TOWN SPORTS INTERNATIONAL HOLDINGS INC
Form 10-Q
July 30, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2009

or

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

For the Transition period from to .

Commission File Number 000-52013

TOWN SPORTS INTERNATIONAL HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

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

5 Penn Plaza (4th Floor)
New York, New York 10001
Telephone: (212) 246-6700

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

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

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of July 24, 2009, there were 22,596,084 shares of Common Stock of the registrant outstanding.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES
FORM 10-Q
For the Quarter Ended June 30, 2009
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TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
June 30, 2009 and December 31, 2008
(In $ 000s, except share data)
(Unaudited)

	June 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,759	$ 10,399
Accounts receivable (less allowance for doubtful accounts of $3,246 and $3,001 as of June 30, 2009 and December 31, 2008, respectively)	5,537	4,508
Inventory	246	143
Prepaid income taxes	2,453	8,116
Prepaid expenses and other current assets	13,028	14,154
Total current assets	34,023	37,320
Fixed assets, net	368,452	373,120
Goodwill	32,593	32,610
Intangible assets, net	257	281
Deferred tax asset, net	44,740	42,266
Deferred membership costs	9,802	14,462
Other assets	9,897	11,579
Total assets	$ 499,764	$ 511,638
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 6,850	$ 20,850
Accounts payable	7,697	7,267
Accrued expenses	32,983	35,565
Accrued interest	6,674	523
Deferred revenue	40,341	40,326
Total current liabilities	94,545	104,531
Long-term debt	317,438	317,160
Deferred lease liabilities	72,878	69,719
Deferred revenue	2,593	4,554
Other liabilities	12,910	14,902
Total liabilities	500,364	510,866
Commitments and contingencies (Note 9)		
Stockholders (deficit) equity:		
Common stock, $.001 par value; issued and outstanding 22,596,084 and 24,627,779 shares at June 30, 2009 and December 31, 2008, respectively	23	25
Paid-in capital	(23,436)	(18,980)
Accumulated other comprehensive income (currency translation adjustment)	993	1,070

Retained earnings		21,820		18,657
Total stockholders (deficit) equity		(600)		772
Total liabilities and stockholders (deficit) equity	$	499,764	$	511,638

See notes to the condensed consolidated financial statements.

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For the three and six months ended June 30, 2009 and 2008
(In $ 000s except share and per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues:				
Club operations	$ 122,620	$ 127,729	$ 248,088	$ 252,636
Fees and other	1,292	1,664	2,533	3,077
	123,912	129,393	250,621	255,713
Operating Expenses:				
Payroll and related	48,246	48,653	98,993	97,057
Club operating	45,054	41,521	91,664	84,401
General and administrative	7,488	8,895	15,835	17,201
Depreciation and amortization	14,346	12,716	28,642	25,365
Impairment of fixed assets		1,142	1,131	1,142
	115,134	112,927	236,265	225,166
Operating income	8,778	16,466	14,356	30,547
Interest expense	5,289	5,633	10,566	12,147
Interest income		(74)	(1)	(215)
Equity in the earnings of investees and rental income	(398)	(620)	(1,009)	(1,067)
Income before provision for corporate income taxes	3,887	11,527	4,800	19,682
Provision for corporate income taxes	1,363	4,726	1,637	8,070
Net income	$ 2,524	$ 6,801	$ 3,163	$ 11,612
Earnings per share:				
Basic	$ 0.11	$ 0.26	$ 0.14	$ 0.44
Diluted	$ 0.11	$ 0.26	$ 0.14	$ 0.44
Weighted average number of shares used in calculating earnings per share:				
Basic	22,546,449	26,417,859	22,875,107	26,361,758
Diluted	22,592,436	26,488,634	22,924,421	26,422,359
Statements of Comprehensive Income				
Net income	$ 2,524	$ 6,801	$ 3,163	$ 11,612
Foreign currency translation adjustments	243	(245)	(77)	457
Comprehensive income	$ 2,767	$ 6,556	$ 3,086	$ 12,069

See notes to the condensed consolidated financial statements.

