SPORTS CLUB CO INC
Form 10-K/A
June 26, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

OR

|_| TRANSITION REPORT PURSUANT TO SECTON 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT

For the transition period from ___________to __________

Commission File Number: 1-13290

The Sports Club Company, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	95-4479735 (I.R.S. Employer Identification No.)
11100 Santa Monica Blvd., Suite 300 Los Angeles, California (Address of registrant's principal executive offices)	90025 (Zip Code)

Registrant's telephone number, including area code:
(310) 479-5200

Securities registered pursuant to Section 12(b) of the Act: Title of each class	Name of each exchange on which registered

Common Stock $.01 par value	American Stock Exchange
Securities registered pursuant to Section 12(g) of the Act:	None

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Indicate by check mark whether 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 |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A. [_]

The aggregate market value of voting stock held by non-affiliates of the registrant on June 28, 2002, the last business day of the registrants most recently completed second fiscal quarter was $9,960,000. The aggregate market value of the voting stock held by non-affiliates of the registrant on June 18, 2003 was $11,068,403. The number of shares of the Common Stock, par value $ .01 per share, outstanding (the only class of Common Stock of the registrant outstanding) was 18,369,649 on June 18, 2003. Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes |_| No |X|

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This Form 10-K/A is being filed to restate our financial statements. Subsequent to filing our Form 10-K on March 31, 2003, we determined that adjustments are required to correct errors in the previously issued financial statements. The adjustments consist of several items. The principle adjustment is a correction of the methodology used to recognize private training revenues. We had been recognizing private training revenues on a cash basis rather than when the private training session was given, as required by generally accepted accounting principles. The other adjustments to our pre-tax loss made as part of this restatement were not significant individually or in total (for further detail see Note 19 to our consolidated financial statements contained elsewhere in this Form 10-K/A). The restatement primarily changed Items 6, 7 and 8 of the Form 10-K. Cash flows from operating, investing and financing activities did not change as a result of this restatement.

PART I

ITEM 1. BUSINESS

General

We were organized in 1994 to consolidate the ownership of several sports and fitness clubs. We currently own and operate six Clubs under "The Sports Club/LA" name in Los Angeles, Washington D.C., Boston, San Francisco and at Rockefeller Center and the Upper East Side in New York City. We also own and operate The Sports Club/Irvine and operate and own a majority interest in Reebok Sports Club/NY. Our Clubs offer a wide range of fitness and recreation options and amenities, and are marketed to affluent, health conscious individuals who desire a service-oriented, state-of-the-art club. Our Clubs are widely recognized as being among the finest sports and fitness clubs in the country.

Our Clubs (hereinafter referred to as "Clubs" or "The Sports Club/LA") are conveniently located and are spacious, modern facilities that typically include spas, restaurants, fitness centers, swimming pools and basketball courts. The Sports Club/LA sites are designed as "urban country clubs," ranging in size from 90,000 to 140,000 square feet. Initiation fees and monthly membership dues at The Sports Club/LA are higher than those charged by most other sports and fitness clubs. Income from ancillary services and products, including private training, food and beverage and spa services, also constitute a significant portion of our revenues. Our subsidiary, The SportsMed Company ("SportsMed"), operates physical therapy facilities in some Clubs and at other locations.

Our strategy is to expand The Sports Club/LA brand in major metropolitan markets and to increase revenues and profitability at existing Clubs through regular increases in monthly membership dues, increases in membership levels and expanded ancillary services and products. We will continue to investigate other sites for new The Sports Club/LA developments.

According to the International Health, Racquet & Sportsclub Association ("IHRSA"), the industry's leading trade organization, it is estimated that 33.8 million Americans were members of more than 17,000 sports and fitness clubs in 2001. Revenues generated by the United States sports and fitness club industry increased at a compound annual rate of 8.2% from $6.5 billion in 1993 to $12.2 billion in 2001. The industry has benefited from the general public's increasing awareness of the importance of physical exercise. Among other groups, we target members age 35 and older who, according to IHRSA, represent 59% of all memberships and are the fastest growing segment of the industry.

Recent Events

On December 10, 2002 our Board of Directors formed a special Committee of the Board comprised of the independent directors to explore strategic alternatives, including a possible "going private" transaction in which certain of our principal shareholders may participate. We have also engaged a Los Angeles based investment banking firm to assist us in raising up to $50.0 million in private equity to establish separate joint ventures for the development of smaller luxury sports and fitness complexes under The Sports Club/LA brand.

On June 12, 2003, we replaced our Bank Credit Agreement with a new $20.0 million secured loan from Orange County's Credit Union. The new loan is evidenced by a promissory note that bears interest at a fixed interest rate of 7.25% per annum; requires monthly principal and interest payments of $144,561; is secured by the common stock and all the assets of Irvine Sports Club Inc. the Company's wholly owned subsidiary that owns The Sports Club/Irvine; and is guaranteed by the Company's two Co-Chief Executive Officers. The note may be prepaid at any time without penalty and requires a final principal payment of $18.3 million on July 1, 2008.

The Sports Club/LA

The Sports Club/LA is typically a 90,000 to 140,000 square foot multi-purpose facility, that generally includes the following features:

- large, fully equipped gyms with state-of-the-art fitness equipment, including weight training, cardio- vascular equipment, flexibility centers and functional performance areas,

- basketball, volleyball, racquetball, squash, tennis and paddle tennis courts,
- group exercise studios featuring classes throughout the day and evening, seven days a week, including aerobics, yoga, dance, muscle conditioning, boxing, martial arts, pilates and bodymind,
- group cycling studios,
- rock climbing walls,
- boxing studios,
- swimming pools, sundecks, golf practice nets and running tracks,
- destination city spa offering massage, facials and full body treatments,
- men's and women's locker rooms featuring wood lockers,
- steam rooms, saunas and jacuzzis,
- restaurants, sports bars, private dining/conference rooms and media centers,
- valet parking, pro shops, hair salons and childcare services,
- sports medicine and physical therapy facilities,
- personal trainers to develop and supervise members' exercise routines,
- registered dietitians for nutritional consultations,
- FitLab assessment centers,
- PTS Private Trainer System nutritional programs and products,
- interactive children's' classes, as well as supervised age-specific junior recreation rooms and junior programs such as gymnastics, martial arts and dance,
- instruction in racquet sports, golf, swimming, boxing, martial arts and rock climbing,

- full-time activities directors responsible for social and media events for members, including organizing trips, lectures and charity events,
- sports instructors who present sports tournaments, leagues and classes, and
- wellness protocols such as exercise regimens designed for specific groups of members.

We currently have eight Sports Clubs in operation. The original Sports Club/LA opened in 1987 in west Los Angeles, California, near the affluent communities of Santa Monica, Brentwood, Beverly Hills, Bel Air, Westwood and Century City. The Sports Club/Irvine opened in 1990 near Newport Beach in Orange

County, California. Reebok Sports Club/NY opened in 1995 on Manhattan's upper west side, and was developed in partnership with a subsidiary of Reebok International, Ltd. ("Reebok") and Lincoln Metrocenter Partners, L.P. (collectively with its affiliates "Millennium"). We manage the operations and own a 60% interest in the partnership that owns this Club. Reebok and Millennium have each retained an interest in the partnership.

We opened The Sports Club/LA at two locations in New York City in 2000. The Sports Club/LA - New York at Rockefeller Center was opened in February 2000. This Club was designed to service the executive business community in midtown Manhattan. The Sports Club/LA - New York in New York City's Upper East Side was opened in September 2000. This site is the location of the former Vertical Club, which was closed in February 1999 for major renovation and conversion to The Sports Club/LA and serves the affluent residential Upper East Side area of New York City.

We also recently opened The Sports Club/LA at three sites developed by Millennium. The Sports Club/LA - Washington D.C. opened in October 2000. This 100,000 square foot Club is located at 22nd and M Streets between Washington D.C.'s business district and Georgetown. The Sports Club/LA - Boston opened in September 2001. This Club overlooks the historic Boston Common and is located a short distance from the city's financial district. Both of these Clubs are co-located with a Ritz Carlton Hotel. Our newest Club, The Sports Club/LA - San Francisco, has been open since October 2001. This Club is located in the Four Seasons Hotel and Residences in the emerging South of Market Area in San Francisco.

The SportsMed Company, Inc.

Our SportsMed subsidiary operates physical therapy facilities within The Sports Club/LA in Los Angeles, The Sports Club/Irvine, the Spectrum Club - Valencia and the Spectrum Club - Thousand Oaks. SportsMed also operates in a stand-alone facility in Calabasas, California. The clinics are staffed by exercise physiologists, physical therapists and registered dietitians who provide services to members and others. We believe that SportsMed provides valuable services, which are complementary to the other services provided by the Clubs, and are considering placing physical therapy facilities in other Clubs in the future.

Development of New Clubs

Recent New Club Developments. In 2000 and 2001, we completed the development of five new The Sports Club/LA sites. Two of these Clubs are located in New York City and, when combined with our Reebok Sports Club/NY site, form a trio of Clubs located in residential areas on the East and West sides and the central midtown business district. Three of the new The Sports Club/LA sites were developed with Millennium, with whom we developed Reebok Sports Club/NY. Millennium is a developer of premier multi-use projects and is funded by Quantum Realty Fund, a member of the Quantum Group of Funds, which are off-shore investment funds managed by Soros Fund Management, a management firm headed by George Soros; Goldman Sachs' Whitehall Street Real Estate Limited Partnerships; and Millennium Entertainment Partners L.P., a consortium of German insurance companies. These Clubs are located in projects developed by Millennium in prime, metropolitan locations that, like Reebok Sports Club/NY, include commercial, retail, entertainment and residential space. In addition, each of these developments include either a Ritz Carlton or Four Seasons hotel. These Clubs are approximately 100,000 square feet and offer services typically found at other The Sports Club/LA sites. We believe that such projects offer ideal locations for The Sports Club/LA and would consider developing The Sports Club/LA with Millennium or other developers in other major metropolitan areas.

Performance of Newly Developed and Acquired Clubs. Based on our experience, a newly developed Club tends to achieve significant increases in revenues until a mature membership level is reached. In the past, recently opened Clubs which have not yet achieved mature membership levels have operated at a negative cash flow or only a slight positive cash flow during the first two years of operation as a result of fixed expenses that, together with variable operating expenses, approximate or exceed membership fees and other revenues. This trend continued at The Sports Club/LA sites we opened in 2000 and 2001. Three of these Clubs are now operating at a positive cash flow level while two Clubs are still building the membership base necessary to achieve this level. We believe that our revenues from these Clubs will significantly increase as membership levels mature.

Future New Club Developments

The completion of The Sports Club/LA at five new sites has required significant financial resources. In addition, our current financing arrangements and level of operating cash flow make it difficult to secure the required financing to develop additional new sites. Therefore, our primary focus is now on improving the operating performance of our five new Clubs. We are pursuing The Sports Club/LA developments at new sites that are financially structured in a way that will not require us to make a significant capital investment. We would consider entering into joint ventures, partnership agreements or management agreements for the purpose of developing new Clubs.

We have two new sites that we are currently developing. We have signed a lease to develop The Sports Club/LA - Beverly Hills. This Club will be located in the heart of the business and retail district in Beverly Hills, California. It will service that market place as well as the surrounding neighborhoods and allow us to further penetrate areas east of Beverly Hills. We are currently demolishing the existing interior building space and constructing our pre-sales office and expect to start pre-sale activities in April 2003. Our objective is to locate a joint venture partner to provide the financing to complete the construction of this Club. If we are unable to do so, we would need to either delay the construction or secure additional equity capital or debt financing.

We are also negotiating with Millennium regarding The Sports Club/LA - Miami. Millennium will be the owner of this Club. They will be responsible for providing all funds necessary to construct, equip and operate the Club. We will manage the Club operations for which we expect to receive a management fee based upon both the gross revenues and net cash flow of the Club. We will also license The Sports Club/LA name to Millennium. This structure allows us to expand our brand and receive an immediate earnings stream, with the potential for additional profits, without making any capital investment.

Sales and Marketing

Strategy. The Sports Club/LA is marketed as an "urban country club" offering personalized attention and multiple amenities and services. We believe that the image of The Sports Club/LA as the leader in the sports and fitness industry justifies charging a premium. Our members include professionals, sports and entertainment personalities and business people. The Sports Club/LA emphasize personalized service and instruction and the creation of an "urban country club" atmosphere in which members can relax and socialize. Our marketing efforts at The Sports Club/LA emphasize retaining existing members, replacing members who leave with new members and increasing ancillary revenues from services such as private training and spa services. Our focus at the newer The Sports Club/LA locations is on attracting additional members.

Referrals, Endorsements and Advertising. Word-of-mouth referrals and endorsements by existing members are The Sports Club/LA's most important source of new members. In addition, The Sports Club/LA utilizes targeted marketing programs which include advertisements, promotions, public relations and community events. The principal marketing media for the Clubs are direct mail and print advertisements. Special events and special membership programs supplement the print advertisements. The Sports Club/LA hosts corporate parties and charity benefits and often donates free or discounted memberships to charitable organizations. We also conduct periodic membership drives whereby referring members are entitled to receive special gifts and other incentives. We believe that we will be able to continue to utilize these marketing strategies.

Targeted Members. The largest segment of the membership base for The Sports Club/LA consists of health-conscious individuals. We target four other groups in order to expand membership: corporate members, medical referrals, families, and seniors. Each of these groups requires specialized exercise/fitness programs and we have developed specific programs to attract members of these groups.

Corporate Programs. We believe the corporate market is a significant source of new members, due to the proximity of The Sports Club/LA to business centers and the use of the Clubs to conduct business and to develop and maintain business contacts. We employ several Corporate Membership Directors whose principal responsibilities are to solicit corporate memberships from businesses operating in the vicinity of the Clubs. The Sports Club/LA offers corporate group-discounted initiation fees depending upon the number of new members involved. Our SportsMed subsidiary has developed several corporate wellness programs to fit the needs of this particular market. We believe that corporations are favorably disposed to The Sports Club/LA and The SportsMed programs because of the positive impact regular exercise and overall fitness can have on employee absenteeism, morale and productivity.

Medical Referrals. We target members from the medical referral market through our SportsMed subsidiary by offering specific rehabilitation and exercise protocols to complement other forms of physical therapy recommended by a physician or medical group. We also offer a "next-step" program for SportsMed patients who complete their physical therapy programs and are looking for an option to complete their rehabilitation by becoming members at The Sports Club/LA.

Family Programs. We believe that the family market has considerable potential, as younger members grow older, marry and have children and seek recreational activities in which the entire family can participate. To attract the family market, we have implemented "Fun-N-Fit" programs that offer programs to children between the ages of 6 months and 15 years and involve youth sports camps and clinics, fitness programs, art classes and birthday parties. The Sports Club/LA's weight-training, basketball and swimming pool facilities are made available to children and their parents during Family Day, and specially-designed movement classes utilizing a variety of fitness equipment are offered to younger children. The Sports Club/LA provides individualized sports instruction and offers multiple fitness activities such as gymnastics, martial arts and dance that are age appropriate.

Senior Programs. We anticipate that as the current core membership group ages, we will meet the changing fitness needs of seniors and attract additional members from the senior population. We maintain training and exercise protocol manuals for the senior market (that we generally define as members who are over 60 years old) that include a description of exercise and fitness programs specifically designed for seniors. These manuals also contain discussions of the biological, psychological and medical aspects of aging and the benefits of regular exercise. We believe this market will expand as the "baby boomers" mature.

Employee Training

We believe that a key component of our operating strategy is a well-trained and knowledgeable staff. We have comprehensive training programs to enhance the effectiveness of our personnel. All newly hired employees are required to attend an orientation seminar, that is led by members of our management staff and a personnel instructor. Topics include our history and philosophy, The Sports Club/LA policies and procedures, member service, interaction skills and product knowledge. These orientation seminars are held weekly.

To aid in the development and continuing education of our management staff, we offer a workshop entitled "Introduction to Management" for newly hired management personnel and other employees demonstrating management skills. The workshop is intended to educate managers in the areas of instilling our Company philosophy, policies and procedures, safety, workers' compensation, managing people, communication, group problem solving, training, coaching, motivation, feedback, recognition, counseling, evaluations, as well as time and stress management. Topics are added periodically to reflect new management techniques or operating issues. These seminars, generally consisting of three eight-hour sessions, are held six times a year or as needed for new employees. Additionally, our management personnel are required to participate in our Manager on Duty Program and other management and sales seminars to maintain and develop their skills.

We provide additional seminars specifically designed for targeted employee groups. Seminars providing specialized instruction for program directors, private trainers, group exercise instructors and sales/marketing personnel are offered at various times during the year, for which attendance on the part of newly-hired personnel is mandatory. We place particular emphasis on our sales/marketing training seminars, that are given once every two months by a personnel instructor. In these seminars, all new membership directors complete 20 hours of participation and all other membership directors are expected to complete four hours of participation every two months. Our fitness instructors are trained to assist in the sales function and to implement fitness testing and individually-tailored exercise programs. Most instructors are college-educated and all trainers are required to be certified by the National Academy of Sports Medicine. Our group exercise instructors hold nationally recognized certifications and must have at least one year of teaching experience before they are permitted to teach at The Sports Club/LA. They are also required to participate in ongoing training and periodic re-evaluation.

Lastly, all line staff can voluntarily participate in quarterly workshops that are offered through our human resources department. Workshop topics include conflict resolution, communication and member service; however, topics vary depending on the Club's current training needs.

Membership Programs

Membership at The Sports Club/LA requires an initiation fee plus monthly membership dues. Initiation fees are required to be paid upfront or during the member's first year. Members are currently required to pay their dues on a monthly basis by electronic funds transfer, by which each member is automatically debited each month for dues either through a checking account or credit card. At established Clubs, the average life of a membership is four to five years.

The Sports Club/LA offers three types of memberships: executive, health and racquet sports. The Sports Club/LA's initiation fees and monthly membership dues vary depending on the location of the Club. The Sports Clubs' initiation fees range from $400 to $2,900 and monthly membership dues range from $102 to $300. Corporate, bicoastal and spousal memberships are also available. We offer the following membership options:

Executive Membership. Executive membership offers the greatest number of amenities and services, including unlimited use of all facilities, racquet sports privileges, personal locker assignments within an executive locker room, laundry service, free valet parking and charge privileges for dining and other Club services. Executive membership entitles a member to use all The Sports Club/LA locations.

Health Membership. Health membership is the basic membership offering unlimited use of the facility excluding those privileges associated with a racquet membership; courts are available to holders of health memberships for an additional fee. We also offer a bi-coastal membership that entitles a member to use all The Sports Club/LA locations throughout the country and both an Access West and Access East membership that allows a member the ability to use all of our Clubs located on either the west coast or east coast.

Racquet Sports Membership. Racquet sports memberships are currently offered at The Sports Club/Irvine, The Sports Club/LA - Boston and The Sports Club/LA - Washington D.C. In addition to use of the Club's facilities, this membership includes unlimited use of racquetball, squash, paddle tennis and tennis courts, depending upon the individual Club's facilities.

Competition

Although the sports and fitness industry is still fragmented, the industry has experienced significant consolidation in recent years and certain of our competitors are significantly larger and have greater financial and operating resources than we do. In addition, a number of individual and regional operators compete with us in our existing markets. Many of these sports and fitness clubs attract the same types of members we target. We also compete with recreational facilities established by governments and businesses, the YMCA and YWCA, country clubs and weight-reducing salons, as well as products and services that can be used in the home. As the general public becomes increasingly aware of the benefits of regular exercise, we expect that additional sports and fitness businesses will emerge. We believe that there will continue to exist a market for The Sports Club/LA and that our operating experience, our highly visible image, the professionalism of our staff and our state-of-the-art equipment and exercise facilities afford us an advantage over our competitors. However, we may be unable to maintain our membership fees or membership levels in areas where another sports and fitness club offers competitive facilities and services at a lower cost.

Trademarks and Trade names

We have registered our "flying lady" logo as a stand-alone design and in combination with "The Sports Club/LA" and "The Sports Club/Irvine" names under federal trademark laws. Internationally, we have registered "The Sports Club/LA" name and logo in Japan, Australia and throughout Europe under a joint "European Community" trademark.

