations and financial results should be presented as discontinued operations. The new guidance is effective for annual and interim periods beginning after December 15, 2014, with early adoption permitted. The Company elected to early adopt the amended accounting standard. The adoption of this guidance did not have an impact on the Company s financial statements.

In July 2013, the FASB issued updated guidance permitting the Federal Funds Effective Swap Rate (or Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to the U.S. government rate and LIBOR. Prior to the amendment, only U.S. Treasury and the LIBOR swap rates were considered benchmark interest rates. Including the Federal Funds Effective Swap Rate as an acceptable U.S. benchmark interest rate in addition to U.S. Treasury and LIBOR rates provides a more comprehensive spectrum of interest rates to be utilized as the designated benchmark interest rate risk component under the hedge accounting guidance. The updated guidance is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this guidance did not impact the Company since the current interest rate swap is LIBOR based.

3. Long-Term Debt

	September 30, 2014	December 31, 2013
2013 Term Loan Facility outstanding principal balance	$ 322,563	$ 325,000
Less: Unamortized discount	(9,113)	(10,091)
Less: Current portion due within one year	(3,250)	(3,250)
Long-term portion	$ 310,200	$ 311,659

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2013 Senior Credit Facility

On November 15, 2013, TSI, LLC, an indirect, wholly-owned subsidiary, entered into a $370,000 senior secured credit facility (2013 Senior Credit Facility), among TSI, LLC, TSI Holdings II, LLC, a newly-formed, wholly-owned subsidiary of the Company (Holdings II), as a Guarantor, the lenders party thereto, Deutsche Bank AG, as administrative agent, and Keybank National Association, as syndication agent. The 2013 Senior Credit Facility consists of a $325,000 term loan facility maturing on November 15, 2020 (2013 Term Loan Facility) and a $45,000 revolving loan facility maturing on November 15, 2018 (2013 Revolving Loan Facility). Proceeds from the 2013 Term Loan Facility of $323,375 were issued, net of an original issue discount (OID) of 0.5%, or $1,625. Debt issuance costs recorded in connection with the 2013 Senior Credit Facility were $5,119 and will be amortized as interest expense and are included in other assets in the accompanying condensed consolidated balance sheets. The Company also recorded additional debt discount of $4,356 related to creditor fees. The proceeds from the 2013 Term Loan Facility were used to pay off amounts outstanding under the Company s previously outstanding long-term debt facility originally entered into on May 11, 2011 (as amended from time to time), and to pay related fees and expenses. None of the revolving loan facility was drawn upon as of the closing date on November 15, 2013, but loans under the 2013 Revolving Loan Facility may be drawn from time to time pursuant to the terms of the 2013 Senior Credit Facility. The borrowings under the 2013 Senior Credit Facility are guaranteed and secured by assets and pledges of capital stock by Holdings II, TSI, LLC, and, subject to certain customary exceptions, the wholly-owned domestic subsidiaries of TSI, LLC.

Borrowings under the 2013 Term Loan Facility and the 2013 Revolving Loan Facility, at TSI, LLC s option, bear interest at either the administrative agent s base rate plus 2.5% or a LIBOR rate adjusted for certain additional costs (the Eurodollar Rate) plus 3.5%, each as defined in the 2013 Senior Credit Facility. With respect to the outstanding term loans, the Eurodollar Rate has a floor of 1.00% and the base rate has a floor of 2.00%. Commencing with the last business day of the quarter ended March 31, 2014, TSI, LLC is required to pay 0.25% of the principal amount of the term loans each quarter, which may be reduced by voluntary prepayments. As of September 30, 2014, TSI LLC has made a total of $2,437 in principal payments on the 2013 Term Loan Facility.