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended June 30, 2009 and 2008
(In $ 000s)
(Unaudited)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Cash flows from operating activities:		
Net income	$ 3,163	$ 11,612
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,642	25,365
Impairment of fixed assets	1,131	1,142
Non-cash interest expense on Senior Discount Notes	1,203	6,782
Amortization of debt issuance costs	406	387
Noncash rental expense, net of noncash rental income	(667)	741
Compensation expense incurred in connection with stock options and common stock grants	841	500
Net changes in certain operating assets and liabilities	10,945	9,363
Increase in deferred tax asset	(2,474)	(3,600)
Landlord contributions to tenant improvements	2,993	3,338
Change in reserve for self-insured liability claims	301	1,056
Decrease in deferred membership costs	4,660	724
Other	(134)	(97)
Total adjustments	47,847	45,701
Net cash provided by operating activities	51,010	57,313
Cash flows from investing activities:		
Capital expenditures	(28,485)	(44,542)
Insurance Proceeds		1,074
Net cash used in investing activities	(28,485)	(43,468)
Cash flows from financing activities:		
Proceeds from borrowings on Revolving Loan Facility	5,000	
Repayment of borrowings on Revolving Loan Facility	(19,000)	(9,000)
Repayment of long-term borrowings	(925)	(973)
Change in book overdraft	126	(583)
Repurchase of common stock	(5,355)	
Proceeds from exercise of stock options	36	1,187
Tax benefit from stock option exercises	21	173
Net cash used in financing activities	(20,097)	(9,196)

Effect of exchange rate changes on cash	(68)	394
Net increase in cash and cash equivalents	2,360	5,043
Cash and cash equivalents at beginning of period	10,399	5,463
Cash and cash equivalents at end of period	$ 12,759	$ 10,506
Summary of change in certain operating assets and liabilities:		
(Increase) decrease in accounts receivable	$ (1,035)	$ 1,394
Increase in inventory	(103)	(68)
Decrease (increase) in prepaid expenses and other current assets	1,581	(840)
Increase in accounts payable, accrued expenses and accrued interest	452	4,026
Increase in accrued interest on Senior Discount Notes	6,346	
Change in corporate income taxes	5,648	699
(Decrease) increase in deferred revenue	(1,944)	4,152
Net changes in certain operating assets and liabilities	$ 10,945	$ 9,363
Supplemental disclosures of cash flow information:		
Cash payments for interest	$ 3,046	$ 5,587
Cash payments for income taxes	$ 880	$ 10,809

See notes to the condensed consolidated financial statements.

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In $ 000s except share and per share data)
(Unaudited)

1. Basis of Presentation

As of June 30, 2009, Town Sports International Holdings, Inc. (the Company or TSI Holdings), through its wholly-owned subsidiary, Town Sports International, LLC (TSI LLC), operated 166 fitness clubs (clubs) comprised of 111 clubs in the New York metropolitan market under the New York Sports Clubs brand name, 26 clubs in the Boston market under the Boston Sports Clubs brand name, 19 clubs (two of which are partly-owned) in the Washington, D.C. market under the Washington Sports Clubs brand name, seven clubs in the Philadelphia market under the Philadelphia Sports Clubs brand name, and three clubs in Switzerland. The Company operates in a single segment.

The condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). The condensed consolidated financial statements should be read in conjunction with the Company s December 31, 2008 consolidated financial statements and notes thereto, included in the Company s Annual Report on Form 10-K, as filed on March 5, 2009 with the SEC. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP). Certain information and footnote disclosures that are normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to SEC rules and regulations. The information reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the interim periods set forth herein. The results for the three and six months ended June 30, 2009 are not necessarily indicative of the results for the entire year ending December 31, 2009.

Certain reclassifications were made to the reported amounts for the three and six months ended June 30, 2008 to conform to the presentation for the three and six months ended June 30, 2009.

Initiation fees and related direct expenses, primarily sales commissions and a percentage at salaries payable to membership consultants, are deferred and recognized, on a straight-line basis, in operations over the estimated membership life. As of April 1, 2009, we changed our estimated membership life from 30 months to 28 months. The change in estimated membership life is principally due to an unfavorable trend in membership retention rates. If the estimated membership life had remained at 30 months for the three months ended June 30, 2009, the impact would have been a decrease in net income of approximately $23.