We have also obtained federal protection for our food and nutritional products that are marketed under the trade names of Private Trainer System and PTS.

Additionally, we have received trademark approval for several of our fitness programs, including BodyArt, REV and others. We have not been able to obtain full protection under Federal trademark laws for our SportsMed subsidiary name, Splash, the name of our spas, and For Kids Only, our child care and children's fitness program; however, each of these have been granted "allowed" status.

Government Regulation

Our operations and business practices are subject to regulation at the federal, state and, in some cases, local levels. State and local consumer protection laws and regulations govern our advertising, sales and other trade practices.

Statutes and regulations affecting the fitness industry have been enacted or proposed in California and New York. Many other states into which we may expand have or likely will adopt similar legislation. Typically, these statutes and regulations prescribe certain forms and provisions of membership contracts, limit the amount of prepaid revenues we can collect, afford members the right to cancel the contract within a specified time period after signing, require an escrow of funds received from pre-opening sales or the posting of a bond or proof of financial responsibility and may impose numerous limitations on the terms of membership contracts. In addition, we are subject to numerous other types of federal and state regulations governing the sale of memberships. These laws and regulations are subject to varying interpretations by a number of state and federal enforcement agencies and courts. We maintain internal review procedures in order to comply with these requirements and believe that our activities are in substantial compliance with all applicable statutes, rules and decisions.

Under so-called state "cooling-off" statutes, a member has the right to cancel his or her membership for a period of three to ten days (depending on the applicable state law) and, in such event, is entitled to a refund of any down payment. In addition, our membership contracts provide that a member may cancel his or her membership at any time upon death, disability or relocation beyond a certain distance from our nearest Club. The specific procedures for cancellation in these circumstances vary due to differing state laws. In each instance, the canceling member is entitled to a refund of prepaid amounts only. Furthermore, where permitted by law, a cancellation fee is due to us upon cancellation and we may offset such amount against any refunds owed.

Employees

At March 1, 2003, we had 2,223 employees, most of whom are employed on a part-time basis in Club operating activities such as aerobics, private training and food and beverage services. At March 1, 2003, we employed 868 full-time employees, 798 of whom were involved in The Sports Club/LA operations such as sales, management, private training or support staff, and 70 of whom were in general and administrative functions. We are not a party to any collective bargaining agreement with our employees. Although we experience high turnover of non-management personnel, we have never experienced any labor shortages nor had any difficulty in obtaining adequate replacements for departing employees. We consider our relations with our employees to be good.

Available Information

Quarterly and annual reports on Form 10-Q and Form 10-K can be accessed through the SEC website at http://www.sec.gov/edgar/searchedgar/webusers.htm.

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ITEM 2. PROPERTIES

We own the real estate at The Sports Club/Irvine and The Sports Club/LA - Los Angeles (subject to a minority interest held by our Co-Chief Executive Officer D. Michael Talla). All other premises on which the Clubs are located are leased.

The following table provides certain information concerning our Clubs:

Club	Approximate Square Feet	Open Date (1)	Own or Lease Expiration Date	Re
The Sports Club/LA - Los Angeles (2).......	100,000	1994 A	Own	
The Sports Club/Irvine.....................	130,000	1994 A	Own	
Reebok Sports Club/NY(3)..................	140,000	1995 O	4/17/15	Three 1
The Sports Club/LA - Rockefeller Center....	90,000	2000 O	1/31/13	Two 5
The Sports Club/LA - Upper East Side.......	140,000	2000 O	12/31/20	Two 5
The Sports Club/LA - Washington D.C.(4)	100,000	2000 O	10/31/20	Three 1
The Sports Club/LA - Boston(4).............	100,000	2001 O	8/31/21	Three 1
The Sports Club/LA - San Francisco(5)......	90,000	2001 O	9/30/21	Three 1
The Sports Club/LA - Beverly Hills.........	40,000	2003 E	4/30/18	One 1

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(1) Date of acquisition ("A"), opening ("O") or anticipated open date ("E").

(2) D. Michael Talla, our Chairman and Co-CEO, has the right to 49.9% of the first $300,000 of annual operating income from the partnership which owns The Sports Club/LA - Los Angeles.

(3) We have entered into a lease agreement with Millennium with respect to this property. We are entitled to certain priority distributions from the partnership that owns this Club. After payment of such priority distributions, we are entitled to 60% of all additional profits.

(4) We have entered into a lease agreement with Millennium for this Club. The lease provides that Millennium is to receive 25% of cash flows as additional rent after we earn certain priority distributions.

(5) We have entered into a lease agreement with Millennium for this Club. The lease provides that Millennium is to receive 60% of cash flows as additional rent after we earn certain priority distributions.

We remain obligated under lease agreements for seven of our former Spectrum Club locations. We have subleased each of these properties to the buyer of these Clubs under sublease agreements that provide for all operating costs of these facilities be assumed by the new owners.

All of the Clubs maintain comprehensive casualty, liability and business interruption insurance. In March 2003, we secured insurance against acts of terrorism. Clubs located in California maintain a blanket $35.0 million earthquake insurance policy. We believe that our insurance coverage is in accordance with or above industry standards. There are, however, certain types of losses that may be either uninsurable or not economically insurable, and insurance proceeds may not adequately compensate us for all economic consequences of any loss. Should a loss occur, we could lose both our invested capital and our anticipated profits from the affected Clubs. Any such event could have a material adverse effect on our operations.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various claims and lawsuits incidental to our business, including claims arising from accidents. However, in the opinion of management, we are adequately insured against such claims and lawsuits involving personal injuries, and any ultimate liability arising out of any such proceedings will not have a material adverse effect on our financial condition, cash flow or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED MATTERS

Our Common Stock is traded on the American Stock Exchange ("AMEX") under the symbol "SCY". The following table sets forth the quarterly high and low sale prices for the Common Stock for the periods indicated, as reported by the AMEX.

Price Range of Common

Calendar Quarter		High	
Year Ended December 31, 2001:			
First Quarter	$	3.19	$
Second Quarter...		3.30	
Third Quarter..		4.00	
Fourth Quarter...		3.35	
Year Ended December 31, 2002:			
First Quarter		2.90	
Second Quarter...		2.60	
Third Quarter..		2.45	
Fourth Quarter...		3.45	
Year Ended December 31, 2003:			
First Quarter..		2.50	
Second Quarter (through June 18th)........................		2.87	

As of June 18, 2003 we had 62 stockholders of record and approximately 600 beneficial owners. The closing price of our Common Stock as reported by the AMEX on June 18, 2003, was $2.80.

Dividend Policy

We have never declared or paid any dividends on our Common Stock and we do not anticipate doing so in the foreseeable future. It is our present policy to retain earnings for use in our operations and the expansion of our business. In addition, our ability to pay cash dividends is limited by our current financing agreements and may be similarly limited by future financing agreements.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents our summary financial and operating data for the fiscal years ended December 31, 1998 through 2002 and has been derived from our consolidated financial statements. Such consolidated financial statements and summary financial and operating data have been restated as described in Note 19 to the consolidated financial statements. The summary financial and operating data should be read in conjunction with, and is qualified in its entirety by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes thereto appearing elsewhere in this Form 10-K/A.

	Fiscal Year Ended December 3			
	1998	1999	2000	2001
	(Restated)	(Restated)	(Restated)	(Restat
	(Dollars in thousands, except per s			

Statement of Operations Data:				
Revenues	$ 81,229	$ 86,787	$ 75,217	$100,1
Operating expenses:				
Direct	56,352	60,065	58,575	87,5
General and administrative	6,131	6,810	7,326	8,4
Selling	2,538	2,608	2,915	3,8
Depreciation and amortization	5,282	6,147	7,428	11,8
Pre-opening expenses	--	3,090	9,589	5,8
Impairment charge	--	--	--	5,0
Total operating expenses	70,303	78,720	85,833	122,7
Income (loss) from operations	10,926	8,067	(10,616)	(22,5
Other income (expense):				
Interest	(1,629)	(5,991)	(6,478)	(13,0
Minority interests	(150)	(150)	(150)	(1
Equity interest in net income of unconsolidated subsidiary	880	931	--	
Non-recurring items	(314)	768	(3,242)	3
Total other income (expense)	(1,213)	(4,442)	(9,870)	(12,7
Income (loss) before income taxes, extraordinary charge and cumulative effect of change in accounting principle	9,713	3,625	(20,486)	(35,3
Provision (benefit) for income taxes	3,806	2,021	(7,982)	5,3
Income (loss) before extraordinary charge and cumulative effect of change in accounting principle	5,907	1,604	(12,504)	(40,6
Extraordinary charge from early extinguishment of debt, net of income tax benefit of $1,331	2,173	--	--	
Cumulative effect of change in accounting principle, net of income tax benefit of $600	--	899	--	
Net income (loss)	3,734	705	(12,504)	(40,6
Dividends on Preferred Stock	--	--	--	
Net income (loss) attributable to common shareholders	$ 3,734	$ 705	$ (12,504)	$ (40,6
Net income (loss) per share:				
Basic and Diluted	$ 0.20	$ 0.04	$ (0.70)	$ (2.
Weighted average number of common shares outstanding:				
Basic	18,603	18,114	17,773	17,9
Diluted	18,829	18,290	17,773	17,9

	At December 31,			
	1998	1999	2000	2001

	(Restated)	(Restated)	(Restated)	(Restat
		(Dollars in thousands)		
Balance Sheet Data:				
Cash and cash equivalents.........................	$ 2,233	$ 36,107	$ 11,059	$ 1,4
Current assets....................................	7,043	41,952	20,819	8,2
Restricted cash...................................	--	41,389	6,996	
Property and equipment, net.......................	135,269	118,959	169,907	170,7
Total assets......................................	165,274	225,088	223,773	197,1
Deferred membership revenue.......................	13,406	13,025	16,214	19,0
Current liabilities...............................	29,992	28,249	32,484	44,9
Long-term debt including current installments......	37,441	103,887	110,331	115,4
Stockholders' equity..............................	102,263	94,806	82,793	42,4

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The following discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements and notes thereto appearing elsewhere herein, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to principles of consolidation, revenue recognition, inventories, depreciation and amortization, start up costs, impairment of long-lived assets and long-lived assets to be disposed of, fair value of financial instruments and segment reporting. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The following discussion and analysis of financial condition and results of operations (Item 7) has been updated to correspond with our restated financial statements (See Note 19 to consolidated financial statements).

The Sports Club/LA - Rockefeller Center, The Sports Club/LA - Upper East Side, The Sports Club/LA - Washington D.C., The Sports Club/LA - Boston and The Sports Club/LA - San Francisco opened in February 2000, September 2000, October 2000, September 2001 and October 2001, respectively. In July 2001, we closed our SportsMed Agoura Hills location and by December 31, 2001, we had finished the transfer of our retail business to outside third party vendors. On January 31, 2002, we sold The Sports Club/Las Vegas. As a result of these Club openings, the high level of pre-opening expenses incurred at these new Clubs, the closing of our SportsMed Agoura Hills location, our transfer of the retail business and the sale of The Sports Club/Las Vegas, results for the years ended December 31, 2002, 2001 and 2000 are not indicative of expected results in future periods. Neither seasonal factors nor the relatively moderate inflation rate has had a significant effect on our operating results.

Results of Operations

Fiscal 2002 compared to Fiscal 2001

Our revenues for the year ended December 31, 2002, were $120.9 million, compared to $100.2 million in 2001, an increase of $20.7 million or 20.7%. Revenue increased by $21.1 million, due to the opening of The Sports Club/LA - Boston in September of 2001 and The Sports Club/LA - San Francisco in October of 2001 and revenue increased by $6.2 million as a result of membership growth at the three Sports Club/LA Clubs opened in 2000. Revenue decreased by $5.4 million as a result of the sale of The Sports Club/Las Vegas on January 31, 2002, and by $2.2 million due to the transfer of our retail operations to outside third party vendors. Revenue increased by $1.0 million at our other Sports Clubs and our SportsMed subsidiary primarily due to an increase in private training and monthly dues revenues at the Sports Clubs, partially offset by a decrease in SportsMed revenues primarily due to the closing of The SportsMed Agoura Hills location.

Our direct expenses increased by $13.4 million to $101.0 million for the year ended December 31, 2002, versus $87.6 million in 2001. Direct expenses increased by $20.8 million, due to the opening of The Sports Club/LA - Boston in September of 2001 and The Sports Club/LA - San Francisco in October of 2001 and by $1.8 million as a result of an increase in expenses associated with the membership growth at the three Sports Club/LA Clubs opened in 2000. Direct expenses decreased by $5.4 million due to the sale of The Sports Club/Las Vegas on January 31, 2002, by $2.5 million due to the transfer of our retail operations to outside third party vendors and by $1.3 million at our other Sports Clubs and our SportsMed subsidiary primarily as a result of cost cutting measures we implemented at these Clubs and the closing of

The SportsMed Agoura Hills location. Direct expenses as a percent of revenue for the year ended December 31, 2002, decreased to 83.6% from 87.4% in 2001. As membership levels and therefore revenues increase at The Sports Club/LA Clubs opened in 2000 and 2001, the direct expense percentage should continue to decrease. There is no assurance, however, that said expansion or economies of scale will be achieved.

Our general and administrative expenses were $7.4 million for the year ended December 31, 2002, versus $8.5 million in 2001, a decrease of $1.1 million or 12.4%. Our general and administrative expenses decreased by $1.0 million due to lower legal fees resulting from the settlement or dismissal of certain legal matters in which we were involved. General and administrative expenses decreased by $ 519,000 as a result of expense cutting measures that have reduced our payroll and payroll related expenses. General and administrative expenses increased by $419,000 primarily as a result of higher corporate office rent, increased insurance premiums and a reduction in corporate costs capitalized on certain development and information systems projects. General and administrative expenses decreased as a percentage of revenue to 6.1% for the year ended December 31, 2002, from 8.5% in 2001. We believe that general and administrative expenses should continue to decrease as a percentage of future revenues as we expand and achieve economies of scale. There is no assurance, however, that said expansion or economies of scale will be achieved.

Our selling expenses were $4.9 million for the year ended December 31, 2002, versus $3.9 million in 2001, an increase of $1.0 million or 26.5%. The increase in selling expenses was the result of expanded advertising and promotion efforts at the five Sports Club/LA Clubs opened in 2000 and 2001 with the majority of this increase attributable to our two most recently opened

Clubs. We also placed special emphasis on membership growth at The Sports Club/LA - Rockefeller Center. Selling expenses for the year ended December 31, 2002 at these five most recently opened Clubs increased by $1.2 million as compared to 2001. Selling expenses decreased by $432,000 as a result of the sale of The Sports Club/Las Vegas on January 31, 2002 and selling expenses declined by $63,000 at our other Sports Club/LA Clubs and our SportsMed subsidiary. Selling expenses as a percentage of revenue for the year ended December 31, 2002, were 4.1% versus 3.9% in 2001.

Our depreciation and amortization expenses stayed flat at $11.9 million for the years ended December 31, 2002 and 2001. Depreciation and amortization expenses increased by $610,000 as a result of the opening of The Sports Club/LA - Boston in September 2001 and The Sports Club/LA - San Francisco in October of 2001 and by $709,000 at our corporate headquarters, primarily due to the start of amortization of our recently installed membership accounting software. Depreciation and amortization expenses decreased by $344,000 as a result of the sale of The Sports Club/Las Vegas on January 31, 2002 and by $455,000 at our other Sports Club/LA Clubs primarily due to assets becoming fully depreciated. Depreciation and amortization expense also decreased by $494,000 due to the adoption of Statement of Financial Accounting Standards No. 142, effective January 1, 2002, that requires goodwill and other indefinite lived intangibles no longer be amortized.

Pre-opening expenses were $130,000 for the year ended December 31, 2002, versus $5.9 million in 2001. Pre-opening expenses for the year ended December 31, 2002, consisted of legal fees incurred related to a possible club site on Long Island in New York. We have since terminated our interest in this site. Pre-opening expenses by Club for the year ended December 31, 2001, were $2.6 million at The Sports Club/LA - Boston, $2.9 million at The Sports Club/LA - San Francisco and $405,000 at the possible club site on Long Island in New York.

We incurred impairment charges during the year ended December 31, 2001, of $5.0 million. These impairment charges consisted of a $3.2 million impairment charge related to the write down of fixed assets at The Sports Club/Las Vegas and a $1.8 million impairment charge related to the write down of goodwill at our SportsMed subsidiary.

We incurred net interest expense of $13.4 million for the year ended December 31, 2002, versus $13.0 million in 2001, an increase of $419,000. Net interest expense increased by $496,000 due to our discontinuance of capitalizing interest costs on Sports Clubs under development after the last Sports

Club/LA Club was opened in October 2001. Net interest expense increased by $323,000, due to a reduction in interest income earned on invested cash balances. There was a $162,000 decrease in net interest expense due to reductions of equipment financing loans and a $238,000 decrease resulting from interest incurred in 2001 related to a sales tax audit at one of our Clubs.

We recorded a non-recurring gain of $97,000, related to the sale of the undeveloped land in Houston, Texas and a $30,000 non-recurring gain, related to the sale of The Sports Club/Las Vegas during the year ended December 31, 2002. The Houston, Texas site was sold on August 30, 2002 and The Sports Club/Las Vegas was sold on January 31, 2002. We recorded a non-recurring gain of $397,000 during the year ended December 31, 2001. The non-recurring gain in 2001 was the result of the reversal of accrued interest expense related to the settlement of litigation. As part of the settlement we were no longer required to pay the accrued interest due on the note in question.

The tax benefit recorded for the year ended December 31, 2002, is comprised of a $900,000 federal income tax refund we received as a result of tax law changes that allowed us to carry-back our 2001 loss to prior tax years, partially offset by New York State and City income taxes incurred at Reebok Sports Club/NY. We did not record any deferred tax benefit related to our loss incurred for the year ended December 31, 2002. After the tax benefit and the Preferred Stock dividends of $888,000, our loss attributable to common shareholders for the year ended December 31, 2002, was $18.5 million or $1.02 per basic and diluted share. The income tax provision of $5.4 million for 2001 is related to the establishment of a valuation allowance against our deferred tax assets that were recorded prior to January 1, 2001 and an accrual for any current state income taxes due. We did not record any deferred tax benefit related to our loss incurred in 2001. After the 2001 income tax provision of $5.4 million, our net loss attributable to common shareholders was $40.7 million or $2.27 per basic and diluted share. We did not record any deferred tax assets related to the losses incurred in 2002 and 2001 based on our analysis of current and projected operating results and our determination that it is more likely than not that future taxable income will be insufficient to utilize any deferred tax assets.

Fiscal 2001 compared to fiscal 2000

Our revenues for the year ended December 31, 2001, were $100.2 million, compared to $75.2 million in 2000, an increase of $25.0 million or 33.2%. Revenue increased by $4.9 million as a result of the opening of The Sports Club/LA - Boston in September 2001 and The Sports Club/LA - San Francisco in October 2001. Revenue increased by $20.3 million as a result of membership growth and a full twelve months of operating activities at the three new Sports Clubs opened in 2000. Revenue decreased by a net $233,000 at our existing Sports Clubs and SportsMed subsidiary. This net revenue decrease at our existing Sports Clubs and SportsMed subsidiary was the result of a $1.0 million decrease in our retail product sales offset by higher membership revenues from rate increases. During 2001 we decided to exit the retail business and have now sublet these spaces to outside operators. We also experienced a decrease in our food and beverage revenues due to curtailing the restaurant operating hours at Reebok Sports Club/NY.

Our direct operating expenses increased by $29.0 million to $87.6 million in the year ended December 31, 2001, versus $58.6 million for the year ended December 31, 2000. Direct operating expenses increased by $6.4 million, due to the opening of The Sports Club/LA - Boston and The Sports Club/LA - San Francisco, by $21.6 million as a result of membership growth and a full twelve months of operating activities at the three new Sports Club/LA Clubs opened in 2000 and by $1.0 million at our existing Sports Clubs and SportsMed. The increase in direct expenses at our existing Sports Clubs and SportsMed was due to increased payroll and payroll related expenses of $1.0 million, increased utility expenses of $254,000 and a decrease in other operating expenses of $263,000. Direct operating expenses as a percent of revenue for the year ended December 31, 2001 increased to 87.4% from 77.9% for the year ended December 31, 2000. The increase in the direct operating expense percentage was due to the impact of significant fixed costs at our five new Clubs opened in 2000 and 2001.