The terms of the 2013 Senior Credit Facility provide for a financial covenant in the situation where the utilization of the revolving loan commitments (other than letters of credit up to $5,500 at any time outstanding) exceeds 25% of the commitment. In such event, TSI, LLC is required to maintain a total leverage ratio, as defined in the 2013 Senior Credit Facility, of no greater than 4.50:1.00. While not subject to the total leverage ratio covenant as of September 30, 2014 as the Company s only utilization of the 2013 Revolving Loan Facility at that date was $2,980 of issued and outstanding letters of credit thereunder, because the Company s total leverage ratio as of that date was 4.56:1.00, the Company is currently not able to utilize more than 25% of the 2013 Revolving Loan Facility. The Company will continue not to be able to utilize more than 25% of the 2013 Revolving Loan Facility until it has a total leverage ratio of no greater than 4.50:1.00. The 2013 Senior Credit Facility also contains certain affirmative and negative covenants, including covenants that may limit or restrict TSI, LLC and Holdings II s ability to, among other things, incur indebtedness and other liabilities; create liens; merge or consolidate; dispose of assets; make investments; pay dividends and make payments to shareholders; make payments on certain indebtedness; and enter into sale leaseback transactions, in each case, subject to certain qualifications and exceptions. In addition, at any time when the total leverage ratio is greater than 4:50:1.00, there are additional limitations on the ability of TSI, LLC and Holdings II to make certain distributions of cash to the Company. The 2013 Senior Credit Facility also includes customary events of default (including non-compliance with the covenants or other terms of the 2013 Senior Credit Facility) which may allow the lenders to terminate the commitments under the 2013 Revolving Loan Facility and declare all outstanding term loans and revolving loans immediately due and payable and enforce its rights as a secured creditor.

TSI, LLC may prepay the 2013 Term Loan Facility and 2013 Revolving Loan Facility without premium or penalty in accordance with the 2013 Senior Credit Facility. Mandatory prepayments are required relating to certain asset sales, insurance recovery and incurrence of certain other debt and commencing in 2015 in certain circumstances relating to excess cash flow (as defined) for the prior fiscal year, as described below, in excess of certain expenditures. In connection with the sale of the East 86th Street property, accounted for as a building financing arrangement, described in Note 5 Building Financing Arrangement, the Company received approximately $43,600 in net sales proceeds (after taxes, before giving effect to utilization of net operating losses and carryforwards), which may be required to be used to prepay the 2013 Senior Credit Facility if the Company does not reinvest such proceeds in its business within thirty months from the date of sale. The 2013 Senior Credit Facility contains provisions that require excess cash flow payments, as defined, to be applied against outstanding 2013 Term Loan Facility balances. The excess cash flow is calculated annually commencing with the fiscal year ending December 31, 2014 and paid 95 days after the fiscal year end. The applicable excess cash flow repayment percentage is applied to the excess cash flow when determining the excess cash flow payment. Earnings, changes in working capital and capital expenditure levels all impact the determination of any excess cash flow. The applicable excess cash flow repayment percentage is 50% when the total leverage ratio, as defined in the 2013 Senior Credit Facility, exceeds 2.50:1.00; 25% when the total leverage ratio is greater than 2.00:1.00 but less than or equal to 2.50:1.00 and 0% when the total leverage ratio is less than or equal to 2.00:1.00. The first excess cash flow payment is due in April 2015, if applicable. Based on the Company s

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unit growth projection and increased capital expenditures related to the building of new clubs and new BFX Studio locations, together with its operating forecast, the Company does not expect there will be an excess cash flow payment required at that time.

As of September 30, 2014, the 2013 Term Loan Facility has a gross principal balance of $322,563 and a balance of $313,450 net of unamortized debt discount of $9,113 which is comprised of the unamortized portions of the OID recorded in connection with the May 11, 2011 debt issuance and the unamortized balance of the additional debt discounts recorded in connection with the First Amendment and Second Amendment to the 2011 Senior Credit Facility. The unamortized debt discount balance is recorded as a contra-liability to long-term debt on the accompanying condensed consolidated balance sheet and is being amortized as interest expense using the effective interest method. As of September 30, 2014, the unamortized balance of debt issuance costs of $3,972 is being amortized as interest expense, and is included in other assets in the accompanying condensed consolidated balance sheets.

As of September 30, 2014, there were no outstanding 2013 Revolving Loan Facility borrowings and outstanding letters of credit issued totaled $2,980. The unutilized portion of the 2013 Revolving Loan Facility as of September 30, 2014 was $42,020 and the available unutilized portion, based on the Company s total leverage ratio exceeding 4.50:1.00, was $11,250.

Repayment of 2011 Senior Credit Facility

TSI, LLC s previously outstanding senior secured credit facility was originally entered into on May 11, 2011 and consisted of a $350,000 senior secured credit facility (2011 Senior Credit Facility) comprised of a $300,000 term loan facility (2011 Term Loan Facility) scheduled to mature on May 11, 2018 and a $50,000 revolving loan facility scheduled to mature on May 11, 2016 (2011 Revolving Loan Facility).

