TOWN SPORTS INTERNATIONAL HOLDINGS INC
Form S-1
July 06, 2005

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As filed with the Securities and Exchange Commission on July 6, 2005
Registration No. 333-

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

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Town Sports International Holdings, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**7997**	**20-0640002**
(State or other jurisdiction of incorporation or organization)	(Primary standard industrial classification code number)	(I.R.S. employer identification number)

888 Seventh Avenue (25th Floor)
New York, New York 10106
(212) 246-6700
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Robert J. Giardina
Chief Executive Officer
Town Sports International Holdings, Inc.
888 Seventh Avenue (25th Floor)
New York, New York 10106
(212) 246-6700
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

Julie M. Allen, Esq. **James P. Gerkis, Esq.** **Proskauer Rose LLP** **1585 Broadway** **New York, New York 10036** **Telephone: (212) 969-3000** **Facsimile: (212) 969-2900**	**William M. Hartnett, Esq.** **Cahill Gordon & Reindel llp** **80 Pine Street** **New York, New York 10005** **Telephone: (212) 701-3000** **Facsimile: (212) 269-5420**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o _______

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o _______

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o _______

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Common Stock, par value $0.001 per share	$172,500,000	$20,303.25

(1) Estimated solely for purpose of calculating the registration fee for this offering in accordance with Rule 457(o) under the Securities Act of 1933, as amended.

(2) Calculated pursuant to Rule 457(o) based on an estimate of the proposed maximum aggregate offering price.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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SUBJECT TO COMPLETION, DATED JULY 6, 2005

Shares

Common Stock

We are selling shares of common stock. Prior to this offering, there has been no public market for our common stock. The initial public offering price of the common stock is expected to be between $ and $ per share. We will apply to list our common stock on The NASDAQ National Market under the symbol CLUB.

The underwriters have an option to purchase a maximum of additional shares from the selling stockholders to cover over-allotments of shares. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholders.

Investing in our common stock involves risks. See Risk Factors on page 11.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Town Sports
Per share	$	$	$
Total	$	$	$

Delivery of the shares of common stock will be made on or about , 2005.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston **Deutsche Bank Securities**

Goldman, Sachs & Co.

The date of this prospectus is , 2005

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

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PROSPECTUS SUMMARY

This summary highlights the information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, especially the risks of investing in our common stock discussed in the Risk Factors section of this prospectus and our consolidated financial statements and the related notes appearing at the end of this prospectus, before making an investment decision.

Our Company

We are one of the two leading owners and operators of fitness clubs in the Northeast and Mid-Atlantic regions of the United States and the third largest fitness club operator in the United States, in each case as measured by number of clubs. As of March 31, 2005, we owned and operated 138 fitness clubs and partly owned and operated two fitness clubs. These 140 clubs collectively served approximately 398,000 members. We have developed and refined our urban-commuter fitness club model through our clustering strategy, offering fitness clubs close to our members work and home. Our club model targets the upper value market segment, comprising individuals aged between 21 and 50 with income levels between $50,000 and $150,000 per year. We believe that the upper value segment is not only the broadest segment of the market, but also the segment with the greatest growth opportunities.

Our revenues, operating income, net loss and EBITDA for the twelve months ended March 31, 2005 were $360.7 million, $39.3 million, $1.7 million and $78.4 million, respectively. Our revenues, operating income, net loss and EBITDA for the year ended December 31, 2004 were $353.0 million, $34.3 million, $3.9 million and $72.7 million, respectively. Our revenues, operating income, net income and EBITDA for the three months ended March 31, 2005 were $93.8 million, $9.6 million, $0.2 million and $19.8 million, respectively.

Our goal is to be the most recognized health club network in each of the four major metropolitan regions we serve. We believe that our strategy of clustering clubs provides significant benefits to our members and allows us to achieve strategic operating advantages. In each of our markets, we have developed clusters by initially opening or acquiring clubs located in the more central urban markets of the region and then branching out from these urban centers to suburbs and neighboring communities. Capitalizing on this clustering of clubs, as of March 31, 2005, approximately half of our members participated in our passport membership plan that allows unlimited access to all of our clubs in our clusters for a higher monthly membership fee.