Our general and administrative expenses were $8.5 million for the year ended December 31, 2001, compared to $7.3 million for the year ended December 31, 2000, an increase of $1.2 million or 15.6%. Our general and administrative costs increased by $1.0 million due to increased legal fees incurred

regarding various legal matters we were involved in during 2001. General and administrative costs increased by $1.4 million due to a decrease in support service reimbursements we received in 2000 for managing the Spectrum Clubs and lower capitalization of salaries and wages on Clubs under development. General and administrative costs decreased by $1.0 million due to a decrease in corporate office salaries, bonuses and payroll related costs and by $254,000 due to a decrease in travel costs. General and administrative costs increased by $238,000 due to an increase in our corporate office rent and decreased by $183,000 primarily due to decreases in our supplies and outside service costs. General and administrative costs decreased as a percentage of revenue to 8.5% in 2001 from 9.7% in 2000.

Our selling costs were $3.9 million in the year ended December 31, 2001, compared to $2.9 million in the year ended December 31, 2000, an increase of $1.0 million or 33.1%. The increase in selling costs was the result of increased advertising and promotion efforts at the five new Clubs opened in 2000 and 2001. Selling costs as a percentage of revenue stayed flat at 3.9% in 2000 and 2001.

Our depreciation and amortization expenses were $11.9 million for the year ended December 31, 2001, versus $7.4 million for the year ended December 31, 2000. Depreciation and amortization increased by $3.5 million, at the three Sports Clubs opened in 2000, primarily due to a full twelve months of operating activity at these new Clubs in 2001. Depreciation and amortization increased by $276,000 as a result of the opening of The Sports Club/LA - Boston and The Sports Club/LA - San Francisco in 2001. Depreciation increased by $209,000 at our existing Sports Clubs and SportsMed as a result of capital additions made at these facilities in 2000 and 2001 and by $512,000 due to the start of depreciation related to our recently installed membership accounting software.

Pre-opening expenses were $5.9 million for the year ended December 31, 2001, versus $9.6 million for the year ended December 31, 2000. Pre-opening expenses by Club during the year ended December 31, 2001 were $2.9 million at The Sports Club/LA - San Francisco, $2.6 million at The Sports Club/LA - Boston and $400,000 related to a potential Club site on Long Island in New York. Pre-opening expenses by Club during the year ended December 31, 2000 were $3.6 million at The Sports Club/LA - Upper East Side, $3.2 million at The Sports Club/LA - Washington D.C., $1.8 million at The Sports Club/LA - Rockefeller Center, $725,000 at The Sports Club/LA - Boston, $155,000 at The Sports Club/LA - San Francisco and $125,000 at other possible Sports Clubs in the pre-development stage.

We incurred impairment charges in 2001 of $5.0 million. These charges consisted of a $3.2 million impairment charge related to the write down of fixed assets at The Sports Club/Las Vegas and a $1.8 million impairment charge related to the write down of goodwill at our SportsMed subsidiary.

We incurred net interest expense of $13.0 million in the year ended December 31, 2001, versus $6.5 million in the year ended December 31, 2000, an increase of $6.5 million. Net interest expense increased by $3.3 million due to a reduction in interest capitalized on Sports Clubs under development, by $2.3 million due to a reduction in interest earned on invested cash balances, by $362,000 due to increased interest expense on new equipment financing loans, by $254,000 due to interest expense incurred on prior years' sales tax audits and by $279,000 due to increased interest expense related to advances on our bank credit facility.

We had non-recurring income of $397,000 in the year ended December 31, 2001, versus non-recurring charges of $3.2 million for the year ended December 31, 2000. The non-recurring income in 2001 is the result of the reversal of accrued interest expense related to the settlement of litigation. As part of the settlement we are no longer required to pay the accrued interest due on the note payable in question. The non-recurring charges in 2000 consisted of a $1.5 million charge for attorney's fees and settlement costs related to a class action lawsuit against The Sports Club/LA - Los Angeles, a $1.0 million charge to reflect the loss on the sale of real estate in Fountain Valley, California and a $749,000 charge to adjust the carrying value of our real estate located in Houston, Texas.

We did not to record any income tax benefit in 2001. The income tax provision of $5.4 million in 2001 is related to the establishment of a valuation allowance against our deferred tax assets that were recorded prior to January 1, 2001 and an accrual for any current state income taxes due. After the 2001

income tax provision of $5.4 million, our net loss attributable to common shareholders was $40.7 million or $2.27 per basic and diluted share. Our effective federal and state income tax rate was 39.0% for the year ended December 31, 2000, resulting in a net tax benefit of $8.0 million and in a net loss attributable to common shareholders of $12.5 million or $0.70 per basic and diluted share. In the fourth quarter of 2001, we determined that it is more likely than not that future taxable income will be insufficient to utilize our deferred tax assets. As a result of this determination, we ceased recording any deferred tax benefit related to our taxable losses and, in the fourth quarter of 2001, we recorded a valuation allowance of $19.6 million to offset our net deferred tax assets.

Liquidity and Capital Resources

Capital Requirements - Existing Operation

On April 1, 1999, we issued in a private placement $100.0 million of 11 3/8% Senior Secured Notes (the "Senior Secured Notes") due in March 2006, with interest due semi-annually. The Senior Secured Notes were issued pursuant to the terms of an indenture agreement dated April 1, 1999 (the "Indenture"). The Senior Secured Notes are secured by substantially all of our assets, other than certain excluded assets. The Indenture includes certain covenants that restrict our ability to: (i) incur additional indebtedness; (ii) pay dividends or other distributions, or repurchase capital stock or other equity interests or subordinated indebtedness; and (iii) make certain investments. The Indenture also limits our ability to: (i) enter into transactions with affiliates; (ii) create liens on or sell certain assets; and (iii) enter into mergers and consolidations. The Indenture requires us to make semi-annual interest payments of $5.7 million on March 15th and September 15th of each year.

We incur capital expenditures for normal replacement of fitness equipment and updating Clubs. Our Clubs are upscale and capital improvements are regularly needed to retain the upscale nature and presentation of the Clubs. A deterioration of the quality of the Clubs can lead to reduction in membership levels and lower revenues. We estimate that expenditures of between 3% and 4% of revenues, depending on the age of the Club, will be necessary to maintain the quality of the Clubs to our satisfaction. We also expect to spend approximately $700,000 during the next year to upgrade our management information systems and enhance our disaster recovery capabilities.

All our mature Sports Clubs (Clubs open at least five years) currently generate positive cash flow from operations. Newly developed Clubs tend to achieve significant increases in revenues until a mature membership level is reached. In the past, recently opened Clubs that have not yet achieved mature membership levels have operated at a loss or at only a slight profit as a result of fixed expenses that, together with variable operating expenses, approximate or exceed membership fees and other revenue. The time period necessary to achieve positive cash flows is dependent upon the membership levels and amount of fixed costs. Three of our new Clubs now generate positive cash flows while two of the new Clubs require cash to fund their operating activities. Our consolidated cash flows from operations for each of the last three years were negative. We expect this trend to continue until the newly opened Clubs generate sufficient positive cash flows. Our ability to generate positive cash flow from operating activities is dependent upon increasing membership levels at these Clubs and we cannot offer any assurance that we will be successful in these efforts.

At December 31, 2002, we had $4.0 million of outstanding equipment financing loans. We make monthly principal and interest payments on this debt. These monthly payments are currently $203,000 and they will continue until December 2004, when a significant portion of the debt will be repaid.

The Indenture requires us to make an offer to retire Senior Secured Notes if the net proceeds of any asset sale are not reinvested in assets related to our business, unless the remaining net proceeds are less than $10.0 million. To the extent we sell assets, such as The Sports Club/Las Vegas and our real estate in Houston, the proceeds from those sales would be subject to the excess proceeds provision of the Indenture. We were not required to make such an offer as a result of the sale of The Sports Club/Las Vegas or the Houston real estate because the net proceeds were below the $10.0 million level.

Other than our normal operating activities and capital expenditures, our total cash requirements for our existing operations through December 31, 2003 are estimated to be as follows (amounts in thousands):

Indenture interest.......................................	$ 11,375
Information system upgrades.............................	700
Payments on long-term debt...............................	2,158
	$ 14,233

Contractual Obligations

The following schedule lists known contractual obligations (amounts in thousands):

			Payments Due By Period	
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years
Senior secured notes (1)........	$ 100,000	$ --	$ --	$ 100,00
Equipment financing loans (2)...	4,040	2,158	1,882	-
Operating leases (3)............	359,990	22,820	45,171	44,76
Minority interest (4)...........	600	--	--	-
Redeemable Preferred Stock (5)..	--	--	--	-
Total	$ 464,630	$ 24,978	$ 47,053	$ 144,76

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(1) On April 1, 1999, we issued in a private placement $100.0 million of 11 3/8% Senior Secured Notes due in March 2006 with interest due semi-annually.

(2) The equipment financing loans are secured by furniture, fixtures and equipment. The amounts are generally repayable in monthly payments over four or five years with effective interest rates between 8.5% and 10.5%.

(3) We lease certain facilities pursuant to various operating lease agreements. Club facility leases are generally long-term and noncancelable triple-net leases (requiring us to pay all real estate taxes, insurance and maintenance expenses), and have an average remaining term of 44.17 years, including renewal options which are included in the lease term, with the earliest Sports Club lease expiration date of January 31, 2013. We are also obligated under lease agreements for seven of our former Spectrum Club locations. We have subleased each of these properties to the buyer of these Clubs under sublease agreements which provide that all operating costs of these facilities be assumed by the new owners.

(4) We own a 50.1% interest in the partnership that owns The Sports Club/LA - Los Angeles, and D. Michael Talla, our Co-CEO, beneficially owns the remaining 49.9%. Under certain circumstances, we have an option to purchase Mr. Talla's interest in the partnership for $600,000. We have not included the annual minority interest payment of $149,700 to Mr. Talla in the above table.

(5) On March 18, 2002, the Company issued 10,500 shares of Series B Preferred Stock. The stock is redeemable by the stockholders on March 18, 2009.

Capital Requirements - New Clubs

On April 22, 2002, we signed a lease to develop The Sports Club/LA - Beverly Hills. The new Sports Club/LA, which will be approximately 40,000 square feet, will be located at 9601 Wilshire Boulevard in the heart of the Beverly Hill's retail and commercial district. Anticipated development costs and working capital requirements are approximately $9.0 million. We view the Beverly Hills market as an excellent location for The Sports Club/LA brand and this Club may serve as a prototype for smaller sized Clubs to be built in locations near existing Sports Club/LA sites. Due to our limited financial resources, we have been searching for a joint venture partner or alternative financing (subject to the restrictions in the Indenture) to finance this project. However, we have not been able to find a party willing to participate on

terms that we find acceptable. Therefore, it now appears that we will need to complete the development of this Club with our own funds.

Cash and Credit Availability

Our December 31, 2002 cash balance was $3.2 million.

During 2002 our operating activities generated $7.5 million before we made interest payments of $11.9 million resulting in a net use of cash from operating activities of $4.4 million. We believe we will continue to generate positive cash flow from operations, before pre-opening expenses, capital expenditures and debt service and that such amount will increase as our new Clubs continue to mature.

The Indenture allows us to incur up to $10.0 million of equipment financing obligations. At December 31, 2002, we had $4.0 million of equipment financing obligations outstanding and would be allowed to finance an additional $6.0 million with our equipment serving as collateral.

On June 12, 2003, we replaced our bank credit facility with a new $20.0 million loan. We used $8.3 million of those proceeds to repay our prior bank credit facility. After the payment of various closing costs, the remaining $10.9 million will be added to our cash balances. We expect to use most of these funds to complete the development of The Sports Club/LA-Beverly Hills.

On April 4, 2003, we announced that we received a "going private" proposal from a group consisting of four of our principal stockholders and a private equity fund to purchase all the outstanding shares of our common stock not owned by these and certain other stockholders for a cash price of $3.00 per share. The offer was submitted to a special Committee of our Board of Directors, which together with its legal and financial advisors will evaluate the offer on behalf of the public stockholders. The transaction, as currently structured, would result in a capital infusion of approximately $8.5 million to the Company. Those funds would be available for general working capital purposes. The ultimate completion of the transaction is still subject to many conditions and therefore its completion and the resulting capital infusion are not assured.

Summary

Our cash balances at December 31, 2002, plus amounts generated from our operations and our refinancing of the Bank credit agreement, provides us with the funds required to complete the development of The Sports Club/LA-Beverly Hills and to make our interest payments due during 2003. In order to make our interest payment due on March 15, 2004 we will need to complete the "going private" transaction that will generate an estimated $8.5 million of new capital for the Company or we would be required to sell additional assets, offer additional equity securities or increase our cash flow from operations to meet our cash flow needs. There can be no assurance that we will be able to complete the "going private" transaction or raise additional capital by selling assets or by offering additional equity securities. However, two of our major shareholders, who now guarantee our new $20.0 million loan, have committed to providing us with sufficient financial support to continue our operations.

Additional funds will be required to undertake any future acquisitions or the development of additional new Clubs. We would consider entering into joint ventures, partnership agreements or management agreements (subject to the restrictions and limitations on such transactions in the Indenture) for the purpose of developing new Clubs, but only if such arrangements would generate additional cash flow or further enhance The Sports Club/LA brand name in the market place.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base these estimates and assumptions upon historical experience and existing known circumstances. Actual results could differ from those estimates. Specifically, we must make estimates in the following areas:

Revenue Recognition. We receive initiation fees and monthly membership dues from our members. Substantially all of our members join on a month-to-month basis and can therefore cancel their membership at any time. Initiation fees and related direct expenses, primarily sales commissions, are deferred and recognized, on a straight line basis, over a period of three years. Dues that are received in advance are recognized on a pro-rated basis over the periods in which services are to be provided. In addition, payments of last months dues are deferred. Revenues for services including private training, spa treatments and physical therapy sessions are recorded when such services are performed. Amounts received in advance are recorded as deferred revenues. Revenues from the Company's SportsMed subsidiary are recognized based upon the estimated amount to be collected.

Allowance for doubtful accounts. We provide a reserve against our receivables for estimated losses that may result from our customers' inability to pay. We determine the amount of the reserve by analyzing known uncollectible accounts, economic conditions and historical losses and our customers' creditworthiness. The likelihood of a material loss from this area is minimal due to our limited exposure to credit risk.

Valuation of long-lived assets. We periodically assess the impairment of our long-lived assets which require us to make assumptions and judgments regarding the carrying value of these assets. The assets are considered to be impaired if we determine that the carrying value may not be recoverable based upon our assessment of the following events or changes in circumstances:

|X| A significant decrease in the market price of a long-lived asset or asset group,

|X| A significant adverse change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition,

|X| A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset or asset group, including an adverse action or assessment by a regulator,

|X| An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset or asset group,

|X| A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group, or

|X| A current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

If the projected cash flows to be generated by long-lived assets do not exceed the carrying value of the long-lived assets the long-lived asset would be considered to be impaired. The impairment we would recognize is the amount by which the carrying value of the assets exceeds the fair value of the assets. In addition, we base the useful lives and related amortization or depreciation expense on our estimate of the period that the assets will generate revenues or otherwise be used by us. If a change were to occur in any of the above mentioned factors or estimates, the likelihood of a material change in our reported results would increase.

Valuation of goodwill. Prior to January 1, 2002, we amortized goodwill, which represents the excess of the purchase price over the net assets acquired in business acquisitions, over 40 years. In January 2002, we adopted SFAS No. 142, Goodwill and Other Intangible Assets, and as a result have ceased to amortize goodwill. Instead, we were required to perform a transitional impairment review of our goodwill as of January 1, 2002. We evaluated the impact of the adoption of SFAS No. 142 and determined that no impairment charge was required upon adoption of this standard. The impairment test was performed through comparison of our fair value (determined primarily by our market capitalization) with the net carrying value of our assets. We are also required to evaluate goodwill on an annual basis. We performed the analysis as of December 31, 2002 and determined that no impairment was necessary.

Litigation reserves. In the ordinary course of business, we are involved in a variety of legal matters. We record contingent liabilities resulting from claims against us when it is probable that a liability has been incurred and the amount of the loss is reasonably estimable. We disclose contingent liabilities when there is a reasonable possibility that the ultimate loss will exceed the recorded liability. Estimating probable losses requires analysis of multiple factors, in some cases including judgment about the potential actions of third party claimants and courts. Therefore, actual losses in any future period are inherently uncertain. Currently, we do not believe that any of our pending legal proceedings or claims will have a material impact on our financial position, cash flows or results of operations. However, if actual or estimated probable future losses exceed our recorded liability for such claims, we would record additional charges during the period in which the actual loss or change in estimate occurred.

Valuation of deferred income taxes. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized. The likelihood of material change in our expected realization of these assets depends on future taxable income, our ability to deduct tax loss carry forwards against future taxable income, the effectiveness of our tax planning and strategies among the various tax jurisdictions in which we operate and any significant changes in the tax laws.

Off-balance sheet transactions. We have not entered into any off-balance sheet transactions.

Forward Looking Statements

From time to time we make "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include the words "may," "will," "estimate," "continue," "believe," "expect" or "anticipate" and other similar words. The forward-looking statements generally appear in the material set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" but may be found in other locations as well. Forward-looking statements may also be found in our other reports filed with the Securities and Exchange Commission and in our press releases and other public disclosures. These forward-looking statements generally relate to our plans and objectives for future operations and are based upon managements' reasonable estimates of future results or trends. Although we believe that our plans and objectives reflected in or suggested by such forward-looking statements are reasonable, such plans or objectives may not be achieved. Actual results may differ from projected results due to unforeseen developments, including developments relating to the following:

- the availability and adequacy of our cash flow and financing facilities for our requirements, including payment of the Senior Secured Notes,
- our ability to attract and retain members, which depends on

competition, market acceptance of new and existing sports and fitness clubs and services, demand for sports and fitness club services generally and competitive pricing trends in the sports and fitness market,

- our ability to successfully develop new sports and fitness clubs,
- disputes or other problems arising with our development partners or landlords,

- changes in economic, competitive, demographic and other conditions in the geographic areas in which we operate, including business interruptions resulting from earthquakes or other causes,
- competition,
- changes in personnel or compensation, and
- changes in statutes and regulations or legal proceedings and rulings.

We will not update forward-looking statements even though our situation may change in the future.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to risk from a change in interest rates to the extent we are required to refinance existing fixed rate indebtedness at rates higher than those prevailing at the time the existing indebtedness was incurred. As of December 31, 2002, we had Senior Secured Notes totaling $100.0 million due in March 2006 bearing an interest rate of 11.375%. Annual interest of $11.4 million is payable semi-annually in March and September. At December 31, 2002, the fair value of the Senior Secured Notes is approximately $90.0 million. We also have a $20.0 million loan with a fixed rate of 7.25% that matures and requires a final principal payment of $18.3 million on July 1, 2008. A change in interest rates of 1% would impact our interest expense by approximately $1.2 million per year.

ITEM 8. FINANCIAL STATEMENTS

Index to Consolidated Financial Statements (Restated)

All other schedules are omitted because they are not applicable or the required information is shown in our consolidated financial statements or notes thereto.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

Not applicable

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
The Sports Club Company, Inc.:

We have audited the accompanying consolidated financial statements of The Sports Club Company, Inc. and subsidiaries (the Company) as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Sports Club Company, Inc. and subsidiaries as of December 31, 2001 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company has restated its 2001 balance sheet and adjusted its accumulated deficit as of January 1, 2000 and December 31, 2000 to properly record certain deferred membership revenues.

As discussed in Note 19 to the consolidated financial statements, the Company has restated its financial statements. This restatement includes adjustments to properly record deferred revenues for advanced payments received for private training services, certain operating expenses and the tax impacts of the Company's restatements.

As discussed in Note 3 to the consolidated financial statements, effective January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

KPMG LLP

Los Angeles, California
February 21, 2003, except for Note 19, which is as of June 12, 2003.