Contemporaneously with entry into the 2013 Senior Credit Facility, TSI, LLC repaid the outstanding principal amount of the 2011 Term Loan Facility of $315,743. The 2011 Term Loan Facility was set to expire on May 11, 2018. There were no outstanding amounts under the 2011 Revolving Loan Facility as of November 15, 2013, the date of the initial borrowing under the 2013 Senior Credit Facility. The 2011 Term Loan Facility was repaid at face value of $315,743 plus accrued and unpaid interest of $807 and letter of credit fees and commitment fees of $67. The total cash paid in connection with this repayment was $316,617 as of November 15, 2013 with no early repayment penalty. The Company determined that the 2013 Senior Credit Facility was not substantially different than the 2011 Senior Credit Facility for certain lenders based on the less than 10% difference in cash flows of the respective debt instruments. A portion of the transaction was therefore accounted for as a modification of the 2011 Senior Credit Facility and a portion was accounted for as an extinguishment. As of November 15, 2013, the Company recorded loss on extinguishment of debt of approximately $750, representing the write-off of the remaining unamortized debt costs and debt discount related to the portion of the 2011 Senior Credit Facility that was accounted for as an extinguishment, and was included in loss on extinguishment of debt in the consolidated statement of operations for the year ended December 31, 2013 in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Fair Market Value

Based on quoted market prices, the 2013 Term Loan Facility had a fair value of approximately $280,630 and $327,438, respectively, at September 30, 2014 and December 31, 2013, respectively, and is classified within level 2 of the fair value hierarchy. Level 2 is based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. The fair value for the Company s 2013 Term

Loan Facility is determined using observable current market information such as the prevailing Eurodollar interest rate and Eurodollar yield curve rates and includes consideration of counterparty credit risk.

For the fair market value of the Company s interest rate swap instrument refer to Note 4 Derivative Financial Instruments.

4. Derivative Financial Instruments

In its normal operations, the Company is exposed to market risks relating to fluctuations in interest rates. In order to minimize the possible negative impact of such fluctuations on the Company s cash flows the Company may enter into derivative financial instruments (derivatives), such as interest-rate swaps. Any instruments are not entered into for trading purposes and the Company only uses commonly traded instruments. Currently, the Company has used derivatives solely relating to the variability of cash flows from interest rate fluctuations.

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The Company originally entered into an interest rate swap arrangement on July 13, 2011 in connection with the 2011 Senior Credit Facility. This interest rate swap arrangement effectively converted $150,000 of the Company s variable-rate debt based on a one-month Eurodollar rate to a fixed rate of 1.983%, or a total fixed rate of 7.483%, on this $150,000 when including the applicable 5.50% margin that was in effect under the 2011 Senior Credit Facility at that time. In August 2012, the Company amended the terms of the 2011 Senior Credit Facility to, among other things, reduce the applicable margin on Eurodollar rate loans from 5.50% to 4.50% and reduce the interest rate floor on Eurodollar rate loans from 1.50% to 1.25%. In conjunction with the First Amendment to the 2011 Senior Credit Facility in August 2012, the interest rate swap arrangement was amended to reduce the one-month Eurodollar fixed rate from 1.983% to 1.783%, or a total fixed rate of 6.283% when including the applicable 4.50% margin on Eurodollar rate loans in effect under the 2011 Senior Credit Facility at that time. On November 14, 2012, the Company further amended the terms of the 2011 Senior Credit Facility to, among other things, allow for the borrowing of a $60,000 incremental term loan. In connection with the Second Amendment to the 2011 Credit Facility, the Company further amended the interest rate swap to increase the notional amount to $160,000 and extended the maturity of the swap from July 13, 2014 to May 13, 2015. In addition, the one-month Eurodollar fixed rate was lowered from 1.783% to 1.693%, or a total of 6.193% when including the applicable 4.50% margin on Eurodollar rate loans in effect under the 2011 Senior Credit Facility at that time. In connection with entering into the 2013 Senior Credit Facility, the Company amended and restated the interest rate swap arrangement it initially entered into on July 13, 2011 (and amended in August 2012 and November 2012). Effective as of November 15, 2013, the closing date of the 2013 Senior Credit Facility, the interest rate swap arrangement will continue to have a notional amount of $160,000 and will mature on May 15, 2018. The swap effectively converts $160,000 of the $325,000 total variable-rate debt under the 2013 Senior Credit Facility to a fixed rate of 5.384%, when including the applicable 3.50% margin. As permitted by FASB Accounting Standards Codification (ASC) 815, Derivatives and Hedging, the Company has designated this swap as a cash flow hedge, the effects of which have been reflected in the Company s condensed consolidated financial statements as of and for the three and nine months ended September 30, 2014 and 2013. The objective of this hedge is to manage the variability of cash flows in the interest payments related to the portion of the variable-rate debt designated as being hedged.