We have executed our clustering strategy successfully in the New York region through the network of fitness clubs we operate under our New York Sports Clubs brand name. We are the largest fitness club operator in Manhattan with 37 locations (more than twice as many as our nearest competitor) and operate a total of 94 clubs under the New York Sports Clubs brand name within a 50 mile radius of New York City. We operate 19 clubs in the Boston region under our Boston Sports Clubs brand name, 18 clubs in the Washington, D.C. region under our Washington Sports Clubs brand name and have begun establishing a similar cluster in the Philadelphia region with six clubs under our Philadelphia Sports Clubs brand name. In addition, we operate three clubs in Switzerland. We employ localized brand names for our clubs to create an image and atmosphere consistent with the local community and to foster recognition as a local network of quality fitness clubs rather than a national chain.

Over our 31-year history, we have developed and refined a model club format, which we call fitness-only, that allows us to cost-effectively construct and efficiently operate our fitness clubs. The average size of our clubs is approximately 24,000 square feet. Clubs typically have an open fitness area to accommodate cardiovascular and strength-training exercise, as well as special purpose rooms for group fitness class instruction and other exercise programs, as well as massage. Locker rooms generally include saunas and steam rooms, as well as daily and rental lockers. We seek to provide a broad array of high-quality exercise programs and equipment that are popular and effective, promoting the quality exercise experience that we strive to make available to our members. When developing clubs, we carefully examine the potential membership base and the likely demand for supplemental offerings such as squash, basketball, racquetball,

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tennis or swimming and, provided suitable real estate is available, we will add these offerings to our fitness-only model. For example, a suburban club in a family market may include Sports Clubs for Kids programs, which can include swim lessons and sports camps.

Industry Overview

Total U.S. fitness club industry revenues increased at a compound annual growth rate, or CAGR, of 7.7% from $6.5 billion in 1993 to $14.8 billion in 2004, according to the International Health, Racquet and Sportsclub Association, or IHRSA. Total U.S. fitness club memberships increased at a compound annual growth rate of 5.5% from 22.9 million in 1993 to 41.3 million in 2004, according to IHRSA.

U.S. Fitness Club Industry Revenues
($ in billions)
IHRSA Profiles of Success 2004; IHRSA Global Report 2005.

U.S. Fitness Club Memberships
(in millions)
IHRSA/ American Sports Data Health Club Trend Report.

Demographic trends have helped drive the growth experienced by the fitness industry over the past decade. The industry has benefited from the aging of the baby boomer generation and the coming of age of their offspring, the echo boomers (ages eight to 26). Government-sponsored reports, such as the Surgeon General s Report on Physical Activity & Health (1996) and the Call to Action to Prevent and Decrease Overweight and Obesity (2001), have helped to increase the general awareness of the benefits of physical exercise to these demographic segments over those of prior generations. Membership penetration (defined as club members as a percentage of the total U.S. population over the age of six) has increased significantly from 7.4% in 1990 to 14.0% in 2003, according to the IHRSA/ American Sports Data Health Club Trend Report.

Notwithstanding these longstanding growth trends, the fitness club industry continues to be highly fragmented. Less than 10.0% of clubs in the United States are owned and operated by companies that own more than 25 clubs, and the two largest fitness club operators each generate less than 7.0% of total United States fitness club revenues, according to management estimates.

As a large operator with recognized brand names, leading regional market shares and an established operating history, we believe we are well positioned to benefit from these favorable industry dynamics.

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Competitive Strengths

We believe the following competitive strengths are instrumental to our success:

Strong market position with leading brands. We are the third largest fitness club operator in the United States, as measured by number of clubs. We are also one of the two leading owners and operators of fitness clubs in the Northeast and Mid-Atlantic regions of the United States. We are the largest fitness club owner and operator in the New York and Boston regions, and we believe we are the second largest owner and operator in the Washington, D.C. region and the third largest in the Philadelphia region. We attribute our leadership positions in these markets in part to the strength of our localized brand names, which foster recognition as a local network of quality fitness clubs.