THE SPORTS CLUB COMPANY, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2001 and 2002
(in thousands, except share amounts)

ASSETS

	20 -- (Rest
Current assets:	
Cash and cash equivalents..	$
Accounts receivable, net of allowance for doubtful accounts of $318 and $534 at December 31, 2001 and 2002, respectively.......................................	
Inventories..	
Other current assets...	

Total current assets...	
Property and equipment, net..	1
Goodwill, less accumulated amortization of $2,531 at December 31, 2001 and 2002..	
Other assets...	

	$ 1
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Current installments of notes payable and equipment financing loans................	$
Accounts payable...	
Accrued liabilities..	
Deferred revenues..	

Total current liabilities..	
Notes payable and equipment financing loans, less current installments................	1
Deferred lease obligations..	
Minority interest...	

Total liabilities...	1
Commitments and contingencies	
Redeemable Preferred Stock, $.01 par value, 10,500 shares authorized; 10,500 shares issued and outstanding at December 31, 2002 (liquidation preference of $11,248 at December 31, 2002)......................................	
Stockholders' equity:	
Preferred Stock, $.01 par value, 1,000,000 shares and 984,500 shares authorized at December 31, 2001 and 2002, respectively; no shares issued or outstanding...	
Preferred Stock, $.01 par value, 5,000 shares authorized; 5,000 shares issued and outstanding at December 31, 2002 (liquidation preference of $5,140 at December 31, 2002)...	
Common Stock, $.01 par value, 40,000,000 shares authorized; 21,060,717 and 21,068,717 shares issued at December 31, 2001 and 2002, respectively......................................	
Additional paid-in capital..	1
Accumulated deficit...	(
Treasury Stock, at cost, 3,045,360 and 2,964,764 shares at December 31, 2001 and 2002, respectively...	(

Net stockholders' equity..	

	$ 1
	=====

See accompanying notes to consolidated financial statements.

THE SPORTS CLUB COMPANY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Three-Year Period ended December 31, 2002
(in thousands, except per share amounts)

	2000 (Restated)	2 (Res
Revenues	$ 75,217	$ 10
Operating expenses:		
Direct	58,575	8
General and administrative	7,326	
Selling	2,915	
Depreciation and amortization	7,428	1
Pre-opening expenses	9,589	
Impairment charges	--	
Total operating expenses	85,833	12
Income (loss) from operations	(10,616)	(2
Other income (expense):		
Interest, net	(6,478)	(1
Minority interests	(150)	
Non-recurring items	(3,242)	
Income (loss) before income taxes	(20,486)	(3
Provision (benefit) for income taxes	(7,982)	
Net income (loss)	(12,504)	(4
Dividends on Preferred Stock	--	
Net income (loss) attributable to common shareholders	$ (12,504)	$ (4
Net income (loss) per share:		
Basic and diluted	$ (0.70)	$
Weighted average number of common shares outstanding:		
Basic and diluted	17,773	1

See accompanying notes to consolidated financial statements.

THE SPORTS CLUB COMPANY, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Three-Year Period ended December 31, 2002
(in thousands)

	Preferred Stock		Common Stock		Addition
	Shares	Amount	Shares	Amount	Paid-in Capital
Balance, January 1, 2000, as previously reported.	--	--	20,907	$ 209	$ 102,40
Prior period adjustment (Note 19)...........	--	--	--	--	-
Balance, January 1, 2000, as restated	--	--	20,907	209	102,40
Net loss, as restated......................	--	--	--	--	-
Reissuance of Treasury Stock for employee stock plans.................	--	--	--	--	-
Exercise of employee stock options..........	--	--	25	--	6
Issuance of Common Stock to outside directors	--	--	6	--	2
Issuance of Common Stock for 1997 business acquisition.....................	--	--	115	2	25
Balance, December 31, 2000, as restated..........	--	--	21,053	211	102,74
Net loss, as restated......................	--	--	--	--	-
Reissuance of Treasury Stock for employee stock plans.................	--	--	--	--	-
Reissuance of Treasury Stock for loan guarantee fee...................	--	--	--	--	-
Exercise of employee stock options..........	--	--	2	--	
Issuance of Common Stock to outside directors	--	--	6	--	1
Balance, December 31, 2001, as restated..........	--	--	21,061	211	102,76
Net loss, as restated......................	--	--	--	--	-
Issuance of series C Preferred Stock........	5	5,000	--	--	-
Issuance of Common Stock to outside directors	--	--	8	--	1
Reissuance of Treasury Stock for employee stock plans............................	--	--	--	--	-
Accretion of dividends on series B Preferred Stock...................................	--	--	--	--	(74
Accretion of issuance costs on series B Preferred Stock..........................	--	--	--	--	(7
Balance, December 31, 2002, as restated..........	5	$ 5,000	21,069	$ 211	$ 101,96

See accompanying notes to consolidated
financial statements.

THE SPORTS CLUB COMPANY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three-year Period ended December 31, 2002

(in thousands)

	2000 (Restated)	200 (Resta
Cash flows from operating activities:		
Net income (loss)	$(12,504)	$(40,6
Adjustments to reconcile net income (loss) to cash provided from (used in) operations:		
(Gain) loss on disposition of real estate	1,766	2
Impairment charges	--	5,0
Depreciation and amortization	7,428	11,8
Deferred taxes	(2,990)	4,5
(Increase) decrease in:		
Accounts receivable, net	(1,476)	(1,2
Inventories	(1,499)	1,6
Other current assets	(1,088)	2,5
Other assets, net	(1,647)	1,1
Increase (decrease) in:		
Accounts payable	(126)	1,1
Accrued liabilities	395	2,1
Deferred revenues	3,189	2,8
Deferred lease obligations	1,038	2,7
Net cash (used in) operations	(7,514)	(5,9
Cash flows provided from (used in) investing activities:		
Capital expenditures	(62,173)	(16,1
Distributions from unconsolidated subsidiary	--	
Decrease in due from affiliates	148	
Decrease in restricted cash	34,393	6,9
Proceeds from sale of Spectrum Clubs	3,593	
Proceeds from sale of The Sports Club/Las Vegas - net of costs	--	
Proceeds from sale of Houston real estate - net of costs	--	
Net cash provided from (used in) investing activities	(24,039)	(9,0
Cash flows provided from (used in) financing activities:		
Proceeds from issuance of Preferred Stock - net of costs	--	
Exercise of employee stock options	61	
Proceeds from notes payable and equipment financing loans	7,681	24,5
Repayments of notes payable and equipment financing loans	(1,237)	(19,1
Net cash provided from financing activities	6,505	5,4
Net increase (decrease) in cash and cash equivalents	(25,048)	(9,5
Cash and cash equivalents at beginning of year	36,107	11,0
Cash and cash equivalents at end of year	$ 11,059	$ 1,4
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 11,605	$ 12,1
Cash paid during the year for income taxes	$ 977	$ 5

See accompanying notes to consolidated financial statements.

THE SPORTS CLUB COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2000, 2001 and 2002

1. Organization

The Sports Club Company, Inc. (the "Company") operates sports and fitness Clubs ("Clubs"), primarily under the "The Sports Club/LA" name. The Sports Club/LA sites are developed as "urban country clubs" offering a full range of services including numerous fitness and recreation options, diverse facilities and other amenities. The Sports Club/LA is marketed to affluent, health conscious individuals who desire a premier Club.

2. Restatement

The Company has determined that certain revenues relating to the payment of last month dues under certain membership agreements at three of our Clubs should have been deferred at the time the memberships were initiated. Accordingly, the Company has restated its deferred revenues and retained earnings by $2,257,000, effective January 1, 2000, to reflect this adjustment. The restatement had no impact on the results of operations or cash flows for the periods presented and had the following impact on the consolidated balance sheet. In addition, we have adjusted our deferred tax asset and net operating loss carryforward as described in Note 12. Also see Note 19.

	December 31, 2001 (in thousands)	
	As Originally Reported	As Previously Restated
Deferred revenues	$ 13,670	$ 15,927
Current liabilities	$ 39,500	$ 41,757
Total Liabilities	$ 149,124	$ 151,381
Accumulative deficit	$ (39,481)	$ (41,738)
Net Stockholders' Equity	$ 48,084	$ 45,827

3. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Revenue Recognition

The Company receives initiation fees and monthly membership dues from its members. Substantially all of the Company's members join on a month-to-month basis and can therefore cancel their membership at any time. Initiation fees and related direct expenses, primarily sales commissions, are deferred and recognized, on a straight-line basis, over an estimated membership period of three years. Dues that are received in advance are recognized on a pro-rata basis over the periods in which services are to be provided. In addition, payments of last month dues are deferred. Revenues for services including private training, spa treatments and physical therapy sessions are recorded when such services are

performed. Amounts received in advance are recorded as deferred revenues. Revenues from the Company's SportsMed subsidiary are recognized based upon the estimated amount to be collected.

Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2001 and 2002, cash and cash equivalents were $1.5 million and $3.2 million, respectively.

The Company considers cash, cash equivalents and other short-term investments that are required to be held as deposits to satisfy certain regulatory requirements related to the operation of the Company's Clubs as restricted cash. At December 31, 2002, the Company had $227,000 of restricted cash which was included in "Other Assets" (long-term) on the Company's consolidated balance sheet.

Inventories

Inventories are stated at the lower of cost or market using the average cost method. Inventories consist of retail merchandise sold at spas, nutritional products, food and beverage products, uniforms and supplies.

Advertising Costs

Amounts incurred for advertising costs with third parties are expensed as incurred. Advertising expense totaled approximately $822,000, $1.2 million and $1.5 million for the years ended December 31, 2000, 2001 and 2002, respectively.

Loan Costs

Loan costs and the debt discount on the Senior Notes are amortized over the terms of the related loans.

Start-up Costs

The Company adopted Statement of Position 98-5, Accounting for Start-Up Costs ("SOP 98-5") effective January 1, 1999. SOP 98-5 provides that all costs related to the development of new sports and fitness clubs, except for real estate related costs, be expensed as incurred.

Long-Lived Assets

Property and equipment are recorded at cost.

Depreciation is computed primarily using the straight-line method over the estimated useful lives of the assets, ranging from five to seven years for equipment and forty years for buildings. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term (including option periods in which the Company will incur a penalty for non-renewal) or the estimated useful life of the improvements.

The Financial Accounting Standards Board ("FASB") recently issued Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets to Be Disposed Of, it retains many of the fundamental provisions of that statement. The standard is effective for fiscal years beginning after December 15, 2001. The adoption of SFAS No. 144, on January 1, 2002, did not have a material impact on the Company's financial position or results of operations.

The Company evaluates its long-lived assets on a club-by-club basis with the exception of the three New York Clubs, which are evaluated on a combined basis due to the nature of the operations of the New York Clubs.

The Company reviews its long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted operating cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

In December 2001, the Company recorded an impairment loss of $1,801,000 related to its SportsMed subsidiary.

Goodwill

During July 2001, the FASB issued SFAS No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method be used for all business combinations initiated after June 30, 2001. SFAS No. 142 requires that goodwill and certain intangibles no longer be amortized against earnings, but instead be reviewed for impairment on an annual basis. The amortization of goodwill and certain intangibles ceases upon adoption of SFAS No. 142, which is effective for fiscal years starting after December 15, 2001. The Company adopted SFAS No. 141 and SFAS No. 142 effective January 1, 2002. The Company has goodwill recorded which will no longer be amortized subsequent to the adoption of SFAS No. 142. The Company completed the transitional impairment test, which did not result in the impairment of recorded goodwill. In addition, the Company was not required to reclassify any portion of goodwill as a result of the adoption of SFAS No. 142.

Through December 31, 2001, costs in excess of net assets of acquired businesses were being amortized on a straight-line basis over forty years. SFAS No. 142 requires that, effective January 1, 2002, goodwill no longer be amortized to earnings, but instead be reviewed for impairment on an annual basis.

The adoption of SFAS No. 142 had the following effect on the Company's reported net income (loss) attributable to common shareholders and net income (loss) per share for the years ended December 31, 2000, 2001 and 2002 (in thousands, except per share amounts):

	Years Ended December 31,		
	2000	2001	2002
Reported net income (loss) attributable to common shareholders.........................	$ (12,504)	$ (40,678)	$ (18,501)
Add back: Goodwill amortization, net of tax.....	288	494	--
Adjusted net income (loss) attributable to common shareholders.........................	$ (12,216)	$ (40,184)	$ (18,501)
Reported basic and diluted income (loss) per share.....................	$ (0.70)	$ (2.27)	$ (1.02)
Adjusted basic and diluted income (loss) per share.....................	$ (0.69)	$ (2.24)	$ (1.02)

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

In the fourth quarter of 2001, the Company determined, based on year to date operating results and projections for the next three years, that it is more likely than not that future taxable income will be insufficient to utilize its deferred tax assets. As a result of this determination, the Company ceased recording any deferred tax benefit related to its taxable losses incurred in 2001 and 2002, and in the fourth quarter of 2001, the Company recorded a valuation allowance of $19,627,000 to offset its net deferred tax asset recorded through that date (See Note 12 - Income Taxes). The Company will continue to evaluate its projected future taxable operating income and reconsider its current determination when appropriate.

Earnings per Share

The Company presents Basic and Diluted earnings per share. Basic earnings reflects the actual weighted average shares of Common Stock outstanding during the period. Diluted earnings per share includes the effects of all dilutive options, warrants and other securities and utilizes the treasury stock method.

The securities whose conversion would result in an incremental number of shares that would be included in determining the weighted average shares outstanding for diluted earnings per share if their effect was not antidilutive are as follows:

- December 31, 2002 - the common stock equivalent effect of 1,785,333 stock options, 10,500 shares of Series B mandatorily redeemable convertible Preferred Stock and, 5,000 shares of Series C convertible Preferred Stock.

- December 31, 2001 - the common stock equivalent effect of 1,850,275 stock options.

- December 31, 2000 - the common stock equivalent effect of 1,533,832 stock options.

Stock Based Compensation

The Company has elected to account for stock options granted to employees and directors under the provisions of APB Opinion No. 25, using the intrinsic value method. Entities electing to continue using the accounting prescribed by APB Opinion No. 25 must make pro forma disclosures of net income and income per share, as if the fair value based method of accounting defined in SFAS No. 123 had been applied. In accordance with APB Opinion No. 25, no compensation cost has been recognized as the fair value of the Company's stock was equal to the exercise price of the options at the date of grant. Had compensation cost for the Company's plan been determined consistent with SFAS No. 123, the Company's net income (loss) attributable to common shareholders and income (loss) per share would have been reduced to the pro-forma amounts indicated below:

	Year ended December 31		
	2000	2001	
	(in thousands, except per shar		
Net income (loss) attributable to common sharehholders:			
As reported................................	$ (12,504)	$ (40,678)	$
Pro forma..................................	$ (13,552)	$ (42,218)	$
Basic and Diluted income (loss) per share:			
As reported................................	$ (0.70)	$ (2.27)	$

Pro forma................................	$ (0.76)	$ (2.35)	$

The fair value of all option grants for the Company's plan are estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for all option grants in 2000 and 2001 respectively: dividend yield of 0% and 0%; expected volatility of 111.6% and 118.9%; risk-free interest rates of 6.25% and 4.48% and expected economic lives of 6.0 years and 6.0 years. There were no options granted in 2002.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions. These affect the reporting of assets and liabilities, the disclosure of any contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

Fair Value of Financial Instruments

The carrying amounts related to cash equivalents, short-term investments, accounts receivable, other current assets and accounts payable approximate fair value due to the relatively short maturity of such instruments. The fair value of long-term debt is estimated by discounting the future cash flows of each instrument at rates currently available to the Company for similar debt instruments of comparable maturities by the Company's bankers. The fair value of long-term debt was estimated to be $90 million.

Redeemable Preferred Stock

Mandatorily redeemable convertible Preferred Stock is stated at redemption value, less the unamortized discount. The discount is accreted into the carrying value of the mandatorily redeemable convertible Preferred Stock through the date at which the Preferred Stock is redeemable at the option of the holder with a charge to accumulated deficit using the effective-interest method. Due to the inherent uncertainties regarding the ability and ultimate timing of either the redemption or conversion of these preferred shares and the accretion method used, it is not practicable for management to determine their fair value.

Segment Reporting

Management has determined that the Company has one reporting segment.

Impact of Recent Accounting Pronouncements

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections ("SFAS 145"). SFAS 145 rescinds SFAS 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. Upon adoption of SFAS 145, the

Company will be required to apply the criteria in APB Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, in determining the classification of gains and losses resulting from the extinguishment of debt. Additionally, SFAS 145 amends SFAS 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. SFAS 145 will be effective for fiscal years beginning after May 15, 2002 with early adoption of the provisions related to the rescission of SFAS 4 encouraged. Upon adoption, companies must reclassify prior period items that do not meet the extraordinary item classification criteria in APB Opinion No. 30. The adoption of SFAS 145 for long-lived assets held for use did not have a material impact on our consolidated financial statements because the impairment assessment under SFAS 144 is largely unchanged from SFAS 121

On December 31, 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure ("SFAS 148"), which amends SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS 123"). SFAS 148 amends the disclosure requirements in SFAS 123 for stock-based compensation for annual periods ending after December 15, 2002 and for interim periods beginning after December 15, 2002. The disclosure requirements apply to all companies, including those that continue to recognize stock-based compensation under APB Opinion No. 25, Accounting for Stock Issued to Employees. Effective for financial statements for fiscal years ending after December 15, 2002, SFAS 148 also provides three alternative transition methods for companies that choose to adopt the fair value measurement provisions of SFAS 123. The Company has chosen not to adopt the fair value measurement provisions of SFAS 123.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"), which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. The disclosure requirements are effective for interim and annual financial statements ending after December 15, 2002.

FIN 45 also requires the recognition of a liability by a guarantor at the inception of certain guarantees. FIN 45 requires the guarantor to recognize a liability for the non-contingent component of a guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee or if the guarantee was issued with a premium payment or as part of a transaction with multiple elements. The initial recognition and measurement provisions are effective for all guarantees within the scope of FIN 45 issued or modified after December 31, 2002.

The Company has adopted the disclosure requirements of FIN 45 and will apply the recognition and measurement provisions for all guarantees entered into or modified after December 31, 2002. The Company does not have any guarantees that require disclosure under FIN 45.

In February 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46"), which addresses the consolidation by business enterprises of variable interest entities, which have one or both of the following characteristics: (1) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support from other parties, or (2) the equity investors lack one or more of the following essential characteristics of a controlling financial interest: (a) the direct or indirect ability to make decisions about the entity's activities through voting or similar rights, (b) the obligation to absorb the expected losses of the entity if they occur, or (c) the right to receive the expected residual returns of the entity if they occur. FIN 46 will have a significant effect on existing practice because it requires existing variable interest entities to be consolidated if those entities do not effectively disburse risks among parties involved. In addition, FIN 46 contains detailed disclosure requirements. FIN 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. This Interpretation may be

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applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated.

In November 2002, the FASB's Emerging Issues Task Force (EITF) issued EITF 00-21 Revenue Arrangements with Multiple Deliverables ("EITF 00-21). EITF 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, EITF 00-21 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. In applying EITF 00-21, separate contracts with the same entity or related parties that are entered into at or near the same time are presumed to have been negotiated as a package and should, therefore, be evaluated as a single arrangement in considering whether there are one or more units of accounting. That presumption may be overcome if there is sufficient evidence to the contrary. EITF 00-21 also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. The guidance in this Issue is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Alternatively, companies may elect to report the change in accounting as a cumulative-effect adjustment. Early application of this consensus is permitted.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement is effective for the Company beginning January 1, 2003. Management does not expect that adoption of this standard will have a material impact on the Company's financial statements.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be initially measured at fair value and recognized when the liability is incurred. The provisions of SFAS No. 146 are required to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 is not expected to have a material impact on the Company's financial statements.

4. Dispositions

Disposition of Real Estate

On December 28, 2000, the Company completed the sale of real estate in Fountain Valley, California for $3,700,000 in cash. In December 2000, the Company recorded a pre-tax loss of approximately $1,017,000 related to the sale of the Fountain Valley property (See Note 13).