When the Company s derivative instrument was executed, hedge accounting was deemed appropriate and it was designated as a cash flow hedge at inception with re-designation being permitted under ASC 815, Derivatives and Hedging. Interest rate swaps are designated as cash flow hedges for accounting purposes since they are being used to transform variable interest rate exposure to fixed interest rate exposure on a recognized liability (debt). On an ongoing basis, the Company performs a quarterly assessment of the hedge effectiveness of the hedge relationship and measures and recognizes any hedge ineffectiveness in the condensed consolidated statements of operations. For the three and nine months ended September 30, 2014 and 2013, hedge ineffectiveness was evaluated using the hypothetical derivative method. There was no hedge ineffectiveness for the three and nine months ended September 30, 2014 and 2013.

Accounting guidance on fair value measurements specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company s market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices for *identical* instruments in active markets.

Level 2 Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

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The fair value for the Company s interest rate swap is determined using observable current market information such as the prevailing Eurodollar interest rate and Eurodollar yield curve rates and includes consideration of counterparty credit risk. The following table presents the fair value of the Company s derivative financial instrument:

		Fair Value Measurements Using:		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap liability as of September 30, 2014	$ 625	$	$ 625	$
Interest rate swap liability as of December 31, 2013	$ 182	$	$ 182	$

The swap contract liability of $625 and $182 are recorded as a component of other liabilities as of September 30, 2014 and December 31, 2013, respectively, with the offset to accumulated other comprehensive income ($353 and $103, net of taxes, as of September 30, 2014 and December 31, 2013, respectively) on the accompanying condensed consolidated balance sheet.

There were no significant reclassifications out of accumulated other comprehensive income during the three and nine months ended September 30, 2014 and 2013 and the Company does not expect that significant derivative losses included in accumulated other comprehensive income at September 30, 2014 will be reclassified into earnings within the next 12 months.

5. Building Financing Arrangement

On September 12, 2014, the Company completed the previously announced legal sale of its property (building and land) on East 86th Street, New York City, to an unaffiliated third-party for gross proceeds of $85,650, which includes $150 of additional payments to the Company. Concurrent with the closing of the transaction, the Company leased back the portion of the property comprising its health club. The Company expects to lease (Initial Lease) the premises for at least 18 months and then, upon notice from the purchaser/landlord, the Initial Lease will terminate and the Company will vacate the property while the purchaser/landlord demolishes the existing building and the adjacent building and builds a new luxury, high-rise multi-use building. In connection with vacating the property, the Company will enter into a new lease (New Club Lease) for approximately 24,000 square feet in the new building for the purpose of operating a health club upon completion of construction by the purchaser/landlord. The term of the Initial Lease is 10 years, and at the end of this initial term, the Company has two options at its sole discretion to renew the lease; the first for an additional 10 year period and a second for an additional five year period (although the Company expects that the purchaser/landlord will exercise its right to early terminate the Initial Lease so that it may commence the construction of the new building). Under the Initial Lease (and New Club Lease if entered into), the purchaser/landlord has agreed to pay the Company liquidated damages if the new club is not available by a certain date. The latest date that the liquidated damages would begin to be paid would be April 13, 2020 and would continue until the new club is available. For accounting purposes, the nature of these potential liquidated damages constitutes continuing involvement with the purchaser/landlord s development of the property. As a result of this continuing involvement, the sale-leaseback transaction is currently required to be accounted for as a financing arrangement rather than as a completed sale. Under this treatment, the Company has included the proceeds received as a financing arrangement on its balance sheet. Except for payments under the Initial Lease and the New Club Lease, the Company does not expect to make any cash payments to the purchaser/landlord with respect to the building financing arrangement. The Company recorded a taxable (for federal and state income tax purposes) gain on the sale of the property and made estimated tax payments during the quarter in this regard. The proceeds of $83,400, which is net of $1,750 to be held in escrow for the Company s former tenant and $500 to remain in escrow to be released to the Company six months after the date of sale, are included in the Company s cash flow statement for the nine months ended September 30, 2014 as a financing inflow.