Regional clustering strategy providing significant benefits to members. By operating a network of clubs in a concentrated geographic area, the value of our memberships is enhanced by our ability to offer members access to any of our clubs through our Passport Membership, which provides the convenience of having fitness clubs near a member s work and home. Approximately half of our members have a Passport Membership plan, and because these memberships offer enhanced privileges and greater convenience, they generate higher monthly dues than single club memberships. Regional clustering also allows us to provide special facilities within a local area, such as swimming pools and squash, tennis and basketball courts, without offering them at every location. In addition, our regional clustering strategy is attractive to corporations seeking group memberships.

Regional clustering strategy designed to maximize revenues and achieve economies of scale. We believe our regional clustering strategy allows us to maximize revenue and earnings growth by providing high-quality, conveniently located fitness facilities on a cost-effective basis while making it more difficult for potential new entrants into our markets. Regional clustering has allowed us to create an extensive network of clubs in our core markets, in addition to a widely recognized brand with strong local identity. We believe that potential new entrants would need to establish or acquire a large number of clubs in a market to effectively compete with us. We believe that this would be difficult given the relative scarcity of suitable sites in our markets. Our clustering strategy also enables us to achieve economies of scale with regard to sales, marketing, purchasing, general operations and corporate administrative expenses, and to reduce our capital spending needs.

Expertise in site selection and development process. We believe that our expertise in site selection and development provides a significant advantage over our competitors given the real estate markets in the cities in which we operate and the relative scarcity of suitable sites. Before opening or acquiring a new club, we undertake a rigorous process involving demographic and competitive analysis, financial modeling, site selection and negotiation of lease and acquisition terms to ensure that a location meets our criteria for a model club. We believe our flexible club formats are well suited to the challenging real estate environments in our markets.

Proven and predictable club-level economic model. We have established a track record of consistent growth in revenue and profitability across our club base. We opened or acquired 61 clubs between January 1, 1996 and December 31, 1999. Of these, our wholly owned clubs that have been in operation from January 1, 2000 through December 31, 2004 generated revenues and operating income (after corporate expenses allocated on a revenue basis) of $157.6 million and $22.4 million, respectively, during the year ended December 31, 2004, as compared to $132.1 million and $9.8 million, respectively, during the year ended December 31, 2000. We believe that the track record of our mature clubs provides a reasonable basis for expected improved performance in our recently opened clubs and continued investment in new clubs. In addition, for the year ended December 31, 2004, and the three months ended March 31, 2005, revenues from clubs that have been open for more than 24 months grew at 2.1% and 4.8%, respectively. Further, we have demonstrated our ability to deliver similar club-level returns in varying club formats and sizes.

Experienced management team. We believe that our management team is one of the most experienced management teams in the industry. Our four senior executives have over 75 years of combined experience in the fitness club industry and have been working together at Town Sports since 1990. We believe that our management has the depth, experience and motivation to manage our growth. In the aggregate, our entire management team owns approximately 29% of our common stock before this offering, and will own % of our common stock after this offering, in each case on a fully diluted basis.

Business Strategy

We intend to continue to grow our revenues, earnings and cash flows using the following strategies:

Drive comparable club revenue and profitability growth. In each of the last four quarters ended March 31, 2005, comparable club revenue growth has increased as follows: 1.6%, 4.1%, 4.6% and 6.0%. We define comparable club revenue as revenue at those clubs that were operated by us for over 12 months and comparable club revenue growth as revenue for the thirteenth month and thereafter as applicable as compared to the same period at the prior year. For the year ended December 31, 2004, comparable club revenue growth was 2.5%. From April 1, 2004 to March 31, 2005, our comparable club revenues increased by an average of 4.1% per quarter as a result of our recent strategic initiatives, including our new commit membership plan and focus on growing ancillary revenues. The commit membership model that we recently implemented encourages new members to commit to a one- or two-year membership at a discount to our month-to-month plan. Since the implementation of the new membership model, attrition rates have declined dramatically and comparable club revenues have increased. We intend to capitalize on this recent momentum to drive revenue and profitability growth by increasing our membership base as well as the amount of revenue that we generate from each member. Our margins will also continue to improve as the positive comparable club revenue growth allows us to leverage our fixed-cost base.