2. Recent Accounting Changes

In June 2009, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles-a replacement of FASB No. 162*, (the Codification). The Codification will become the single source of authoritative GAAP recognized by the FASB to be applied by non-governmental agencies. The Codification will supersede then-existing accounting and reporting standards such as FASB Statements, FASB Staff Positions and Emerging Task Force Abstracts. The Codification is effective for financial statements issued for interim and annual periods ended after September 15, 2009. The Codification will only impact our financial statement reference disclosures in future filings and does not change the application of GAAP.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS 165 sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for the second quarter of 2009 for the Company and did not have a material impact on its Consolidated Financial Statements. In that regard, the Company performed an evaluation of subsequent events through July 30, 2009, the date the financial statements were issued. The required disclosures are included in Note 11-Subsequent Event.

On April 9, 2009, the FASB issued FSP FAS 107-1 and Accounting Principles Board APB) 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This statement requires disclosures about the fair value of financial instruments for annual and interim reporting periods of publicly traded companies. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 and APB 28-1 is effective for interim reporting periods ending after June 15, 2009. The required disclosures are included in Note 3-Long-Term Debt to the consolidated financial statements in this Form 10-Q.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS 157 was effective January 1, 2008 for the Company. On February 12, 2008, the FASB issued FASB Position No. FAS 157-2, Effective Date of FASB Statement No. 157 (SFAS 157-2) delaying the effective date by one year for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The implementation of SFAS 157 for financial assets and financial liabilities did not impact the Company s Consolidated Financial Statements and did not have an impact on the Company s non-financial assets and non-financial liabilities on its Consolidated Financial Statements as of June 30, 2009.

3. Long-Term Debt

	June 30, 2009	December 31, 2008
Term Loan Facility	$ 180,838	$ 181,763
Revolving Loan Facility borrowings	5,000	19,000
11% Senior Discount Notes	138,450	137,247
	324,288	338,010
Less current portion to be paid within one year	6,850	20,850
Long-term portion	$ 317,438	$ 317,160

On February 27, 2007, TSI Holdings and TSI LLC entered into a $260,000 senior secured credit facility (the 2007 Senior Credit Facility). The 2007 Senior Credit Facility consisted of a $185,000 term loan facility (the Term Loan Facility) and a $75,000 revolving credit facility (the Revolving Loan Facility).

On July 15, 2009, the Company and TSI LLC entered into the First Amendment to the 2007 Senior Credit Facility (the Amendment), which amends the definition of Consolidated EBITDA , as defined in the 2007 Senior Credit Facility to permit TSI LLC (as Borrower), solely for purposes of determining compliance with the maximum total leverage ratio covenant, to add back the amount of non-cash charges relating to the impairment or write-down of fixed assets, intangible assets and goodwill. The Amendment also reduced the total Revolving Loan Facility by 15%, from $75,000 to $63,750. Additionally, the Company incurred an aggregate of approximately $615 in fees and expenses related to the Amendment.

Borrowings under the Term Loan Facility, at TSI LLC s option, bear interest at either the administrative agent s base rate plus 0.75% or its Eurodollar rate plus 1.75%, each as defined in the 2007 Senior Credit Facility. As of June 30, 2009, TSI LLC had elected the Eurodollar rate option, equal to 2.1% as of June 30, 2009. Interest calculated under the base rate option would have equaled 4.0% as of June 30, 2009, if TSI LLC had elected this option. The Term Loan Facility matures on the earlier of February 27, 2014, or August 1, 2013 if the 11% Senior Discount Notes are still outstanding as of that date.

The Revolving Loan Facility contains a maximum total leverage covenant ratio, as defined in the 2007 Senior Credit Facility, of 4.25:1.00, which covenant is subject to compliance, on a consolidated basis, only during the period in which borrowings and letters of credit are outstanding thereunder. As of June 30, 2009, the leverage ratio, as defined under the Amendment, was 2.05:1.00. Borrowings under the Revolving Loan Facility currently, at TSI LLC s option, bear interest at either the administrative agent s base rate plus 1.25% or its Eurodollar rate plus 2.25%, each as defined in the 2007 Senior Credit Facility. As of June 30, 2009, there were $5,000 in borrowings outstanding at the base interest rate option of 4.5%. There were outstanding letters of credit issued of $13,284. The unutilized portion of the Revolving Loan Facility as of June 30, 2009 was $56,716 and would have been $45,466 after giving effect to the reduction of the Revolving Loan Facility under the Amendment. The Revolving Loan Facility expires on February 27, 2012.