As of September 30, 2014, the total financing arrangement was $83,400, and accrued interest on financing arrangement was not material at September 30, 2014. Because the transaction is characterized as a financing for accounting purposes rather than a sale, the rental payments and related transaction costs are treated as interest on the financing arrangement. As these interest amounts are less than the interest that would be charged under a typical financing, the financing will be characterized as an interest only financing with no reduction in the principal throughout the Initial Lease term until any continuing involvement has ceased. Until such time, even though the Company no longer has legal title to the building and the land, the building, building improvements and land remain on our consolidated balance sheet and the building and building improvements will continue to be depreciated over their remaining useful lives. Similarly, the Company does not have a loan or borrowing arrangement with the purchaser/landlord but the building financing arrangement will remain on the Company s balance sheet until any continuing involvement has ceased.

As of September 30, 2014, the net book value of the building and building improvements was $3,390 and the book value of the land was $986. As part of the transaction, the Company incurred $3,160 of real property transfer taxes, broker fees and other costs which will be deferred and amortized over the term of the Initial Lease of 25 years, which includes the options periods. These fees are recorded in Other assets on the accompanying consolidated balance sheet as of September 30, 2014.

Payments made under the Initial Lease, including rental income related to the Company s tenant in the building that was assigned to the purchaser/landlord, are recognized as interest expense in the underlying financing arrangement. Included in the table below is the Company s future lease commitment of $750 per year under the term of the Initial Lease of 25 years, which includes the options periods and will be recorded as interest expense. Rental income related to the Company s former tenant in the building of approximately $2,000 per year and the amortization of the deferred costs of $126 per year as of September 30, 2014 will be recorded as interest expense (unless the purchaser/landlord exercises its right to terminate the lease before the end of the 10-year Initial Lease).

12 months ending September 30,	
2015	$ 750
2016	750
2017	750
2018	750
2019	750
2020 and thereafter	15,000
Minimum lease commitments	$ 18,750

6. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and the interest rate swap. Although the Company deposits its cash with more than one financial institution, as of September 30, 2014, $109,363 was held at two financial institutions. The Company has not experienced any losses on cash and cash equivalent accounts to date, and the Company believes that, based on the credit ratings of these financial institutions, it is not exposed to any significant credit risk related to cash at this time.

The counterparty to the Company s interest rate swap is a major banking institution with a credit rating of investment grade or better and no collateral is required, and there are no significant risk concentrations. The Company believes the risk of incurring losses on derivative contracts related to credit risk is unlikely.

7. (Loss) Earnings Per Share

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

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	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Weighted average number of common shares outstanding basic	24,301,677	24,101,239	24,251,682	24,007,310
Effect of dilutive share based awards		619,272		605,926
Weighted average number of common shares outstanding diluted	24,301,677	24,720,511	24,251,682	24,613,236
(Loss) earnings per share:				
Basic	$ (0.04)	$ 0.11	$ (0.22)	$ 0.54
Diluted	$ (0.04)	$ 0.10	$ (0.22)	$ 0.53

For the three and nine months ended September 30, 2014, there was no effect of diluted stock options and unvested restricted common stock on calculation of diluted EPS as the Company had a net loss for these periods.

For the three and nine months ended September 30, 2013, the Company did not include stock options to purchase 269,000 shares and 272,139 shares of the Company s common stock, respectively, in the calculations of diluted EPS because the exercise prices of those options were greater than the average market price and such inclusion would be anti-dilutive.