Increase number of clubs by expanding within regional clusters. We intend to strengthen our market position and to increase revenues and earnings in our existing markets through the opening of new clubs and the acquisition of existing clubs. Our expertise in the site selection and development process combined with our proven and predictable club-level economic model enables us to generate significant returns from the opening of new clubs. We have currently identified over 100 urban and suburban locations in our existing markets that we believe possess the criteria for a model club. In addition, we have identified further growth opportunities in secondary markets located near our existing markets.

Grow ancillary and other non-membership revenues. We intend to grow our ancillary and other non-membership revenues through a continued focus on increasing the additional value-added services that we provide to our members as well as capitalizing on the opportunities for other non-membership revenues such as in-club advertising and retail sales. Non-membership revenues have increased from $32.4 million, or 14.5% of revenues for the year ended December 31, 2000, to $57.9 million, or 16.4% of revenues for the year ended December 31, 2004. We intend to continue to expand the current range of value-added services and programs that we offer to our members, such as personal training, massage, Sports Clubs for Kids and Group Exclusives. These sources of ancillary and other non-membership revenues generate incremental profits with minimal capital investment and assist in attracting and retaining members.

Realize benefits from maturation of recently opened clubs. From April 1, 2002 to March 31, 2005, we opened or acquired 19 clubs. We believe that our recent financial performance does not fully reflect the benefit of these clubs. Based on our experience, a new club tends to achieve significant increases in revenues during its first three years of operation as the number of members grow. Because there is relatively little incremental cost associated with such increasing revenues, there is a greater proportionate increase in profitability. We believe that the revenues and profitability of these 19 clubs will significantly improve as the clubs reach maturity.

Execute new business initiatives. We continually undertake initiatives to improve our business. For example, we introduced Xpressline, a circuit workout that can be completed in 22 minutes, to make exercise more accessible for busy members. This program as well as other new initiatives increases both convenience and service to members, thereby enhancing our member loyalty. We undertook a statistical multi-variable testing study and found 400 initiatives that could be undertaken to improve our business. Of those, we tested 25 and are currently in the process of implementing seven initiatives in a combination that

we believe will increase our membership and ancillary revenues and reduce attrition. We established a separate corporate sales division in the fourth quarter of 2004 with 20 full-time employees who target or focus on companies with more than 100 workers. In addition, we established an on-line corporate sales program in the first quarter of 2005. We believe these changes will lead to an increase in new corporate memberships in the future. Currently, 20% of our members have corporate memberships.

Company History

We were founded in 1973. Since our four senior executives began working together for us in 1990, through the end of 2004:

- we grew our number of clubs from nine to 140;
- we grew our revenues at a compound annual growth rate of 27.0%, from $10.8 million to $353.0 million;
- we improved our annual operating income from $0.1 million to $34.3 million;
- our annual net loss increased from $0.6 million to $3.9 million; and
- we grew our EBITDA at a compound annual growth rate of 36.0%, from $0.8 million to $72.7 million.

In the mid-1990s, we began a period of rapid growth by acquiring individual clubs and two-to-six club chains in suburban regions. After the terrorist attacks of September 11, 2001, we shifted our focus from growth to improving operations at our existing clubs and understanding the changing market dynamics in the metropolitan areas in which we operated. By 2004, after beginning to see the benefits of our strategic initiatives, including the selling of one-and two-year commit memberships, we returned our focus to the development of new clubs.

Our business is incorporated in the State of Delaware. Our principal executive offices are located at 888 Seventh Avenue (25th Floor), New York, New York 10106. Our telephone number is (212) 246-6700. The address of our principal web site is *www.mysportsclubs.com*. Our web site address is provided for information purposes only and the information contained on our web site does not constitute part of this prospectus.