In June 1998, the Company acquired undeveloped land in Houston, Texas with the intention of developing a Club on the site. In 2000, the Company decided not to develop this site and to dispose of the property. An impairment loss of $749,000 was recorded in December 2000 to reduce the carrying value of the asset to its estimated fair value less costs to sell. The Houston site was sold on August 30, 2002 and a non-recurring gain of $97,000 was recorded (See Note 13).

Disposition of Club

In January 2002, the Company sold The Sports Club/Las Vegas to another club operator. An impairment loss of $3,243,000 was recorded in December 2001 to reduce the carrying value of The Sports Club/LasVegas to its fair value less costs to sell. A gain of $30,000, related to the sale of The Sports Club/Las Vegas was recorded in January 2002. The gain was based upon the actual proceeds received from the sale of this Club.

5. Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, which is summarized as follows:

	At December 31, 2001	At December 31, 2002
	(in thousands)	
Land	$ 16,082	$ 10,621
Building and improvements	145,735	146,814
Furniture, fixtures and equipment	39,635	40,314
	201,452	197,749
Less accumulated depreciation and amortization	30,653	41,119
Net property and equipment	$ 170,799	$ 156,630

Equipment secured by equipment financing loans was $8,219,000 and $8,151,000 and related accumulated amortization was $2,196,000 and $4,111,000 at December 31, 2001 and 2002, respectively.

6. Notes Payable and Capitalized Lease Obligations

Notes payable and capitalized lease obligations are summarized as follows:

	At December 31, 2001	At December 31, 2002
	(in thousands)	
Senior secured notes (a)	$ 100,000	$ 100,000
Equipment financing loans (b)	6,023	4,040
Other note payable (c)	963	--
Bank credit facility (See Note 7)	8,505	--
	115,491	104,040
Less current installments	11,449	2,158

	$ 104,042	$ 101,882

(a) On April 1, 1999, the Company issued in a private placement $100.0 million of 11 3/8% Senior Secured Notes due in March 2006 (the "Senior Notes") with interest due semi-annually. In May 1999, the Senior Notes were exchanged for registered Series B Senior Secured Notes (the "Senior Secured Notes").

The Senior Secured Notes are secured by substantially all assets, other than certain excluded assets. In connection with the issuance of the Senior Secured Notes, the Company entered into an indenture dated as of April 1, 1999 (the "Indenture") which includes certain covenants that restrict the Company's ability, subject to certain exceptions, to: (i) incur additional indebtedness; (ii) pay dividends or other distributions, or repurchase capital stock or other equity interests or subordinated indebtedness and (iii) make certain investments. The Indenture also limits the Company's ability to: (i) enter into transactions with affiliates; (ii) create liens or sell certain assets, and (iii) enter into mergers and consolidations. Under the terms of the Indenture, after March 15, 2003, the Company may, at its option, redeem all or some of the Senior Secured Notes at a redemption price that will decrease over time from 105.688% to 100% of their face amount, plus interest. If the Company undergoes a "change in control", as defined in the Indenture, it must give holders of the Senior Secured Notes the opportunity to sell their Senior Secured Notes to the Company at 101% of their face amount, plus interest. At December 31, 2002, the Company was in compliance with the terms of the Indenture. At December 31, 2002, the estimated fair value of the Senior Secured Notes was $90 million.

(b) The equipment financing loans are secured by furniture, fixtures and equipment. The amounts are generally repayable in monthly payments over four or five years with effective interest rates between 8.5% and 10.5%.

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(c) This note was issued in connection with the acquisition of The Sports Club/LA - Upper East Side. Final payment was made during 2002.

Future minimum annual principal payments at December 31, 2002, are as follows (in thousands):

2003	$ 2,158
2004	1,784
2005	98
2006	100,000
	$ 104,040

7. Bank Credit Facility

In October 2002, we extended our credit facility with Comerica Bank-California. The $10.0 million credit facility matures on November 1, 2003. The credit facility bears interest at a variable rate of LIBOR plus 2 1/4% or the Bank's prime rate (4 1/4% at December 31, 2002). The credit facility is secured by all the assets of The Sports Club/Irvine and is guaranteed by our three major shareholders. The credit facility requires us to maintain certain Tangible Net Worth, Total Liabilities to Tangible Net Worth and EBITDA covenants. At December 31, 2002, we were not in compliance with one of these convenants. The Bank has waived this default as of December 31, 2002. At December 31, 2002, there were no cash advances outstanding, but $5.2 million was utilized in the form of letters of credit leaving $4.8 million available for future borrowings.

The new credit facility has added KASCY, L.P., an affiliate of Kayne Anderson Capital Advisors, L.P. as a lending participant in the credit facility. Kayne Anderson Capital Advisors, L.P. and certain of its affiliates own all of the Company's Series B Redeemable Preferred Stock (See Note 9). The credit facility increases from $10.0 million to $15.0 million once KASCY, L.P. satisfies certain regulatory requirements.

8. Commitments and Contingencies

Lease Commitments

The Company leases certain facilities pursuant to various operating lease agreements. Club facility leases are generally long-term and noncancelable triple-net leases (requiring the Company to pay all real estate taxes, insurance and maintenance expenses), and have an average remaining term of 44.17 years, including renewal options which are included in the lease term, with the earliest Sports Club lease expiration date of January 31, 2013. The Company is also obligated under lease agreements for seven of its former Spectrum Club locations. The Company has subleased each of these properties to the buyer of these Clubs under sublease agreements which provide that all operating costs of these facilities be assumed by the new owners. Future minimum noncancelable operating lease payments as of December 31, 2002 are as follows (in thousands):

	Commitments	Sublease Rentals	Net Rental Commitments
Year ending December 31:			
2003............................	$ 29,211	$ 6,391	$ 22,820
2004............................	29,878	7,050	22,828
2005............................	29,638	7,295	22,343
2006............................	29,717	7,336	22,381
2007............................	29,832	7,451	22,381
Thereafter......................	300,894	53,657	247,237
Total minimum lease payments.	$ 449,170	$ 89,180	$ 359,990

Rent expense for facilities and equipment, including minimum lease payments recorded on a straight-line basis over the lease term, aggregated $10,675,000, $18,662,000 and $23,278,000 for the years ended December 31, 2000, 2001 and 2002, respectively.

Litigation

The Company is involved in various claims and lawsuits incidental to its business, including claims arising from accidents. However, in the opinion of management, the Company is adequately insured against such claims and lawsuits involving personal injuries, and any ultimate liability arising out of any such proceedings will not have an material adverse effect on the Company's financial condition, cash flow or results of operations.

Employment Agreements

At December 31, 2002, the Company did not have any employment agreements with any employees.

9. Redeemable Preferred Stock

On March 18, 2002, the Company completed a $10.5 million private placement of a newly created series of its Convertible Preferred Stock. The Company received $9.9 million in cash, after issuance costs, and issued 10,500 shares of Series B Preferred Stock, $.01 par value ("Series B Preferred"), at a price of $1,000 per share. The Company has the obligation to redeem any outstanding shares of Series B Preferred on March 18, 2009 at a price of $1,000 per share plus accrued but unpaid dividends. Dividends accrue at the annual rate of $90.00 per share. Such dividends are cumulative but do not accrue interest and at the Company's option, may be paid in cash or in additional shares of Series B Preferred. The Series B Preferred may, at the option of the holder, be converted into shares of Common Stock at the rate of $3.00 per share (resulting in the issuance of 3,500,000 shares of Common Stock if 100% of the Series B Preferred is converted at that price). The conversion price will be adjusted downward in the event the Company issues additional shares of Common Stock at a price below $3.00 per share, subject to certain exceptions; and any such downward adjustment is subject to the prior approval of the American Stock Exchange. In the event the Series B Preferred is redeemed before March 18, 2005, the holders will receive a warrant to purchase shares of Common Stock at a price of $3.00 per share, exercisable before March 18, 2007. In the event of liquidation, the Series B Preferred holders are entitled to receive, prior and in preference to any distribution to common shareholders and pari passu with holders of the Series C Preferred Stock, an amount equal to $1,000 for each share of Series B Preferred then outstanding.

The initial carrying value of the Series B Preferred was recorded at its "fair value" (sale price less costs to issue) on the date of issuance. The carrying value of the Series B Preferred will be periodically adjusted so that the carrying value equals the redemption value on the redemption date. The carrying value of the Series B Preferred will also be periodically adjusted for any accrued and unpaid dividends. At December 31, 2002, the Series B Preferred carrying value consisted of the following (in thousands):

Initial fair value, sale price of $10,500 less costs to issue of $592......................	$	9,908
Redemption value accretion............................		71
Accrued and unpaid dividends accretion................		748
Total carrying value	$	10,727

10. Preferred Stock

On September 6, 2002, the Company completed a $5.0 million private placement of a newly created series of Convertible Preferred Stock. The Company received $5.0 million in cash and issued 5,000 shares of Series C Convertible Preferred Stock, $.01 par value ("Series C Convertible Preferred"), at a price of $1,000 per share. Dividends are earned at an annual rate of $90.00 per share. Dividends are payable when and as declared by the Board of Directors. Such dividends are cumulative, but do not accrue interest and at the Company's option, may be paid in cash or additional shares of Series C Convertible

Preferred. The Series C Convertible Preferred may, at the option of the holder, be converted into shares of Common Stock at the rate of $3.00 per share (resulting in the issuance of 1,666,667 shares of Common Stock if 100% of the Series C Convertible Preferred is converted at that price). Upon conversion, any earned and unpaid dividends would become payable. The conversion price will be adjusted downward in the event the Company issues additional shares of Common Stock at a price below $3.00 per share, subject to certain exceptions; and any such downward adjustment is subject to the prior approval of the American Stock Exchange. At the option of the Company the Series C Convertible Preferred Stock may be redeemed in whole or in part by paying in cash the sum of $1,000 per share plus any earned and unpaid dividends. In the event the Series C Convertible Preferred is redeemed before September 6, 2005, the holders will receive a warrant to purchase shares of Common Stock at a price of $3.00 per share, exercisable before September 6, 2007. In the event of liquidation, the Series C Convertible Preferred holders are entitled to receive, prior and in preference to any distribution to common shareholders, and pari passu with holders of the Series B Preferred, an amount equal to $1,000 for each share of Series C Convertible Preferred then outstanding, plus earned and unpaid dividends.

11. Income (Loss) per Share

The following is a reconciliation of the basic and diluted income (loss) per share computations for the years 2000, 2001 and 2002:

	Year ended December 31,		
	2000	2001	
	(in thousands, except per share		
Net income (loss) attributable to common shareholders used for basic and diluted income (loss) per share....	$ (12,504)	$ (40,678)	$
Shares of Common Stock and Common Stock equivalents:			
Weighted average shares used in basic computation......................	17,773	17,939	
Weighted average shares used in dilutive computation......................	17,773	17,939	
Income (loss) per share:			
Basic and Diluted.................................	$ (0.70)	$ (2.27)	$

12. Income Taxes

The provision for income taxes consists of the following:

	Year ended December 31,		
	2000	2001	2002
		(in thousands)	
Current:			
Federal....................	$ (2,280)	$ 89	$ (930)
State......................	1,182	757	620
	(1,098)	846	(310)
Deferred:			
Federal....................	(3,776)	3,486	--
State......................	(3,108)	1,038	--
	(6,884)	4,524	--
Income tax provision (benefit)...	$ (7,982)	$ 5,370	$ (310)

Income tax expense (benefit) as computed differs from the statutory rate as applied to pre-tax net income (loss) as follows:

	Year ended December 31,		
	2000	2001	2002
		(in thousands)	
Computed "expected" tax expense (benefit)..	$ (6,965)	$ (12,005)	$ (6,093)
Increase (decrease) in tax resulting from:			
State taxes - net of federal benefit....	(1,272)	(2,091)	(998)
Meals and entertainment...............	65	63	75
Change in valuation allowance.........	--	19,627	7,198
Other................................	190	(224)	(492)
Income tax provision (benefit)............	$ (7,982)	$ 5,370	$ (310)

The effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities are presented as follows.

	At December 31,	
	2001	2002
Deferred tax assets:	(in thousands)	
Deferred revenues....................	$ 2,153	$ 1,368
Operating loss carry forwards.........	19,910	24,198
Accrued vacation.....................	223	257
Bad debt.............................	121	193
State taxes..........................	624	315
Other................................	669	1,837
Gross deferred tax assets......	23,700	28,168
Deferred tax liabilities:		
Depreciation and amortization.........	(4,073)	(1,343)
Other................................	--	--
Gross deferred tax liabilities.	(4,073)	(1,343)

Net deferred tax asset....................	19,627	26,825
Valuation allowance.......................	(19,627)	(26,825)
Net deferred tax asset....................	$ --	$ --

The Company has determined, based on year to date operating results and projections for the next three years that it is more likely than not that future taxable income will be insufficient to utilize its deferred tax assets. As a result of this determination, the Company ceased recording any deferred tax benefit related to its taxable losses and recorded valuation allowances of $19,627,000 and $7,198,000 in 2001 and 2002, respectively to offset the Company's net deferred tax assets.

In March 2002, changes in existing tax laws resulted in a tax benefit of approximately $900,000. The tax benefit arises from the Company's ability to carryback net operating losses incurred during 2001, to the 1995, 1996 and 1997 tax years in which the Company had taxable income. This benefit was recorded in the first quarter of 2002 consistent with the provisions of Statement of Financial Accounting Standards Board No. 109, Accounting for Income Taxes.

As of December 31, 2002, the Company had federal and state net operating loss carryforwards of $43,685,000 and $76,571,000 respectively, beginning expiration in 2020 and 2005, respectively.

13. Non-Recurring Items

The Company recorded the following income (expense) as non-recurring items in each of the years in the three-year period ended December 31, 2002:

	Year ending December	
	2000	2001
	(in thousands)	
Class action litigation settlement..............................	$ (1,476)	$ --
Loss on sale of Fountain Valley real estate (See Note 4)........	(1,017)	--
Impairment of Houston real estate (See Note 4)..................	(749)	--
Gain on sale of Houston real estate (See Note 4)................	--	--
Gain on sale of The Sports Club/Las Vegas (See Note 4)..........	--	--
Interest reversal on litigation settlement......................	--	397
	$ (3,242)	$ 397

14. Stock Plans

Stock Incentive Plans

The Company's shareholders reserved 1,800,000 shares of Common Stock under the Company's Amended and Restated 1994 Stock Incentive Plan, which authorized the issuance of various stock incentives to directors, officers, employees and consultants including options, stock appreciation rights and purchase rights. On December 31, 2000, the 1994 Stock Incentive Plan expired and in May 2001, the Company's shareholders adopted the 2001 Stock Incentive Plan (the "Plan"). The 2001 Stock Incentive Plan reserves 2.5 million shares of Common Stock, expires in May 2011 and also authorizes stock appreciation rights and purchase rights.

Options allow for the purchase of Common Stock at prices determined by the Company's Compensation Committee. Incentive stock options must be granted at a price equal to or greater than the fair value of a share of Common Stock on the date the option is granted. Non-statutory options must have an exercise price equal to at least 85% of the fair value of the Company's Common Stock at the date of grant. Options granted under the Plans may, at the election of the Compensation Committee, become exercisable in installments. Except for the options granted to D. Michael Talla, Co-Chief Executive Officer, which expire on the fifth anniversary of the grant date, all options expire on the tenth anniversary of the grant date.

A summary of the status of the Company's stock option plans as of December 31, 2000, 2001 and 2002 and changes during the years then ended are presented below:

	Shares	Wei Average Pr
Outstanding at January 1, 2000..	1,169,832	$ 5
Granted...	744,499	6
Canceled..	(355,499)	6
Exercised...	(25,000)	2
Outstanding at December 31, 2000......................................	1,533,832	5
Options exercisable at December 31, 2000..............................	559,675	5
Weighted-average per share fair value of options granted during year ended December 31, 2000.........................		4
Outstanding at January 1, 2001..	1,533,832	5
Granted...	411,915	3
Canceled..	(93,472)	2
Exercised...	(2,000)	2
Outstanding at December 31, 2001......................................	1,850,275	5
Options exercisable at December 31, 2001..............................	915,284	5

Weighted-average per share fair value of options granted during year ended December 31, 2001		3
Outstanding at January 1, 2002	1,850,275	5
Granted	--	
Canceled	(64,942)	5
Exercised	--	
Outstanding at December 31, 2002	1,785,333	5
Options exercisable at December 31, 2002	1,296,448	5

The following table summarizes information about stock options outstanding at December 31, 2002:

Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Options Exercisable
$2.5625	24,333	3.41	24,334
2.6875	70,000	3.11	70,000
2.7500	26,000	3.84	26,000
3.0100	283,656	8.39	94,552
3.3110	115,000	3.39	38,333
3.9375	210,000	6.10	210,000
4.2500	219,344	7.85	146,229
4.3750	60,000	4.22	60,000
5.2500	42,000	2.24	42,000
5.3750	32,000	4.50	32,000
8.0000	211,000	5.29	211,000
8.0000	450,000	7.11	300,000
8.2500	28,000	.32	28,000
8.3750	14,000	4.85	14,000
	1,785,333		1,296,448

Stock appreciation rights ("SAR's") may be granted in combination with options or on a stand-alone basis. SAR's permit the holder to receive shares of stock, cash or a combination of shares and cash based upon by the difference between the option price and the fair value of the Common Stock on the date of exercise. Upon exercise of a SAR granted in combination with an option, the related option is canceled. At December 31, 2002, no SAR's had been granted.

Rights to purchase shares of Common Stock to be offered for direct sale under the Plan must be at a purchase price equal to not less than 85% of the fair value of the shares on the day preceding the date of grant. Purchase rights are generally exercisable for a period of thirty days following the date of grant. At December 31, 2002, no purchase rights had been granted.

1994 Stock Compensation Plan

In July 1994, the Company instituted its 1994 Stock Compensation Plan (that was amended by the Company's shareholders in July 1999) for the purpose of compensating outside directors by issuing them shares of the Company's Common Stock as part of their directors' fees. A total of 50,000 shares are reserved for issuance pursuant to this plan. A total of 44,000 shares have been issued to outside directors under the plan. During the years ended December 31, 2000, 2001 and 2002, the Company issued 6,000, 6,000 and 8,000 shares of Common Stock as director compensation for aggregates consideration of $20,000, $16,000 and $15,000, respectively.

15. Related Party Transactions

Millennium Partners LLC (collectively with its affiliate "Millennium") is a significant shareholder of the Company and has jointly developed Clubs with the Company. A representative of Millennium sits on the Company's Board of Directors. The Reebok Sports Club/NY pays rent to Millennium in the amount of $2.0 million per year and the partnership agreement provides for a first priority annual distribution of $3.0 million to Millennium.

The Company pays rent to Millennium for The Sports Club/LA - Washington D.C., The Sports Club/LA - Boston and The Sports Club/LA - San Francisco and in 2000, 2001 and 2002 a total of $500,000, $4.8 million and $9.5 million, respectively, was paid to Millennium for rent on these three Clubs. All such payments are reflected as rent expense in the Company's consolidated statement of operations. In addition, after the Company receives a management fee equal to 6% of all revenues, an amount equal to its investment in the Club and a 10% - 11% annual return on the investment, Millennium is entitled to receive a percentage of all additional cash flows from each Club as additional rent. Millennium's percentage of the excess cash flow, as defined, is 25% for the Washington and Boston Clubs and 60% for the San Francisco Club. Millennium has not received any payments to date under these provisions.

The Company has a 50.1% interest in the partnership that owns The Sports Club/LA - Los Angeles, and Mr. Talla beneficially owns the remaining 49.9%. The Company includes The Sports Club/LA - Los Angeles in its consolidated financial statements. The partnership agreement provides that, on an annual basis, the partners will share in the first $300,000 of the Club's net cash flow in proportion to their percentage interests. The next $35.0 million of net cash flow will be distributed to the Company. All distributions of net cash flow thereafter, if any, will be made to the partners in proportion to their percentage interests. Under certain circumstances, the Company has an option to purchase Mr. Talla's interest in the partnership for an amount equal to four times the amount of his most recent annual distribution from the partnership. This amount is reflected as a minority interest liability on the consolidated balance sheet.