8. Stock-Based Compensation

The Company s 2006 Stock Incentive Plan, as amended and restated (the 2006 Plan), authorizes the Company to issue up to 3,000,000 shares of common stock to employees, non-employee directors and consultants pursuant to awards of stock options, stock appreciation rights, restricted stock, in payment of performance shares or other stock-based awards. Under the 2006 Plan, stock options must be granted at a price not less than the fair market value of the stock on the date the option is granted, generally are not subject to re-pricing, and will not be exercisable more than ten years after the date of grant. Options granted under the 2006 Plan generally qualify as non-qualified stock options under the U.S. Internal Revenue Code. Certain options granted under the Company s 2004 Common Stock Option Plan, as amended (the 2004 Plan), generally qualify as incentive stock options under the U.S. Internal Revenue Code; the exercise price of a stock option is equal to the fair market value of the Company s common stock on the option grant date. As of September 30, 2014, there were 257,139 shares available to be issued under the 2006 Plan.

At September 30, 2014, the Company had 7,000 stock options outstanding under the 2004 Plan while the 2006 Plan had 1,068,278 stock options outstanding and 485,715 shares of restricted stock outstanding.

Stock Option Awards

The Company did not grant any stock options during the nine months ended September 30, 2014.

The total compensation expense, classified within payroll and related on the condensed consolidated statements of operations, related to stock options outstanding was $61 and $273 for the three and nine months ended September 30, 2014, respectively, versus $188 and $564 for the comparable prior-year periods.

As of September 30, 2014, a total of $10 in unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 0.1 years.

Restricted Stock Awards

On February 24, 2014 and May 12, 2014, the Company issued 181,500 and 15,000 shares of restricted stock, respectively, to employees. The fair value per share for the February 24, 2014 and May 12, 2014 restricted stock awards was $8.63 and $6.47, respectively, representing the closing stock price on the respective dates of grant. These shares will vest 25% per year over four years on the anniversary dates of the respective grants.

The total compensation expense, classified within payroll and related on the condensed consolidated statements of operations, related to restricted stock was $369 and $1,045 for the three and nine months ended September 30, 2014, respectively, versus $265 and $738 for the comparable prior-year periods.

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As of September 30, 2014, a total of $2,875 in unrecognized compensation expense related to restricted stock awards is expected to be recognized over a weighted-average period of 2.8 years.

Stock Grants

In January 2014, the Company issued shares of common stock to members of the Company s Board of Directors in respect of their annual retainer. The total fair value of the shares issued was expensed upon the date of grant. The total compensation expense, classified within general and administrative expenses, related to Board of Director common stock grants was $0 and $245 for the three and nine months ended September 30, 2014, respectively, versus $15 and $290 for the comparable prior-year periods. Total shares issued during the nine months ended September 30, 2014 were:

Grant Date	Number of Shares	Price Per Share	Aggregate Grant Date Fair Value
January 16, 2014	21,248	$ 11.53	$ 245

9. Fixed Asset Impairment

Fixed assets are evaluated for impairment periodically whenever events or changes in circumstances indicate that related carrying amounts may not be recoverable from undiscounted cash flows in accordance with FASB guidance. The Company s long-lived assets and liabilities are grouped at the individual club level, which is the lowest level for which there are identifiable cash flows. To the extent that estimated future undiscounted net cash flows attributable to the assets are less than the carrying amount, an impairment charge equal to the difference between the carrying value of such assets and their fair values is recognized. In the three months ended September 30, 2014, the Company tested 28 underperforming clubs and no fixed asset impairment charges were recorded. The 28 clubs tested had an aggregate of $34,731 of net leasehold improvements and furniture and fixtures remaining as of September 30, 2014. Of the 28 clubs, a total of 25 clubs have now been forecasted under the Company s new High Value Low Price (HVLP) model. Under this model, membership at these clubs is offered at a reduced price. To the extent the performance of the HVLP model does not meet the Company s expectations, the Company may record additional impairment charges.

In the nine months ended September 30, 2014, the Company recorded total fixed asset impairment losses of $4,513 related to a total of eight clubs, including four underperforming clubs, three clubs which were closed in the third quarter of 2014, and one club we expect to close in the fourth quarter of 2014. During the nine months ended September 30, 2013, the Company recorded an impairment loss of $567 on fixed assets related to two underperforming clubs. The fixed asset impairment loss is included as a component of operating expenses in a separate line on the condensed consolidated statements of operations.

In determining the recoverability of fixed assets Level 3 inputs were used in determining undiscounted cash flows, which are based on internal budgets and forecasts through the end of each respective lease. The most significant assumptions in those budgets and forecasts relate to estimated membership and ancillary revenue, attrition rates, estimated results related to new program launches and maintenance capital expenditures, which are generally estimated at approximately 3% to 5% of total revenues depending upon the conditions and needs of a given club. The fair value of fixed assets evaluated for impairment is determined considering a combination of a market participant approach and a cost approach.