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Fair Market Value

Based on quoted market prices, the Senior Discount Notes had a fair value of approximately $70,956 and $83,070 at June 30, 2009 and December 31, 2008 respectively. The Term Loan Facility had fair values of approximately $144,670 and $126,034 at June 30, 2009 and December 31, 2008, respectively. The Company had short-term debt of $5,000 and $19,000 outstanding under the Revolving Loan Facility at June 30, 2009 and December 31, 2008, respectively, which approximates fair value as of such dates.

4. Earnings Per Share

Basic earnings per share is computed by dividing net income applicable to common shareholders by the weighted average numbers of shares of the Company s common stock, par value $0.001 per share (Common Stock) outstanding during the period. Diluted earnings per share is computed similarly to basic earnings per share, except that the denominator is increased to account for the assumed exercise of dilutive stock options and restricted stock using the treasury stock method.

The Company did not include stock options to purchase 1,077,365 and 804,432 shares for the three months ended June 30, 2009 and 2008, respectively and 1,129,165 and 933,200 shares for the six months ended June 30, 2009 and 2008, respectively, of the Company s Common Stock in the calculations of diluted earnings per share because the exercise prices of those options were greater than the average market price over the respective periods and their inclusion would be anti-dilutive.

The following table summarizes the weighted average number of shares of Common Stock for basic and diluted earnings per share computations.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2009	**2008**	**2009**	**2008**
Weighted average number of shares of Common Stock outstanding basic	22,546,449	26,417,859	22,875,106	26,361,758
Effect of diluted stock options and restricted Common Stock	45,987	70,775	49,315	60,601
Weighted average number of shares of Common Stock outstanding diluted	22,592,436	26,488,634	22,924,421	26,422,359

5. Common Stock and Stock-Based Compensation

The Company s 2006 Stock Incentive Plan, as amended and restated (the 2006 Plan), authorizes the Company to issue up to 2,500,000 shares of Common Stock to employees, non-employee directors and consultants pursuant to awards of stock options, stock appreciation rights, restricted stock, in payment of performance shares or other stock-based awards. Under the 2006 Plan, stock options must be granted at a price not less than the fair market value of the stock on the date the option is granted, generally are not subject to re-pricing, and will not be exercisable more than ten years after the date of grant. Options granted under the 2006 Plan generally qualify as non-qualified stock options under the U.S. Internal Revenue Code of 1986, as amended. The 2006 Plan was approved by stockholders at the 2008 Annual Meeting of Stockholders on May 15, 2008. Certain options granted under the Company s 2004 Common Stock Option Plan, as amended, (the 2004 Plan), generally qualify as incentive stock options under the U.S. Internal Revenue Code; the exercise price of a stock option granted under this plan may not be less than the fair market value of Common Stock on the option grant date.

At June 30, 2009, the Company had 312,400 and 1,411,940 shares of restricted stock and stock options outstanding under its 2004 Plan and the 2006 Plan, respectively.

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Option Grants

Options granted during the six months ended June 30, 2009 to employees of the Company and members of the Company s Board of Directors were as follows:

Date	Number of Options	Exercise Price	Black-Scholes Valuation	Volatility	Dividend Yield	Risk Free Interest Rate	Expected Term (Years)
January 2, 2009	7,000	$3.21	$ 1.94	69.2%	0.0%	1,81%	5.50
January 20, 2009	12,750	$2.51	$ 1.63	71.8%	0.0%	1.71%	6.25
Total	19,750						

There were no options granted during the three months ended June 30, 2009.

The total compensation expense, classified within Payroll and related on the condensed consolidated statements of operations, related to options outstanding under the 2006 Plan and the 2004 Plan was $393 and $778 for the three and six months ended June 30, 2009, respectively, and $235 and $456 for the three and six months ended June 30, 2008, respectively.

As of June 30, 2009, a total of $2,255 in unrecognized compensation cost related to stock options is expected to be recognized, depending upon the likelihood that accelerated vesting targets are met in future periods, over a weighted-average period of 3.1 years.