As of May 4, 2001, the Company entered into a ten-year sublease for space located within The Sports Club/LA - Upper East Side. The sublease provides for two five-year renewal options, an initial monthly rent of $125,000, and rental increases of 10% at the end of each five-year period. The subtenant for this lease is Club at 60th Street, Inc., a New York corporation owned by Mr. Talla.

In September 1999, the Company sold the property on which the Spectrum Club - Thousand Oaks is located for a sales price of $12.0 million. The Company entered into a sale and leaseback agreement for the property under a long-term lease with an initial annual base rent of $1.3 million. The Thousand Oaks property consists of the Spectrum Club - Thousand Oaks, a SportsMed facility, unimproved office space, and a parking ramp. The Company is currently subleasing the Spectrum Club space to another club operator. Mr. Licklider owns an approximate 4.6% interest in the purchaser of the property, and trusts for the benefit of Mr. Talla's minor children own an approximately 5.2% interest in the purchaser of the property.

In consideration of executing a guaranty in favor of Comerica Bank - California (the "Bank") in connection with the Bank's renewal of the Company's $15.0 million credit facility (the "Credit Facility"), Messrs. Licklider and Talla and MDP Ventures II, LLC, an affiliate of Millennium, entered into agreements with the Company as of July 3, 2001, pursuant to which the Company is obligated to pay an annual commitment fee to each of the guarantors. At the Company's discretion the 2001 fee was paid in restricted shares of Common Stock with each guarantor receiving 15,384 shares. In addition to the commitment fee the Company is also obligated to pay each guarantor a usage fee equal to 2% of such guarantor's pro rata portion of outstanding letters of credit and amounts advanced under the Credit Facility. On November 8, 2002, the Company amended the loan agreement with the Bank, effective as of October 31, 2002. The amended agreement extends the maturity date of the Credit Facility until November 1, 2003. The Credit Facility continues to be guaranteed by Messrs. Licklider and Talla and MDP Ventures II, LLC. The Company continues to be obligated to pay fees to compensate the guarantors.

On September 6, 2002, the Company sold an aggregate of 5,000 shares of Series C Convertible Preferred Stock to three of its major shareholders, D. Michael Talla, Rex Licklider and MDP Ventures II, LLC, an affiliate of Millennium, for aggregate offering proceeds of $5,000,000.

16. Concentration of Credit Risk

The Company markets its products principally to customers in Southern California, New York City, Washington D.C., Boston and San Francisco. Management performs regular evaluations concerning the ability of its customers to satisfy their obligations and records a provision for doubtful accounts based upon these evaluations. The Company's credit losses for the periods presented are insignificant and have not exceeded managements' estimates.

17. Liquidity

At December 31, 2002, the Company was not in compliance with one of the covenants required under its loan agreement. Comerica Bank - California has waived this default. The Bank's waiver only covered the quarter ended December 31, 2002 and therefore it is likely that the Company may incur a similar default for the various reporting quarters during 2003. If this occurs, the Bank will have the option of terminating the credit agreement or continuing to waive any new defaults. If the Bank terminates the credit agreement two of the Company's major shareholders, who now guarantee the bank credit line, have committed to providing the Company with sufficient financial support to continue its operations.

18. Quarterly Summary of Information (Unaudited)

The following unaudited condensed quarterly financial data has been restated as described in Note 19:

	2002		
	March 31	June 30	September 30
	(in thousands, except per share amou		
Revenue:			
As reported	$ 29,546	$ 30,495	$ 30,272
As restated	$ 29,968	$ 29,946	$ 30,195
Net income (loss) attributable to Common shareholders:			
As reported	$ (4,970)	$ (4,876)	$ (4,020)
As restated	$ (4,312)	$ (5,239)	$ (3,882)
Net income (loss) per share basic and diluted:			
As reported	$ (0.28)	$ (0.27)	$ (0.22)
As restated	$ (0.24)	$ (0.29)	$ (0.21)

	2001		
	March 31	June 30	September 30
	(in thousands, except per share amou		
Revenue:			
As reported	$ 23,546	$ 25,076	$ 24,041
As restated	$ 23,875	$ 24,573	$ 24,011
Net income (loss) attributable to common shareholders:			
As reported	$ (4,642)	$ (3,849)	$ (4,683)
As restated	$ (4,302)	$ (3,993)	$ (4,555)
Net income (loss) per share basic and diluted:			
As reported	$ (0.26)	$ (0.21)	$ (0.26)
As restated	$ (0.24)	$ (0.22)	$ (0.25)

In the fourth quarter of 2001, the Company recorded the following significant adjustments:

|X| An impairment loss of $3,243,000 related to the disposal of The Sports Club/Las Vegas.

|X| An impairment loss of $1,801,000 to write-down the goodwill of the Company's

SportsMed subsidiary.

|X| A valuation allowance on the net deferred tax assets of $19,627,000.

19. Subsequent restatement

On March 31, 2003, the Company filed its annual report on Form 10-K which included its consolidated financial statements covering fiscal years 2000, 2001 and 2002 that had been restated to correct the methodology used to recognize last months dues revenues (see Note 2 to consolidated financial statements in this Form 10-K/A). Subsequent to the restatement the Company determined that additional adjustments are required to correct other errors in the previously issued financial statements. The adjustments consist of several items. The principle adjustment is a correction of the methodology used to recognize private training revenues. The Company had been recognizing private training revenues on a cash basis rather than when the private training session was given, as required by GAAP. The other adjustments made as part of this restatement include adjustments to properly record deferred revenue; record a reserve on SportsMed's receivables which was originally recorded as an adjustment to goodwill ($205,740 in 2000); reduce revenue ($1,086,871, $718,742 and $563,747 for the years ending December 31, 2002, 2001 and 2000, respectively) with corresponding reductions in direct expenses to correct an improper gross up of revenues and expenses relating to employee meals and discounts; adjust general and administrative expenses to increase (decrease) management bonus expense in the years earned ($129,305, ($469,664) and $28,360 for the years ending December 31, 2002, 2001 and 2000, respectively); reduce the impairment charge in 2001 as a result of the adjustment to the SportsMed revenue discussed above; increase depreciation expense and rent expense (recorded as direct expenses) to reflect properly the lease term and useful lives of certain assets; increase "Other Income" in 2002 as a result of the impact of certain deferred revenue on the gain on the sale of the Company's Las Vegas Club; and record adjustments relating to the income tax effects of the Company's restatement. Cash flows from operating, investing and financing activities did not change as a result of this restatement.

As a result of this restatement the Company incurred additional defaults of the covenants contained in its Bank Credit Agreement with Comerica Bank - California. On June 12, 2003, the Company replaced its bank agreement with a new $20.0 million secured loan payable to Orange County's Credit Union. The new loan is evidenced by a promissory note that bears interest at a fixed interest rate of 7.25%; requires monthly principal and interest payments of $144,561; is secured by the common stock and all the assets of Irvine Sports Club Inc. the Company's wholly owned subsidiary that owns The Sports Club/Irvine; and is guaranteed by the Company's two Co-Chief Executive Officers. The note may be prepaid at any time without penalty and requires a final principal payment of $18.3 million on July 1, 2008.

The following summarizes the adjustments that are a part of the current restatement (amounts are in thousands):

	Year Ended December 31,	
	2000	2001

Loss before income taxes, as reported	$ (19,327)	$ (34,690)	$ (
Private training revenue adjustment	(1,094)	(1,409)	
Other adjustments	(65)	791	
Loss before income taxes, as restated	(20,486)	(35,308)	(
Income taxes, as restated	(7,982)	5,370	
Net loss before dividends on preferred stock, as restated	$ (12,504)	$ (40,678)	$ (

Restated balance sheets at December 31, 2002 and 2001 and restated statements of operations for the years ended December 31, 2002, 2001 and 2000 are presented below. The amounts are in thousands, except per share amounts:

	As Reported	At Decemb Private Training Adjustment
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,185	$ --
Accounts Receivable, net of allowance for doubtful accounts	3,951	--
Inventories	1,169	--
Other current assets	1,148	--
Total current assets	9,453	--
Property and equipment, net	156,798	--
Goodwill, less accumulated amortization	12,794	--
Other assets	7,509	--
	$ 186,554	$ --
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments of notes payable and equipment financing Loans	$ 2,158	$ --

Accounts payable	2,545	--
Accrued liabilities	12,445	--
Deferred membership revenues	14,615	4,474
Total current liabilities	31,763	4,474
Notes payable and equipment financing loans, less current installments	101,882	--
Deferred lease obligations	8,122	--
Minority interest	600	--
Total liabilities	142,367	4,474
Commitments and contingencies		
Redeemable Preferred Stock	10,727	--
Stockholders' equity:		
Preferred Stock	5,000	--
Common Stock	211	--
Additional paid in capital	101,961	--
Accumulated deficit	(58,528)	(4,474)
Treasury Stock, at cost	(15,184)	--
Net stockholders' equity	33,460	(4,474)
	$ 186,554	$ --

	At Dec	
	As Reported	Private Training Adjustment
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,482	$ --
Accounts Receivable, net of allowance for doubtful accounts	4,840	--
Inventories	1,225	--
Other current assets	734	--
Total current assets	8,281	--
Property and equipment, net	170,893	--

Goodwill, less accumulated amortization	12,794	--
Other assets	5,240	--
	$ 197,208	$ --

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Current installments of notes payable and equipment financing Loans	$ 11,449	$ --
Accounts payable	3,028	--
Accrued liabilities	11,353	--
Deferred membership revenues	15,927	4,008
Total current liabilities	41,757	4,008
Notes payable and equipment financing loans, less current installments	104,042	--
Deferred lease obligations	4,982	--
Minority interest	600	--
Total liabilities	151,381	4,008
Commitments and contingencies		
Redeemable Preferred Stock	--	--
Stockholders' equity:		
Common Stock	211	--
Additional paid in capital	102,764	--
Accumulated deficit	(41,738)	(4,008)
Treasury Stock, at cost	(15,410)	--
Net stockholders' equity	45,827	(4,008)
	$ 197,208	$ --

	Year Ended	
	As Reported	Private Training Adjustment

Revenues	$ 122,488	$ (466)
Operating expenses:		
Direct	101,957	--
General and administrative	7,285	--
Selling	4,907	--
Depreciation and amortization	11,835	--
Pre-opening expenses	130	--
Total operating expenses	126,114	--
Income (loss) from operations	(3,626)	(466)
Other income (expense):		
Interest, net	(13,420)	--
Minority interests	(150)	--
Non-recurring items	97	--
Income (loss) before income taxes	(17,099)	(466)
Provision (benefit) for income taxes	(309)	--
Net income (loss)	(16,790)	(466)
Dividends on preferred stock	888	--
Net income (loss) attributable to common shareholders	$ (17,678)	$ (466)
Net income (loss) per share:		
Basic and diluted	$ (0.98)	$ (0.02)
Weighted average number of common shares outstanding:		
Basic and diluted	18,080	--

	As Reported	Year Ended Private Training Adjustment
Revenues	$ 102,044	$ (1,409)
Operating expenses:		
Direct	88,219	--
General and administrative	8,938	--
Selling	3,880	--
Depreciation and amortization	11,809	--
Pre-opening expenses	5,884	--
Impairment charges	5,250	--

Total operating expenses	123,980	--
Income (loss) from operations	(21,936)	(1,409)
Other income (expense):		
Interest, net	(13,001)	--
Minority interests	(150)	--
Non-recurring items	397	--
Income (loss) before income taxes	(34,690)	(1,409)
Provision (benefit) for income taxes	3,370	--
Net income (loss)	$ (38,060)	$ (1,409)
Net income (loss) per share:		
Basic and diluted	$ (2.12)	$ (0.08)
Weighted average number of common shares outstanding:		
Basic and diluted	17,939	--

	As Reported	Year Ended Private Training Adjustment
Revenues	$ 76,869	$ (1,094)
Operating expenses:		
Direct	59,116	--
General and administrative	7,298	--
Selling	2,915	--
Depreciation and amortization	7,408	--
Pre-opening expenses	9,589	--
Total operating expenses	86,326	--
Income (loss) from operations	(9,457)	(1,094)
Other income (expense):		
Interest, net	(6,478)	--
Minority interests	(150)	--
Non-recurring items	(3,242)	--
Income (loss) before income taxes	(19,327)	(1,094)
Provision (benefit) for income taxes	(6,940)	--
Net income (loss)	$ (12,387)	$ (1,094)
Net income (loss) per share:		
Basic and diluted	$ (0.70)	$ --
Weighted average number of common shares outstanding:		
Basic and diluted	17,773	--

THE SPORTS CLUB COMPANY, INC.
VALUATION AND QUALIFYING ACCOUNTS
Three-year period ended December 31, 2002
(in thousands)

Description	Balance at beginning of period	Additions	Deletions
Year ended December 31, 2000:			
Allowance for doubtful accounts	$ 342,000	$ 985,000	$ 656,000
Year ended December 31, 2001:			
Allowance for doubtful accounts	$ 671,000	$ 782,000	$ 1,135,000
Year ended December 31, 2002:			
Allowance for doubtful accounts	$ 318,000	$ 798,000	$ 582,000

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers and directors and their ages as of March 1, 2003 are as follows:

Name	Age	Position
D. Michael Talla.........	56	Chairman of the Board and Co-Chief Executive Officer
Rex A. Licklider.........	59	Vice Chairman of the Board and Co-Chief Executive Officer
Nanette Pattee Francini..	54	Executive Vice President and Director
Timothy M. O'Brien.......	51	Chief Financial Officer and Assistant Secretary
Philip J. Swain..........	45	Senior Vice President of Operations
Mark S. Spino............	48	Senior Vice President of Development

Brian J. Collins.........	42	Director
Andrew L. Turner.........	56	Director
George J. Vasilakos......	65	Director
Charles A. Norris........	56	Director

The following information summarizes the business experience during at least the past five years of each of our executive officers and directors.

D. Michael Talla began developing sports and fitness clubs in 1977 when he co-founded our predecessor non-public company. He has served as Chairman of the Board since the inception of our public company in 1994, and served until July 1999 as our Chief Executive Officer. Mr. Talla assumed the position of Co-Chief Executive Officer with Mr. Licklider in February 2000.

Rex A. Licklider has served as Vice Chairman of the Board since 1994 and was appointed Co-Chief Executive Officer in February 2000. Previously, Mr. Licklider served as a consultant to us for strategic and financial planning. He founded Com Systems, Inc., a publicly traded long-distance telecommunications company, and at various times between 1975 and April 1992 served as its Chairman, President and Chief Executive Officer. Since January 1993, Mr. Licklider has been a member of the Pentium Group, an entity investing, and often taking a management role, in early stage and turn around/growth businesses. He is a director of The Learning Network, Inc., and Deckers Outdoor Corporation. He also serves on the Board of Directors of The Children's Bureau of Southern California and The Achievable Foundation.

Nanette Pattee Francini began developing sports and fitness clubs in 1977 when she co-founded our predecessor non-public company. She has served as one of our directors, our Executive Vice President and has been principally responsible for overseeing all marketing activities since the inception of our public company in 1994. Ms. Francini founded and serves on the Board of the For Kids Only Foundation, a charity serving the needs of children.

Timothy M. O'Brien has been our Chief Financial Officer since February 1995 and since June 1995 has also served as Assistant Secretary. Mr. O'Brien is a Certified Public Accountant.

Philip J. Swain was appointed Senior Vice President of Operations in February 2000, having served as Vice President of Operations since our inception as a public company in 1994.

Mark S. Spino was appointed Senior Vice President of Development in February 2000, having served as Vice President of Development since our inception as a public company in 1994.

Brian J. Collins has been one of our directors since 1997. From December 1996 to May 1999, Mr. Collins served as Vice President and Chief Financial Officer of Millennium Partners Management LLC, an affiliate of Millennium Entertainment Partners L.P., which is a real estate developer of mixed-use urban entertainment projects. In June 1997 he became a principal of Millennium Partners Management LLC and in June 1999 was named Chief Operating Officer. From March 1993 to November 1996, Mr. Collins was Senior Vice President at Carol Management Corp., an owner and operator of real estate and hotel properties. For so long as Millennium maintains at least a 12% interest in our equity securities, we and certain of our stockholders have agreed with Millennium to cause a nominee of Millennium to be appointed or elected to our Board of Directors. Mr. Collins is currently serving as Millennium's nominee pursuant to this agreement.

Andrew L. Turner has been a director since 1994. Mr. Turner currently serves as Chairman of the Board for both Code Blue Staffing Solutions and Enduracare Rehabilitation Services. He also serves on the Board of Directors of Watson Pharmaceuticals, Inc., a publicly traded pharmaceutical manufacturing company. From 1989 until August 2000, Mr. Turner served as Chairman of the Board and Chief Executive Officer of Sun Healthcare Group, Inc., a publicly traded health care services provider. In October 1999, Sun Healthcare Group, Inc. filed voluntary petitions with the U.S. Bankruptcy Court to reorganize under Chapter 11 of the Federal Bankruptcy Code.

George J. Vasilakos has been a director since June 2002. Since January 1993, Mr. Vasilakos has been a member of the Pentium Group, an entity investing, and often taking a management role, in early stage and turn around/growth businesses. He is a principal and served as the Chief Executive Officer of Golden Tel, the largest payphone provider in Nevada. Currently, Mr. Vasilakos serves as Chief Executive Officer for The Learning Network, Inc., an e-learning company, and DiTronics, LLC, a provider of Automated Teller Machine services. He has served as a member of the Board of Directors and Executive Committee for the long distance industry trade association, COMPTEL, and on the advisory committees for the masters programs in telecommunications at Colorado University and Golden Gate University.

Charles A. Norris was elected to the Board of Directors in August 2002. Mr. Norris currently serves as Chairman of the Board of Directors of Glacier Water Services, Inc. and Day Runner, Inc. Previously, Mr. Norris was President of McKesson Water Products Company and a Senior Vice President of McKesson Corporation. From 1981 to 1990, Mr. Norris operated Deer Park Spring Water Company. He is past President and served on the Board of Directors and Executive Committee of the International Bottled Water Association, and was a trustee of the Drinking Water Research Foundation. As part of the sale of the Series B Convertible Preferred Shares to Kayne Anderson, we agreed that for so long as Kayne Anderson maintains a 12% interest in our equity securities (on an "as-converted basis") they will have the right to designate one member to our Board of Directors. Mr. Norris is currently serving as Kayne Anderson's nominee pursuant to this agreement.

Effective August 26, 2002, the Board approved the following compensation for our non-employee directors: (i) an annual directorship retainer of $12,000, (ii) an annual committee chairman retainer of $4,000, (iii) reimbursement of expenses for attending Board and committee meetings, (iv) annual award of 2,000 shares of our Common Stock pursuant to our amended and Restated 1994 Stock Compensation Plan, and (v) annual option award of 2,000 shares under our 2001 Incentive Stock Plan.

Additionally, in December 2002, the Board created a special committee and in recognition of the added responsibilities and demands of the work to be performed by this committee, its members will receive additional compensation of: (i) $1,000 for each meeting of the special committee attended in person, (ii) $500 for each telephonic meeting, and (iii) $1,000 per day for each day committee members devote a material portion of their business day on the affairs of the committee.

Our directors are divided into three classes having terms expiring at the annual stockholders' meetings in 2003 (Messrs. Talla and Licklider), 2004 (Messrs. Turner and Collins) and 2005 (Ms. Francini and Messrs. Vasilakos and Norris), or such other dates as their successors are elected. At each annual meeting of stockholders, successors to the class of directors whose term expires at such meeting will be elected to serve three-year terms and until their successors are elected.

Officers serve at the pleasure of the Board of Directors.

The Board has created three permanent committees: Audit, Compensation and Nominating and Governance. The Audit Committee, composed of Messrs. Vasilakos, Turner and Norris, is charged with reviewing our annual audit and meeting with our independent auditors and reviewing our internal controls and financial management practices. The Compensation Committee, composed of Messrs. Turner, Collins, Vasilakos and Norris (Mr. Norris being appointed to the committee effective February 25, 2003), recommends to the Board of Directors compensation for key employees and administers our Stock Incentive Plans. The Nominating and Governance Committee, comprised of Messrs. Norris, Vasilakos and Turner, insures that the Board of Directors is appropriately constituted to meet its fiduciary responsibilities to our stockholders and that we are in full compliance with standard governance policies and procedures.