10. Club Closures

The Company reviewed its club portfolio and made the decision to close between eight and nine, of its lower performing clubs in the second half of 2014, with possible additional clubs to be closed during 2015, in an effort to consolidate a portion of these members into other existing clubs. As of September 30, 2014, five clubs had been closed, and an additional three to four clubs are expected to be closed in the fourth quarter of 2014. For each of the three and nine months ended September 30, 2014, the Company recognized a net occupancy gain of $1,612 for the closed clubs, reflecting a $2,918 write-off of deferred lease liability, partially offset by $1,306 of lease termination costs. The net gain of $1,612 is reflected in club operating expenses in the accompanying condensed consolidated statements of operations. The Company also incurred $126 of other club closure expenses including legal fees, equipment removal and clean-up costs, which are reflected in general and administrative expenses in the accompanying condensed consolidated statements of operations. The Company is expecting costs related to these club closures in the fourth quarter of 2014 to be between $300 and $400 primarily affecting club operating expenses in the accompanying condensed consolidated statement of operations.

Since the Company has decided to close these clubs before their lease expiration dates, these clubs were tested for impairment. As a result, the Company recorded $734 of impairment losses at three of these clubs in the three months ended June 30, 2014, on leasehold improvements and furniture and fixtures present in the clubs to be closed.

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11. Goodwill and Other Intangibles

Goodwill has been allocated to reporting units that closely reflect the regions served by the Company s four trade names: New York Sports Clubs (NYSC), Boston Sports Clubs (BSC), Washington Sports Clubs (WSC) and Philadelphia Sports Clubs (PSC), with certain more remote clubs that do not benefit from a regional cluster being considered single reporting units (Outlier Clubs) and the Company s three clubs located in Switzerland being considered a single reporting unit (SSC). As of September 30, 2014, the WSC region, PSC region and the Outlier Clubs do not have goodwill balances.

The Company s annual goodwill impairment tests are performed on the last day of February, or more frequently, should circumstances change which would indicate the fair value of goodwill is below its carrying amount. The determination as to whether a triggering event exists that would warrant an interim review of goodwill and whether a write-down of goodwill is necessary involves significant judgment based on short-term and long-term projections of the Company. Due to the significant decrease in market capitalization and a decline in the Company s business outlook, the Company performed an interim impairment test as of May 31, 2014.

The Company s current year annual goodwill impairment test as of February 28, 2014 and the interim test performed as of May 31, 2014 were performed using the two-step goodwill impairment analysis. Under this approach, goodwill impairment testing is a two-step process. Step 1 involves comparing the fair value of the Company s reporting units to their carrying amounts. If the fair value of the reporting unit is greater than its carrying amount, there is no requirement to perform step two of the impairment test, and there is no impairment. If the reporting unit s carrying amount is greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step 2 calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in Step 1. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized equal to the difference. The Company concluded that there would be no remaining implied value attributable to the Outlier Clubs. As a result of the annual test, the Company impaired $137 of goodwill associated with this reporting unit. The Company did not have a goodwill impairment charge in the NYSC, BSC and SSC regions as a result of either test.

For the May 31, 2014 and February 28, 2014 impairment tests, fair value was determined by using a weighted combination of two market-based approaches (weighted 50% collectively) and an income approach (weighted 50%), as this combination was deemed to be the most indicative of the Company s fair value in an orderly transaction between market participants. Under the market-based approaches, the Company utilized information regarding the Company, the Company s industry as well as publicly available industry information to determine earnings multiples and sales multiples that are used to value the Company s reporting units. Under the income approach, the Company determined fair value based on estimated future cash flows of each reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and operating margins, discount rates and future market conditions, among others. These assumptions were determined separately for each reporting unit. The Company believes its assumptions are reasonable, however, there can be no assurance that the Company s estimates and assumptions made for purposes of the Company s goodwill impairment testing as of May 31, 2014 and February 28, 2014 will prove to be accurate predictions of the future. If the Company s assumptions regarding forecasted revenue or margin growth rates of certain reporting units are not achieved, the Company may be required to record goodwill impairment charges in future periods, whether in connection with the Company s next annual impairment testing as of February 28, 2015 or prior to that, if any such change constitutes a triggering event outside the quarter when the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result. The estimated fair values of NYSC and SSC were greater than book values by 36% and 65% as of May 31, 2014, respectively, compared to 48% and 73% as of February 28, 2014, respectively. BSC was not tested separately in the interim as the goodwill balance was deemed immaterial. As of February 28, 2014, the estimated fair value of BSC was 24% greater than book value.