Restricted Stock Grants

The total compensation expense, classified within Payroll and related on the condensed consolidated statements of operations, related to restricted stock granted under the 2006 Plan and the 2004 Plan was $14 and $27 for the three and six months ended June 30, 2009, respectively, and $2 for the three and six months ended June 30, 2008.

As of June 30, 2009, a total of $139 in unrecognized compensation expense related to restricted stock grants is expected to be recognized through December 4, 2012. There were no restricted stock granted during the six months ended June 30, 2009.

6. Fixed Asset Impairment and Club Closures

Fixed assets are evaluated for impairment periodically whenever events or changes in circumstances indicate that related carrying amounts may not be recoverable from undiscounted cash flows in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). The Company s long-lived assets and liabilities are grouped at the individual club level which is the lowest level for which there is identifiable cash flow. To the extent that estimated future undiscounted net cash flows attributable to the assets are less than the carrying amount, an impairment charge equal to the difference between the carrying value of such asset and its fair value is recognized. In the three months ended March 31, 2009, the Company recorded $1,131 of impairment charges. In the three months ended June 30, 2009, the Company tested 13 underperforming clubs, which passed the SFAS 144 impairment test. These 13 clubs have $16,335 of fixed assets remaining as of June 30, 2009.

The impairment losses are included as a separate line in operating income on the consolidated statement of operations. In June 2009, the Company recorded early lease termination costs of $411 related to a club closure prior to its lease expiration date.

7. Goodwill and Other Intangibles

The Company s goodwill is related to the New York Sports Clubs trade name and other certain remote clubs that do not benefit from being part of a regional cluster and are therefore considered single reporting units.

In the three months ended March 31, 2009, the Company performed its annual impairment test. The test was performed as a roll-forward of the December 31, 2008 test. Please refer to Note 5 - Goodwill and Intangible Assets to the consolidated financial statements in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008 for information on the specific assumptions used. The assumptions used did not change as there were no significant changes in the business since the test performed as of December 31, 2008. Goodwill impairment testing requires a comparison between the carrying value and fair value of reportable goodwill. If the carrying value exceeds the fair value, goodwill is considered impaired. The amount of the impairment loss

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is measured as the difference between the carrying value and the implied fair value of goodwill, which is determined using discounted cash flows. The 2009 impairment test supported the recorded goodwill balances and as such no impairment of goodwill was required. The valuation of intangible assets requires assumptions and estimates of many critical factors, including revenue and market growth, operating cash flows and discount rates. Adverse changes in expected operating results and/or unfavorable changes in other economic factors used to estimate fair values could result in a material non-cash impairment charge in the future. Given the current economic environment and the uncertainties regarding the impact on the Company s business, there can be no assurance that the Company s estimates and assumptions regarding the duration of the ongoing economic downturn, or the period or strength of recovery, made for purposes of the Company s goodwill impairment testing as of March 31, 2009 will prove to be accurate predictions of the future. If the Company s assumptions regarding forecasted revenue or margin growth rates of certain reporting units are not achieved, the Company may be required to record goodwill impairment charges in future periods, whether in connection with the Company s next annual impairment testing in the quarter ending March 31, 2010 or prior to that period, if any such change constitutes a triggering event outside of the quarter from when the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result. If an impairment were to occur, it would likely result in a write-off of most of the remaining goodwill.
The change in the carrying amount of goodwill from December 31, 2008 through June 30, 2009 was as follows:

Balance as of December 31, 2008	$ 32,610
Changes due to foreign currency exchange rate fluctuations	(17)
Balance as of June 30, 2009	$ 32,593

	As of June 30, 2009		
Acquired Intangible Assets	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Intangibles**
Covenants-not-to-compete	$ 1,508	$ (1,251)	$ 257

	As of December 31, 2008		
Acquired Intangible Assets	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Intangibles**
Membership lists	$ 10,890	$ (10,836)	$ 54
Covenants-not-to-compete	1,687	(1,460)	227
	$ 12,577	$ (12,296)	$ 281

The amortization expense of the above acquired intangible assets for each of the three years ending June 30, 2012 is as follows:

Aggregate Amortization Expense for the twelve months ending June 30,	
2010	$ 179
2011	67
2012	11