New York Sports Clubs®, Boston Sports Clubs®, Washington Sports Clubs® and Philadelphia Sports Clubs® are our registered trademarks. This prospectus contains other product names, trademarks, tradenames and service marks of TSI.

In this prospectus, unless otherwise stated or the context otherwise indicates, references to TSI Holdings, Town Sports, TSI, we, us, our and similar references refer to Town Sports International Holdings, Inc. and its subsidiari and references to TSI, Inc. refer to Town Sports International, Inc.

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The Offering

Common stock offered by Town Sports	shares
Common stock offered by the selling stockholders	shares, if the underwriters exercise their over-allotment option in full
Common stock to be outstanding after this offering	shares
Use of proceeds	We intend to use the net proceeds to us from this offering to redeem a portion of our existing senior discount notes and TSI, Inc. s senior notes and pay related premiums and interest thereon through the redemption date. At March 31, 2005, the aggregate principal amount of redeemable debt was approximately $138.7 million. The selling stockholders will receive proceeds only if the underwriters exercise their over-allotment option. We will not receive any proceeds from any sale of shares by the selling stockholders.
Proposed NASDAQ National Market symbol	CLUB

The number of shares of our common stock to be outstanding after this offering is based on 1,309,123 shares of common stock outstanding as of June 1, 2005. Except as otherwise stated, the common stock information we present in this prospectus:

- excludes 88,446 shares of common stock issuable upon exercise of options outstanding as of June 1, 2005 at a weighted average exercise price of $65.51 per share;
- excludes an additional 4,177 shares of common stock reserved for issuance under our stock option plan;
- assumes no exercise of stock options after June 1, 2005; and
- assumes no exercise of the underwriters over-allotment option.

All club data that we present in this prospectus is as of March 31, 2005, except as otherwise stated.

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Summary Consolidated Financial and Other Data
(In thousands, except share, per share, club and membership data)

We present our summary consolidated financial data in the following table to aid you in your analysis of a potential investment in our common stock. The summary consolidated statement of operations data for the years ended December 31, 2002, 2003 and 2004 have been derived from our audited consolidated financial statements included elsewhere herein. The summary consolidated balance sheet data as of March 31, 2005 and the summary consolidated statement of operations data for the three months ended March 31, 2004 and 2005 have been derived from our unaudited consolidated financial statements included elsewhere herein. In the opinion of management, the unaudited information has been prepared substantially on the same basis as our audited consolidated financial statements appearing elsewhere herein and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited consolidated quarterly results of operations and unaudited consolidated balance sheet data. The summary consolidated statement of operations data for the 12 months ended March 31, 2005 have been derived from our audited and unaudited financial statements. Other data and club and membership data for all periods presented have been derived from our unaudited books and records. Our historical results are not necessarily indicative of results for any future period and interim results are not necessarily indicative of results for any future interim period or for a full year. You should read this data in conjunction with the Selected Consolidated Financial and Other Data and Management s Discussion and Analysis of Financial Condition and Results of Operations sections of this prospectus and our consolidated financial statements and the related notes appearing at the end of this prospectus. The pro forma basic and diluted earnings (loss) per share gives effect to the issuance of shares of our common stock in this offering, as if it had occurred at the beginning of the periods presented. The pro forma balance sheet data reflects our sale of shares of our common stock in this offering at an assumed public offering price of $ per share, after deducting the estimated underwriting discounts and commissions and our estimated offering expenses.