Certain Transactions

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our officers and directors and persons who own more than ten percent of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission and to furnish us with copies of such reports. Based on our review of the copies of those reports and written representations that we have received, we believe that with the exception of a filing by MDP Ventures II, LLC made on March 28, 2003, to report various transactions occurring in 2001 and 2002, all such filings required to be made during calendar 2002 have been made.

Code of Ethics

We presently rely on the written policies in our Employee Handbook, as well as informal policies and procedures, our directors' awareness of their fiduciary duties and our executive officers' understanding of their responsibilities to the Company and our shareholders to fulfill our duties as a public company. These policies may not adequately protect us from all conflict of interest situations, so in 2003, we intend to adopt a formal written code of ethics that applies to our directors, principal executive officers, principal financial officer, principal accounting officer and other persons performing similar functions. This code of standards will fulfill the requirements recently imposed by the Securities and Exchange Commission and will cover such topics as conflict of interest, confidentiality, compliance with legal requirements and other business ethics subjects. We intend to post the code of ethics on our website www.thesportsclubla.com in connection with our investor relations materials. We further intend to promptly disclose on our website (i) the nature of any amendment to our code of ethics that applies to our directors and executives officers and (ii) the nature of any waiver, including an implicit waiver, from a provision of our code of ethics that is granted to one of these specified officers, the name of such person who is granted the waiver and the date of the waiver.

To demonstrate our commitment to operating fairly and ethically, we require that each employee acknowledge receipt of our Employee Handbook, which sets forth, among other things, our professional standards requiring proper business conduct and confidentiality of proprietary information.

ITEM 11. EXECUTIVE COMPENSATION

The table below shows, for the last three fiscal years, the amount of compensation earned by the Co-Chief Executive Officers and the next four most highly-compensated executive officers (the "Named Executive Officers"). The current salaries of such executive officers are described below under "Employment Agreements."

		Annual Compensation		Long-Term Compensation	
Name & Position	Year	Salary($)	Bonus($)(c)	Shares Underlying Options Awards	Co
D. Michael Talla..........	2002	200,000(b)	--	--	
Co-Chief Executive Officer	2001	240,000(b)	--	115,000	
and Chairman of the Board	2000	243,875(b)	75,000	250,000	
Rex A. Licklider..........	2002	200,000	--	--	
Co-Chief Executive Officer	2001	240,000	--	115,000	
and Vice Chairman of					
the Board..............	2000	156,050	75,000	--	
Nanette Pattee Francini...	2002	160,000	20,000	--	
Executive Vice President	2001	200,000	--	21,733	
and Director...........	2000	198,325	60,000	78,267	
Mark S. Spino............	2002	160,000	20,000	--	
Senior Vice President of	2001	200,000	--	21,733	
Development	2000	197,916	60,000	78,267	
Philip J. Swain...........	2002	160,000	20,000	--	
Senior Vice President of	2001	200,000	--	21,733	
Operations	2000	198,325	60,000	78,267	
Timothy M. O'Brien........	2002	160,000	20,000	--	
Chief Financial Officer	2001	200,000	--	21,733	
and Assistant Secretary	2000	197,916	60,000	78,267	

(a) Represents value of (i) amounts paid by us on behalf of the Named Executive Officer and dependents for medical and life insurance and (ii) our Common Stock contributed for the benefit of the Named Executive Officer under the 401K Profit Sharing Plan, based upon the December 31 closing market price each year of our Common Stock, on the American Stock Exchange.

(b) Mr. Talla also receives, on an annual basis, 49.9% of the first $300,000 of The Sports Club/LA - Los Angeles' net cash flow. This amount is not included in Mr. Talla's compensation. See "Certain Relationships and Related Transactions."

(c) Amounts earned in 2000 will not be paid to the Named Executive Officers until such time as the Company's quarterly EBITDA, as defined, exceeds its debt service and capital expenditures.

Option Grants, Exercises and Year-End Values

There were no option grants made to any Named Executive Officer during the last fiscal year.

Unexercised Stock Options and Fiscal Year-End Option Values

None of the Named Executive Officers exercised stock options during the last fiscal year. The following table provides information with respect to unexercised stock options outstanding as of December 31, 2002.

	Number of Shares Underlying Unexercised Options at Fiscal Year-End(a)		Value of In-the-Money Unexercised Options at Fiscal Year-End(b)	
Name	Exercisable (#)	Unexercisable (#)	Exercisable ($)	Unexercisable ($)
D. Michael Talla........	235,001	159,999	-0-	-0-
Rex A. Licklider........	38,334	76,666	-0-	-0-
Nanette Pattee Francini.	169,424	40,576	-0-	-0-
Mark S. Spino...........	169,424	40,576	-0-	-0-
Philip J. Swain.........	179,424	40,576	-0-	-0-
Timothy M. O'Brien......	199,424	40,576	-0-	-0-

(a) All options were granted pursuant to one of our two Stock Incentive Plans.

(b) The in-the-money options had exercise prices of less than $2.30, the closing price of our Common Stock on the American Stock Exchange on December 31, 2002. The calculations of value assume a fair market value of our Common Stock on December 31, 2002 at the price of $2.30 per share.

Employment Agreements

The Company has no written employment agreements. Currently, our executive officers receive the following salaries:

D. Michael Talla	Co-Chief Executive Officer	$200,000
Rex A. Licklider	Co-Chief Executive Officer	200,000
Nanette Pattee Francini	Executive Vice President	160,000
Mark S. Spino	Senior Vice President	160,000
Philip J. Swain	Senior Vice President	160,000
Timothy M. O'Brien	Chief Financial Officer	160,000

Compensation of Directors

Effective as of August 26, 2002, Directors' fees, paid only to directors who are not employees of the Company, are as follows:

- Annual retainer fee of $12,000,
- Annual retainer fee of $4,000 for each committee chair,
- $1,000 for each Board and committee meeting attended,
- Reimbursement of expenses for attending Board and committee meetings, and
- Automatic annual award of 2,000 shares of our Common Stock granted under the Amended and Restated 1994 Stock Compensation Plan each November 15th.
- Annual option award of 2,000 shares under our 2001 Incentive Stock Plan (timing of such grant is at the discretion of the Board, and as of March 15, 2003 no option awards have been granted).

Messrs. Collins, Turner, Vasilakos and Norris currently serve on the Board as non-employee directors. Because of his position as an executive with Millennium, Mr. Collins waived receipt of his monetary fees in 2001 and 2002. Mr. Licklider received amounts due non-employee directors until his appointment to Co-Chief Executive Officer in February 2000; and until his resignation in June 2002, Mr. Dennison T. Veru also received amounts due non-employee directors. All directors receive reimbursement of reasonable out-of-pocket expenses incurred in connection with meetings of the Board.

In December 2002, Messrs. Turner and Vasilakos were appointed to a special committee, and in recognition of the added responsibilities and demands of the work to be performed by them, Messrs. Turner and Vasilakos are to receive the following additional compensation: $1,000 for each meeting of the special committee attended in person, $500 for each telephonic meeting and $1,000 per day on which they devote a material portion of their business day on the affairs of the committee.

Following are the amounts paid to all directors for each of the last three years:

Year	Amount
2000	$ 71,500
2001	56,863
2002	68,502

Under the Amended and Restated 1994 Stock Compensation Plan an aggregate of 44,000 shares of Common Stock was issued to non-employee directors through December 31, 2002.

Compensation of Committee Interlocks and Insider Participation

The Compensation Committee of the Board (the "Committee") administers executive compensation. Mr. Turner has been a member of the Committee since September 13, 1994, and became its Chairman on February 27, 1995. Mr. Collins was appointed to the Committee on April 10, 1998. Mr. Vasilakos was appointed on August 2, 2002 following the resignation of Dennison Veru. Mr. Norris was appointed to the Committee on February 25, 2003 to serve as a fourth Committee member. None of these individuals has ever been an officer or employee.

ITEM 12. SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows the shares of our Common Stock beneficially owned as of March 24, 2003 by our directors and Named Executive Officers. It also shows other individuals or entities that beneficially owned more than 5% of our

Common Stock.

Name and Address of Beneficial Owner(a)	Shares Owned Directly(b)	Shares Issuable upon Conversion of Preferred Stock or exercise of options within 60 days(c)	Shares Held Under 401-K Plan(d)	Total a Stock Number
D. Michael Talla (e)..................	4,503,886	690,000	5,938	5,199,824
Nanette Pattee Francini (e)...........	256,107	193,334	2,992	452,433
Mark S. Spino (e).....................	227,969	193,334	4,389	425,692
Philip J. Swain (e)...................	112,164	203,334	4,033	319,531
Voting Trust (e)......................	5,100,126	1,280,002	17,352	6,397,480
Timothy O'Brien.......................	3,000	223,334	4,273	230,607
The Licklider Living Trust Dated May 2, 1986..................	1,929,999	743,333	--	2,673,332
Andrew L. Turner......................	6,000	--	--	6,000
Charles A. Norris(f)..................	2,000	166,667	--	168,667
Brian J. Collins (g)..................	57,601	--	--	57,601
George J, Vasilakos...................	325,900	--	--	325,900
All Directors and Executive Officers as a Group (10 persons).................	7,424,626	2,413,336	21,625	9,859,587
Millennium (g)........................	6,198,394	666,666	--	6,865,060
Kayne Anderson Capital Advisors, L.P.(f)	793,628	3,500,000	--	4,293,628

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*   Less than 1%

(a) The address of all directors and executive officers is c/o The Sports Club Company, Inc., at 11100 Santa Monica Blvd., Suite 300, Los Angeles, California 90025.

(b) Includes shares for which the named person is considered the owner because:
1. the named person has sole voting and investment power,
2. the named persons' spouse has voting and investment power, or
3. the shares are held by other members of the named persons' immediate family.

(c) Includes shares that can be acquired upon conversion of Preferred Stock and shares that can be acquired through stock option exercises through May 23, 2003.

(d) Includes shares issued pursuant to our 401(k) Profit Sharing Plan's discretionary match as of March 24, 2003.

(e) Named persons share voting power pursuant to a voting agreement that requires each party to vote his or her shares in the manner determined by a majority of all holders. The agreement is effective until October 20, 2004, or until terminated by persons holding 66 2/3% of the shares of our Common Stock subject to the agreement. Each of the parties to the voting agreement effectively controls the voting of all shares held by the parties to the agreement, and, under SEC rules, are deemed beneficial owners of the shares subject to the agreement. The total number of shares of our Common Stock held by the parties without giving effect to beneficial ownership resulting from the voting agreement is:

Named Person	Shares Held Directly	Total Shares Held
D. Michael Talla:		
Individually	4,332,905	
Spouse	30,953	
Trusts for two minor children	140,028	
Total		4,503,886
Nanette Pattee Francini		256,107
Mark S. Spino		227,969
Philip J. Swain		112,164
All Parties to Voting Agreement		5,100,126

(f) Effective March 18, 2002, we completed a private placement of a newly created class of Preferred Stock to Kayne Anderson Capital Advisors, L.P. and several of their affiliates. The new class of Series B Preferred Stock carries voting rights and is convertible into 3,500,000 shares of our Common Stock. Kayne Anderson is deemed to be the beneficial owner of the shares subject to conversion. Kayne Anderson Capital Advisors, L.P. is located at 1800 Avenue of the Stars, Second Floor, Los Angeles, CA 90067.

The Kayne Anderson Capital Advisors, L.P. shares issuable upon conversion of Preferred Stock are held by the following affiliates:

	Shares Held
Kayne Anderson Capital Advisors, L.P.	2,958,334
Ric Kayne	333,333
Charles Norris	166,667
Howard Zelikow	33,333
David Shladovsky	8,333
Total	3,500,000

For purposes of the table, Mr. Norris' shares are listed separately so that they may be included in the total number of shares held by Directors and Executive Officers. Mr. Norris' shares are included in determining the percentage of shares held by Kayne Anderson.

(g) The Millennium shares are held by the following affiliates:

	Shares Held

Brian J. Collins	57,601
Millennium Partners LLC	2,253,863
Millennium Development Partners L.P.	978,900
MDP Ventures I LLC	72,100
MDP Ventures II LLC	2,268,531
Millennium Entertainment Partners L.P.	625,000
Total	6,198,394

For purposes of the table, Mr. Collins' shares are listed separately so that they may be included in the total number of shares held by Directors and Executive Officers. Mr. Collins' shares are included in determining the percentage of shares beneficially held by Millennium.

The address of all such entities is c/o Millennium Partners Management LLC, 1995 Broadway, New York, New York, 10023.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

From time to time we have entered into transactions with our officers, directors and stockholders. We believe that each of the following transactions has been on terms no less favorable to us than could have been obtained from unaffiliated third parties. All transactions between us and any of our directors or officers are subject to the approval of the disinterested directors.

Mr. Talla. We have a 50.1% interest in the partnership that owns The Sports Club/LA - Los Angeles and Mr. Talla beneficially owns the remaining 49.9%. The partnership agreement provides that, on an annual basis, the partners will share in the first $300,000 of the Club's net cash flow in proportion to their percentage interests. The next $35.0 million of net cash flow will be distributed to us. All distributions of net cash flow thereafter, if any, will be made to the partners in proportion to their percentage interests. Under certain circumstances, we have an option to purchase Mr. Talla's interest in the partnership for an amount equal to four times the amount of his most recent annual distribution from the partnership.

As of May 4, 2001, we entered into a ten-year sublease for space located within the building including The Sports Club/LA - Upper East Side. The sublease provides for two five-year renewal options, an initial monthly rent of $125,000, and rental increases of 10% at the end of each five-year period. The subtenant for this lease is Club at 60th Street, Inc., a New York corporation owned by Mr. Talla.

Messrs. Talla and Licklider. In September 1999, we sold the property on which the Spectrum Club - Thousand Oaks is located for a sales price of $12.0 million. We entered into a sale and leaseback agreement for the property under a long-term lease with an initial annual base rent of $1.3 million. The Thousand Oaks property consists of the Spectrum Club - Thousand Oaks, a SportsMed facility, unimproved office space, and a parking ramp. We are currently subleasing the Spectrum Club space to another club operator. Mr. Licklider owns an approximate 4.6% interest in the purchaser of the property, and trusts for the benefit of Mr. Talla's minor children own an approximately 5.2% interest in the purchaser of the property.

Millennium. Millennium is a partner in the Reebok-Sports Club/NY partnership as well as the landlord of the building in which Reebok Sports Club/NY is located. Reebok-Sports Club/NY partnership pays rent to Millennium in the amount of $2.0 million per year, and the partnership agreement provides for a first priority annual distribution of $3.0 million to Millennium. We are entitled to certain additional priority distributions and 60% of the remaining cash flow. Millennium's partnership interest entitles them to 20% of such remaining cash flow.

In June 1997, we issued to Millennium 2,105,263 shares of our Common Stock in exchange for $10.0 million. In December 1997, we sold 625,000 shares of Common Stock to Millennium for $5.0 million. We also granted to Millennium certain registration and preemptive rights regarding its shares. In addition, for so long as Millennium maintains at least a 12% interest in our equity securities, we and certain of our stockholders have agreed to cause a nominee of Millennium to be appointed or elected to the Board of Directors. Pursuant to this agreement Brian J. Collins, an officer of Millennium, is currently serving as a member of our Board of Directors.

We have entered into leases with Millennium relating to The Sports Club/LA - San Francisco, The Sports Club/LA - Washington, D.C. and The Sports Club/LA - Boston. On March 27, 2001, the leases were amended with Millennium's landlord contribution increasing by $16.5 million in exchange for additional rent payments. In addition, after we receive a management fee equal to 6% of all revenues, an amount equal to our investment in the Club and a 10% - 11% annual return on the investment, Millennium is entitled to receive a percentage of all additional cash flows from each Club as additional rent. Millennium's percentage of the excess cash flow, as defined, previously was 20% for each of these Clubs. Under the amended lease agreements, their percentage increases to 25% for the Washington and Boston Clubs and 60% for the San Francisco Club. Millennium has not received any payments to date under these provisions.

We have reached an agreement in principle with Millennium to develop The Sports Club/LA - Miami as part of the exclusive new Four Seasons Hotel and Tower. We are currently negotiating the terms of definitive management and license agreements, pursuant to which we will manage the Club and be provided with 6% of gross revenues and a participation in the Club's net cash flow. It is anticipated that the Club will encompass 45,000 square feet and open in the fourth quarter of 2003.

Kayne Anderson. On March 18, 2002, we sold an aggregate of 10,500 shares of Series B Convertible Preferred Stock to Kayne Anderson Capital Advisors and four affiliates thereof for aggregate offering proceeds of $10,500,000. The shares of Series B Preferred may, at the option of the holder, be converted into shares of our Common Stock at a rate of $3.00 per share; entitle each holder to one vote for each share of Common Stock into which such Series B Preferred could then be converted; and provide for the payment of dividends at an annual rate of $90.00 per share. Dividends are cumulative, do not accrue interest and, at our discretion, may be paid in additional shares of Series B Preferred. As part of the sale of the Series B Preferred to Kayne Anderson, we agreed that for so long as Kayne Anderson beneficially owns at least 12% of our equity securities (on an "as-converted basis") they will have the right to designate one member to our Board of Directors. Mr. Charles A. Norris is currently serving on the Board as the nominee of Kayne Anderson.

Messrs. Talla and Licklider and Millennium. In consideration of executing a guaranty in favor of Comerica Bank - California (the "Bank") in connection with the Bank's renewal of our $15.0 million credit facility (the "Credit Facility"), Messrs. Licklider and Talla and MDP Ventures II, LLC, an affiliate of Millennium, entered into agreements with us as of July 3, 2001, pursuant to which we were obligated to pay an annual commitment fee to each of the guarantors. At our discretion the 2001 fee was paid in restricted shares of Common Stock with each guarantor receiving 15,384 shares. In addition to the commitment fee we were also obligated to pay each guarantor a usage fee equal to 2% of such guarantor's pro rata portion of outstanding letters of credit and amounts advanced to us under the Credit Facility. In April 2003, we issued each guarantor 54,653 shares of common stock representing their 2% usage fee for the period from July 2001 through October 2002 and their 1% commitment fee for the most recent loan renewal. We remain obligated to pay the usage fee incurred after October 2002. In June 2003 we terminated the Credit Facility and entered into a new promissory note with another financial institution. The new note is for $20.0 million and is guaranteed by Messrs. Talla and Licklider. We have agreed to use commercially reasonable efforts to negotiate an agreement whereby we would indemnify Messrs. Talla and Licklider and pay a fee to them for the guarantee, provided that such fee is fair to us as determined by an authorized committee of our Board of Directors and is consistent with the requirements of our Indenture.

On September 6, 2002, we sold an aggregate of 5,000 shares of Series C Convertible Preferred Stock to three of our major shareholders, D. Michael Talla, Rex Licklider and MDP Ventures II, LLC, an affiliate of Millennium, for aggregate offering proceeds of $5,000,000. The shares of Series C Preferred may, at the option of the holder, be converted into shares of our Common Stock at a rate of $3.00 per share; entitle each holder to one vote for each share of Common Stock into which such Series C Preferred could then be converted; and provide for the payment of dividends at an annual rate of $90.00 per share. Dividends are cumulative, do not accrue interest and, at our discretion, may be paid in additional shares of Series C Preferred.

PART IV

ITEM 14. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Our management, including our Co-Chief Executive Officers and our Chief Financial Officer, have conducted an evaluation of the effectiveness of the our disclosure controls and procedures pursuant to Rule 13a-14 under the Securities Exchange Act of 1934 as of a date (the "Evaluation Date") within 90 days prior to the filing date of this report. Based upon that evaluation, the Co-Chief Executive Officers and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in ensuring that all material information required to be filed in this annual report has been made known to them in a timely manner.

(b) Changes in internal controls.

There have been no significant changes made in our internal controls or in other factors that could significantly affect internal controls subsequent to the Evaluation Date.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) (1) Financial Statements filed as part of this Report are listed in Item 8 of this Report.

(2) No other financial schedules have been included because they are not applicable, not required or because required information is included in the consolidated financial statements or notes thereto.