Solely for purposes of establishing inputs for the fair value calculation described above related to goodwill impairment testing, the Company made the following assumptions. The Company developed long-range financial forecasts (five years) for all reporting units and assumed organic growth from the existing club base. As of May 31, 2014, the Company used discount rates ranging from 9.3% to 13.6% and terminal growth rates ranging from 0.5% to 2.0%. These assumptions are calculated separately for each reporting unit.

The Company s next annual impairment test will be performed as of February 28, 2015 or earlier, if any such change constitutes a triggering event outside the quarter when the annual goodwill impairment test is performed. The Company determined a triggering event did not occur in the three months ended September 30, 2014.

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The changes in the carrying amount of goodwill from December 31, 2013 through September 30, 2014 are detailed in the charts below.

	NYSC	BSC	SSC	Outlier Clubs	Total
Goodwill, net of accumulated amortization	$ 31,403	$ 15,775	$ 1,321	$ 3,982	$ 52,481
Less: accumulated impairment of goodwill		(15,766)		(3,845)	(19,611)
Balance as December 31, 2013	31,403	9	1,321	137	32,870
Changes due to foreign currency exchange rate fluctuations			(92)		(92)
Less: accumulated impairment of goodwill				(137)	(137)
Balance as of September 30, 2014	$ 31,403	$ 9	$ 1,229	$	$ 32,641

Intangible assets were acquired in connection with the Company s acquisitions during 2013. Amortization expense was $128 and $385 for the three and nine months ended September 30, 2014, respectively, versus $125 and $185 for the comparable prior-year periods.

Intangible assets are as follows:

	As of September 30, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
Membership lists	$ 11,344	$ (11,046)	$ 298
Non compete agreements	1,508	(1,508)	
Management contracts	250	(62)	188
Trade names	40	(3)	37
Other	23	(23)	
	$ 13,165	$ (12,642)	$ 523

	As of December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
Membership lists	$ 11,344	$ (10,696)	$ 648
Non compete agreements	1,508	(1,508)	
Management contracts	250	(28)	222
Trade names	40	(2)	38
Other	23	(23)	
	$ 13,165	$ (12,257)	$ 908

12. Acquisitions

The following acquisitions were completed during 2013 and were accounted for using the acquisition method of accounting in accordance with FASB guidance. Under the acquisition method, the purchase price was allocated to the assets acquired and the liabilities assumed based on their respective estimated fair values as of the acquisition date. Any excess of the purchase price over the fair values of the assets acquired and liabilities assumed was allocated to goodwill. None of the acquisitions individually or in the aggregate were material to the financial position, results of operations or cash flows of the Company; therefore pro forma financial information has not been presented. The results of operations of the clubs acquired have been included in the Company s consolidated financial statements from the respective dates of acquisition.

Acquisition on March 15, 2013

On March 15, 2013, the Company acquired an existing fitness club in Manhattan, New York for a purchase price of $560. The purchase price allocation resulted in fixed assets related to leasehold improvements of $458, definite lived intangible assets related to member lists of $102 and a deferred revenue liability of $56, for a net cash purchase price of $504. Acquisition costs incurred in connection with this acquisition during the nine months ended September 30, 2013 were approximately $95 and are included in general and administrative expenses in the accompanying condensed consolidated statements of operations.

Acquisition on May 17, 2013

On May 17, 2013, the Company acquired all of the Fitcorp clubs in Boston, which includes five clubs and four managed sites for a purchase price of $3,175 and a net cash purchase price of $2,435. Acquisition costs incurred in connection with the Fitcorp acquisition during the nine months ended September 30, 2013 were approximately $213 and are included in general and administrative expenses in the accompanying condensed consolidated statements of operations. The following table summarizes the allocation of the purchase price to the fair value of the assets and liabilities acquired.

	Acquisition on May 17, 2013	
Allocation of purchase price:		
Other assets	$	90