(3) The following exhibits are filed as part of this Report.

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Fili
3.1	Restated Certificate of Incorporation of the Registrant.	S-1	33-79552	10/
3.2	Bylaws of the Registrant.	S-1	33-79552	10/
3.3	Amendment to Bylaws dated February 1, 1995.	10-K/A	1-13290	10/
3.4	Certificate of Designation of Series B Convertible Preferred Stock of the Registrant.	8-K	1-13290	03/
3.5	Corrected Certificate of Designation of Series B Convertible Preferred Stock of the Registrant.	8-K	1-13290	09/
3.6	Certificate of Designation of Series C Convertible Preferred Stock of the Registrant.	8-K	1-13290	09/
3.7	Amendment No. 2 to Bylaws dated July 21, 1999.	10-K	1-13290	03/

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Fili
4.1	Specimen Common Stock Certificate.	S-1	33-79552	10/
4.2	Rights Agreement by and between the Registrant and American Stock Transfer & Trust dated as of October 6, 1998.	8-K	1-13290	10/
4.3	First Amendment to Rights Agreement by and between the Registrant and American Stock Transfer & Trust entered into as of February 18, 1999.	8-K	1-13290	03/

4.4	Indenture by and among Registrant, U.S. Bank Trust National Association and the Subsidiary Guarantors referred to therein, dated as of April 1, 1999.	8-K	1-13290	04/
4.5	Registration Rights Agreement by and among the Registrant, Jeffries & Company, Inc. and CIBC Oppenheimer Corp., dated as of April 1, 1999.	8-K	1-13290	04/
4.6	Purchase Agreement by and among the Registrant, Jeffries & Company, Inc. and CIBC Oppenheimer Corp., dated March 29, 1999.	8-K	1-13290	04/
4.7	Second Amendment to Rights Agreement by and between the Registrant and American Stock Transfer & Trust entered into as of the second day of July 1999.	10-K	1-13290	03/
4.8	Third Amendment to Rights Agreement by and between the Registrant and American Stock Transfer & Trust made and entered into as of April 27, 2000.	10-K	1-13290	03/
4.9	Fourth Amendment to Rights Agreement by and between the Registrant and American Stock Transfer & Trust entered into as of June 27, 2001.	8-K	1-13290	07/
4.10	Fifth Amendment to Rights Agreement by and between the Registrant and American Stock Transfer & Trust entered into as of September 6, 2002	8-K	1-13290	09

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Fili
4.11	Sixth Amendment to Rights Agreement by and between the Registrant and American Stock Transfer & Trust entered into as of March 5, 2003.	10-K	1-13290	03/
9.1	Voting Agreement among D. Michael Talla, Nanette Pattee Francini, Mark S. Spino, Peter Feinstein, Philip J. Swain and FP II.	S-1	33-79552	10/
10.1	1994 Stock Incentive Plan. #	S-1	33-79552	10/
10.2	Form of Stock Option Agreement. #	S-1	33-79552	10/
10.3	Form of Stock Purchase Agreement. #	S-1	33-79552	10/
10.4	1994 Stock Compensation Plan. #	S-1	33-79552	10/

10.5	Form of Indemnification Agreement between the Registrant and its directors and certain officers.	S-1	33-79552	10/
10.6	Indemnification Agreement between the Registrant and D. Michael Talla.	S-1	33-79552	10/
10.7	Indemnification Agreement between Registrant and Rex A. Licklider.	S-1	33-79552	10/
10.8	Lease of premises for Reebok Sports Club/NY located at 160 Columbus Avenue, New York 10023 dated June 3, 1992.	S-1	33-79552	10/
10.9	Management Agreement effective as of June 3, 1992, between R-SC/NY, Ltd. and Pontius Realty, Inc.	S-1	33-79552	10/
10.10	License Agreement between Reebok Fitness Centers, Inc. and R-SC/NY, Ltd. dated June 3, 1992.	S-1	33-79552	10/
10.11	Letter Agreement regarding R-SC/NY dated June 3, 1992.	S-1	33-79552	10/
10.12	Memorandum of Agreement between Reebok Fitness Centers, Inc. and the Company dated as of June 3, 1992.	S-1	33-79552	10/

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Fili
10.13	Seventh Amendment and Restated Agreement of Limited Partnership of L.A./Irvine Sports Club, Ltd., a California Limited Partnership, dated as of October 12, 1994.	S-1	33-79552	10/
10.14	First Amendment to Seventh Amended and Restated Agreement of Limited Partnership of L.A./Irvine Sports Club, Ltd., a California Limited Partnership, dated as of October 12, 1994.	S-1	33-79552	10/
10.15	Form of Option Agreement by and between D. Michael Talla, an individual, TTO Partners, a California Limited Partnership, and Sports Club, Ltd., a California	S-1	33-79552	10/

	Corporation, relating to L.A./Irvine Sports Club, Ltd., a California Limited Partnership.			
10.16	Amended and Restated Agreement of Limited Partnership of TTO Partners, a California Limited Partnership, dated June 30, 1992, as amended January 1, 1993, January 4, 1993 and February 12, 1994 and as assigned January 1, 1993.	S-1	33-79552	10/
10.17	First Amended and Restated Agreement of Limited Partnership of Reebok-Sports Club/NY, Ltd. Dated as of October 12, 1994.	S-1	33-79552	10/
10.18	Letter Agreement by and between Reebok Fitness Centers, Inc. and the Company dated October 12, 1994.	S-1	33-79552	10/
10.19	Amendment to First Amended and Restated Agreement of Limited Partnership of Reebok-Sports Club/NY, Ltd. dated as of October 12, 1994.	S-1	33-79552	10/
10.20	Letter Agreement by and between Reebok Fitness Centers, Inc. and the Company, which became effective on October 29, 1994.	S-1	33-79552	10/

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Fili
10.21	License Agreement by and between Reebok Fitness Centers, Inc. and the Company, which became effective on October 20, 1994.	S-1	33-79552	10/
10.22	Agreement by and among Reebok-Sports Club/NY Ltd., Talla New York, Inc., RFC, Inc., LMP Health Club Co., Millennium Entertainment Partners, L.P. and Registrant dated as of December 30, 1996.	10-K/A	1-13290	10/
10.23	Letter Agreement between Millennium Entertainment Partners, L.P. and the Registrant dated as of March 13, 1997.	10-K/A	1-13290	10/
10.24	First Amendment to Option Agreement	10-K	1-13290	02/

	between D. Michael Talla and TTO Partners dated May 27, 1997.			
10.25	Amendment of Lease between Lincoln Metrocenter Partners, L.P. and Reebok-Sports Club/NY Ltd. as of January 31, 1998.	10-K	1-13290	02/
10.26	Lease Agreement between RCPI Trust and the Registrant as of February 27, 1998.	10-K	1-13290	03/
10.27	Amended and Restated Net Operating Lease among Hirschfeld Realty Club Corporation and 328 E. 61 Corp., and Vertical Fitness and Racquet Club, Ltd., dated March 26, 1985.	10-K	1-13290	03/
10.28	Lease Modification Agreement by and among Hirschfeld Realty Corporation and 328 E. 61 Corp., and Vertical Fitness and Racquet Club, Ltd., dated July 1, 1990.	10-K	1-13290	03/
10.29	Assignment and Assumption of Lease by and between Vertical Fitness and Racquet Club, Ltd., and Bally Entertainment Corporation dated January 8, 1996.	10-K	1-13290	03/

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Fili
10.30	Assignment of Lease executed by Hilton Hotels Corporation, as successor to tenant, and agreed to and accepted by the Registrant, dated April 15, 1998.	10-K	1-13290	03/
10.31	Second Amendment to Amended and Restated Net Operating Lease by and among Hirschfeld Realty Club Corporation and 328 E. 61 Corp., and the Registrant dated April 15, 1998.	10-K	1-13290	03/
10.32	Note Payable issued by the Registrant to Hilton Hotels Corporation dated April 15, 1998.	10-K	1-13290	03/
10.33	Amended and Restated 1994 Stock Incentive Plan as of June 2, 1998. #	10-K	1-13290	03/

10.34	Letter Agreement between the Registrant and Millennium Partners LLC dated as of October 27, 1998.	10-K	1-13290	03/
10.35	First Amendment to Lease between RCPI Trust and the Registrant dated October 30,1998.	10-K	1-13290	03/
10.36	Second Amendment to Lease between RCPI Trust and the Registrant dated March 4, 1999.	10-K	1-13290	03/
10.37	Lease between CB-1 Entertainment Partners LP and S.F. Sports Club, Inc. dated June 1, 1997.	10-K	1-13290	03/
10.38	Lease between 2200 M Street LLC and Washington D.C. Sports Club, Inc. dated March 1999.	10-K	1-13290	03/
10.39	Fourth Amended and Restated Loan Agreement by and among the Registrant, certain of its subsidiaries and Comerica Bank-California, dated April 1, 1999.	8-K	1-13290	04/
10.40	Intercreditor Agreement by and among the Registrant, certain of its subsidiaries, Comerica Bank-California and U.S. Bank Trust National Association, dated April 1, 1999.	8-K	1-13290	04/

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Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Fili
10.41	Disbursement Agreement between U.S. Bank Trust National Association and the Registrant and certain of its subsidiaries dated as of April 1, 1999.	8-K	1-13290	04/
10.42	Amended and Restated 1994 Stock Compensation Plan. #	10-K	1-13290	03/
10.43	Lease Agreement as of September 24, 1999 between The Spectrum Club Company, Inc. and West Hollywood Property Limited Partnership and 2400 Willow Lane Associates Limited Partnership.	10-K	1-13290	03/
10.44	Lease Agreement as of November 5, 1999 by and between New Commonwealth Center Limited Partnership and Washington D.C. Sports Club, Inc.	10-K	1-13290	03/
10.45	Separation from Employment Agreement made as of February 11, 2000 by and	10-K	1-13290	03/

	between the Registrant and John M. Gibbons. #			
10.46	Letter Agreement dated March 11, 1999 amending the October 27, 1998 Letter Agreement between the Registrant and Millennium Partners, LLC.	10-K	1-13290	03/
10.47	Amendment adopted November 4, 1999 to the Registrant's 1994 Stock Incentive Plan. #	10-K	1-13290	03/
10.48	Certificate representing Series B Senior Secured Notes.	10-K	1-13290	03/
10.49	First Amendment to Fourth Amended and Restated Loan Agreement among the Registrant and certain of its subsidiaries and Comerica Bank - California as of December 3, 1999.	10-K	1-13290	03/
10.50	Form of The Sports Club Membership Agreements.	10-K	1-13290	03/

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Exhibit		Incorporated by Reference		
Number	Exhibit Description	Form	File No.	Fili
10.51	Second Amendment to Fourth Amended and Restated Loan Agreement among the Registrant and certain of its subsidiaries and Comerica Bank-California as of August 10, 2000.	10-K	1-13290	03/
10.52	Reaffirmation of Intercreditor and Subordination Agreement dated as of August 10, 2000 among the Registrant and certain of its subsidiaries and U.S. Bank Trust, National Association.	10-K	1-13290	03/
10.53	First Supplemental Agreement of Lease made as of the 27th day of March, 2001 between CB-1 Entertainment Partners, LP and S.F. Sports Club, Inc.	10-K	1-13290	03/
10.54	First Supplemental Agreement of Lease made as of the 27th day of March 2001 between New Commonwealth Center Limited Partnership and Washington D.C. Sports Club, Inc.	10-K	1-13290	03/

10.55	First Supplemental Agreement of Lease made as of the 27th day of March 2001 between 2200 M Street LLC and Washington D.C. Sports Club, Inc.	10-K	1-13290	03/
10.56	Third Amendment to Fourth Amended and Restated Loan Agreement entered into as of June 1, 2001 by and among Registrant and various of its subsidiaries and Comerica Bank - California.	8-K	1-13290	07/
10.57	Indemnification and Contribution Agreement entered into as of July 3, 2001 by and among the Registrant., Rex A. Licklider, D. Michael Talla and MDP Ventures II LLC.	8-K	1-13290	07/
10.58	The Sports Club Company, Inc. 2001 Stock Incentive Plan. #	10-K	1-13290	03/

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Exhibit		Incorporated by Reference		
Number	Exhibit Description	Form	File No.	Fili
10.59	Preferred Stock Purchase Agreement made as of March 18, 2002 by and among Registrant and the holders of the Series B Convertible Preferred Stock.	8-K	1-13290	03/
10.60	Investor Rights Agreement made as of the 18th day of March 2002 by and between the Registrant and the holders of the Series B Convertible Preferred Stock.	8-K	1-13290	03/
10.61	Asset Purchase Agreement dated as of January 25, 2002, by and between SCC Nevada, Inc. and LSI-Nevada, LLC.	10-K	1-13290	03/
10.62	Standard Form Lease between the Registrant and Club at 60th St., Inc. for space located at 333 East 60th Street, New York, dated May 4, 2001.	10-K	1-13290	03/
10.63	First Amendment to Lease by and among Registrant and Club at 60th St., Inc. dated as of March 1, 2002.	10-K	1-13290	03/
10.64	Waiver of Covenant Compliance Letter Agreement between the Registrant and Comerica Bank - California dated March 14, 2002.	10-K	1-13290	03/

10.65	Fourth Amendment to Fourth Amended and Restated Loan Agreement and First Amendment to Amended and Restated Revolving Loan between the Registrant and certain of its Subsidiaries and Comerica Bank - California dated May 31, 2002.	8-K	1-13290	06/
10.66	Fifth Amendment to Fourth Amended and Restated Loan Agreement between the Registrant and certain of its Subsidiaries and Comerica Bank - California dated August 30, 2002.	8-K	1-13290	09/

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Fili
10.67	Reaffirmation of Intercreditor and Subordination Agreement dated as of August 30, 2002 among the Registrant and certain of its Subsidiaries and U.S. Bank Trust, National Association.	8-K	1-13290	09/
10.68	Investors' Rights Agreement made as of September 6, 2002 by and between the Registrant and the holders of the Series C Convertible Preferred Stock.	8-K	1-13290	09/
10.69	Preferred Stock Purchase Agreement made as of September 6, 2002 by and among the Registrant and the holders of the Series C Convertible Preferred Stock.	8-K	1-13290	09/
10.70	Sixth Amendment to Fourth Amended and Restated Loan Agreement by and among the Registrant and certain of its Subsidiaries, Comerica Bank - California and KASCY, L.P. dated October 31, 2002.	8-K	1-13290	11/
10.71	Consent and Reaffirmation of Intercreditor and Subordination Agreement dated as of October 31, 2002 among the Registrant and certain of its Subsidiaries, Comerica Bank - California and U.S. Bank Trust, National Association.	8-K	1-13290	11/

10.72	Waiver of Covenant Compliance Letter from Comerica Bank - California dated March 26, 2003.	10-K	1-13290	03/
21.1	Subsidiaries of the Registrant.	10-K	1-13290	03/
23.1	Consent of KPMG LLP.			
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes - Oxley Act of 2002.	10-K	1-13290	03/

Compensation agreement or plan.

(b) Reports on Form 8-K

The following reports on Form 8-K were filed from October 1, 2002 through March 31, 2003:

o On November 12, 2002, we filed a report on Form 8-K stating that we amended our loan agreement with Comerica Bank - California to extend the maturity date to November 1, 2003 and to add KASCY, L.P., an affiliate of Kayne Anderson Capital Advisors, L.P. as a lending participant in the credit facility.

o On December 12, 2002, we filed a report on Form 8-K announcing that our Board of Directors had approved the formation of a special committee comprised of its independent directors to explore strategic alternatives, including a possible "going private" transaction in which certain of our principal shareholders may participate.

o On December 13, 2002, we filed a report on Form 8-K/A to also disclose that we engaged Hankin & Company, a Los Angeles based investment banking firm, to assist us in raising up to $50.0 million in private equity to establish separate joint ventures for the development of smaller luxury sports and fitness complexes under The Sports Club/LA brand.

o On December 19, 2002, we filed a report on Form 8-K to announce we reached an agreement in principle with Millennium to develop an approximately 45,000 square foot sports and fitness Club under our brand name The Sports Club/LA as part of Millennium's mixed use project in Miami, Florida. We expect to manage the new Club pursuant to a management and license agreement that will provide us with 6% of gross revenues and a participation in net profits.

(c) Exhibits

Index to Exhibits of Form 10-K/A

Exhibit Number	Exhibit

23.1 Consent of KPMG LLP.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized, on the 25th day of June 2003.

THE SPORTS CLUB COMPANY, INC.

/s/ D. Michael Talla

D. Michael Talla
Co-Chief Executive Officer

/s/ Rex A. Licklider

Rex A. Licklider
Co-Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K/A has been signed below by the following persons on behalf of the Registrant, in the capacities and on the date indicated.

Signature	Title	Date
/s/ D. Michael Talla D. Michael Talla	Chairman of the Board and Co-Chief Executive Officer	June 26, 2003
/s/ Rex A. Licklider Rex A. Licklider	Vice Chairman of the Board and Co-Chief Executive Officer	June 26, 2003
/s/ Timothy O'Brien Timothy M. O'Brien	Chief Financial Officer (Principal Financial and Accounting Officer)	June 26, 2003
/s/ Brian J. Collins Brian J. Collins	Director	June 26, 2003
/s/ Nanette Pattee Francini	Director	June 26, 2003

Nanette Pattee Francini

/s/ Andrew L. Turner ---------------------------- Andrew L. Turner	Director	June 26, 2003
/s/ George Vasilakos ---------------------------- George Vasilakos	Director	June 26, 2003
/s/ Charles Norris ---------------------------- Charles Norris	Director	June 26, 2003

CERTIFICATIONS

I, D. Michael Talla, certify that:

1. I have reviewed this annual report on Form 10-K/A of The Sports Club Company, Inc.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers 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 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 annual 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 annual report (the "Evaluation Date"); and
   (c) Presented in this annual 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 officers 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 (or persons performing the

equivalent functions):

(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 officers and I have indicated in this annual report whether 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.

Dated, June 26, 2003

/s/ D. Michael Talla

D. Michael Talla
Co-Chief Executive Officer

CERTIFICATIONS

I, Rex A. Licklider, certify that:

1. I have reviewed this annual report on Form 10-K/A of The Sports Club Company, Inc.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers 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 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 annual 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 annual report (the "Evaluation Date"); and

(c) Presented in this annual 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 officers 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 (or persons performing the equivalent functions):

   (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 officers and I have indicated in this annual report whether 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.

Dated, June 26, 2003

/s/ Rex A. Licklider

Rex A. Licklider
Co-Chief Executive Officer

CERTIFICATIONS

I, Timothy O'Brien, certify that:

1. I have reviewed this annual report on Form 10-K/A of The Sports Club Company, Inc.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers 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 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 annual 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 annual report (the "Evaluation Date"); and

(c) Presented in this annual 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 officers 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 (or persons performing the equivalent functions):

   (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 officers and I have indicated in this annual report whether 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.

Dated, June 26, 2003

/s/ Timothy O'Brien

Timothy O'Brien
Chief Financial Officer

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EXHIBIT 23.1

Independent Auditors' Consent

The Board of Directors
The Sports Club Company, Inc.

We consent to incorporation by reference in the Registration Statement (No. 333-26421) on Form S-8 and the Registration Statement (No. 333-38459) on Form S-3 of The Sports Club Company, Inc. of our report dated February 21, 2003, except for note 19, which is as of June 12, 2003, relating to the consolidated balance sheets of The Sports Club Company, Inc as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and the related financial statement schedule, and cash flows for each of the years in the three-year period ended December 31, 2002, which report appears in the December 31, 2002 annual report on Form 10-K/A of The Sports Club Company, Inc. Our report refers to a restatement of the 2001 balance sheet and an adjustment to accumulated deficit as of January 1, 2000 and December 31, 2000 to properly record certain deferred membership revenues. Our report also refers to a restatement of the consolidated financial statements including adjustments to properly record deferred revenues for advanced payments received for private training services, certain operating expenses and the tax impacts of the Company's restatements. Finally, our report refers to a change in the method of accounting for goodwill and other intangible assets as a result of the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002.

KPMG LLP

Los Angeles, California
June 26, 2003