	Year Ended December 31,			Twelve Months Ended March 31,	Three Months Ended March 31,	
	2002	2003	2004	2005	2004	2005
Statement of Operations Data:						
Revenues	$ 318,055	$ 341,172	$ 353,031	$ 360,749	$ 86,128	$ 93,846
Total operating expenses	281,334	298,576	318,739	321,499	81,501	84,261
Operating income	36,721	42,596	34,292	39,250	4,627	9,585
Net income (loss)	10,507	7,429	(3,905)	(1,668)	(2,058)	179
Net income (loss) attributable to common stockholders(1)	$ (1,036)	$ (3,555)	$ (4,689)	$ (1,668)	$ (2,841)	$ 179
Earnings (loss) per share:						
Basic	$ (0.83)	$ (2.85)	$ (3.61)		$ (2.26)	$ 0.14
Diluted(2)	$ (0.76)	$ (2.85)	$ (3.61)		$ (2.26)	$ 0.14

Weighted average number of shares used in calculating earnings (loss) per share:					
Basic	1,247,674	1,247,674	1,299,332	1,259,197	1,312,289
Diluted(2)	1,307,228	1,247,674	1,299,332	1,259,197	1,314,562
Pro forma earnings (loss) per share:					
Basic			$		$
Diluted(2)			$		$
Weighted average number of shares used in calculating pro forma earnings (loss) per share:					
Basic					
Diluted(2)					

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	As of March 31, 2005	
	Actual	Pro Forma
Balance Sheet Data:		
Cash and cash equivalents	$ 71,778	$
Working capital	12,149	
Total assets	399,596	
Long-term debt, including current installments	399,963	
Total stockholders (deficit) equity	(117,192)	

	Year Ended December 31,			Twelve Months Ended March 31,	Three Months Ended March 31,	
	2002	2003	2004	2005	2004	2005
Other Data:						
EBITDA(3)	$ 68,385	$ 71,119	$ 72,654	$ 78,368	$ 14,080	$ 19,794
EBITDA margin(4)	21.5%	20.8%	20.6%	21.7%	16.3%	21.1%

	Year Ended December 31,			Twelve Months Ended March 31,	Three Months Ended March 31,	
	2002	2003	2004	2005	2004	2005
Club and Membership Data:						
New clubs opened	8	3	5	5	3	3
Clubs acquired	4		3	3		
Clubs closed, relocated or sold	(2)	(3)				
Wholly owned clubs operated at end of period	127	127	135	138	130	138
Total clubs operated at end of period(5)	129	129	137	140	132	140
Members at end of period(6)	342,000	342,000	383,000	398,000	365,000	398,000
Comparable club revenue increase (decrease)(7)	5.8%	3.5%	2.5%	4.1%	(0.1)%	6.0%
Mature club revenue increase (decrease)(8)	4.1%	1.6%	2.1%	3.3%	(0.5)%	4.8%
Revenue per weighted average club(9)	$ 2,581	$ 2,680	$ 2,680	$ 2,698	$ 668	$ 685

Average revenue per member(10)	964	987	960	957	243	240

(1) Following accreted dividends on preferred stock.

(2) The diluted weighted average number of shares used in calculating earnings (loss) per share is the weighted average number of shares of common stock plus the weighted average conversion of any dilutive common stock equivalents, such as the assumed weighted average exercise of dilutive stock options using the treasury stock method. For the years ended December 31, 2003 and 2004 and the three months ended March 31, 2004, these common stock equivalents were antidilutive and have been excluded from the diluted weighted average number of shares. For the year ended December 31, 2002 and the three months ended March 31, 2005, the shares issuable upon the exercise of stock options were dilutive. The number of shares excluded from the computation of diluted earnings per share was 52,807 and 15,191 for the years ended December 31, 2003 and 2004, respectively, and 38,710 for the three months ended March 31, 2004. For the year ended December 31, 2002 and the three months ended March 31, 2005, non-cash compensation expense of $38 and $9, respectively, has been added back to net income (loss) attributable to common stockholders in determining diluted earnings per share.

The following table summarizes the weighted average number of shares of common stock outstanding for basic and diluted earnings per share computations:

	Year Ended December 31,			Three Months Ended March 31,	
	2002	2003	2004	2004	2005
Weighted average number of shares outstanding basic	1,247,674	1,247,674	1,299,332	1,259,197	1,312,289
Effect of dilutive stock options	59,554				2,273
Weighted average number of shares outstanding diluted	1,307,228	1,247,674	1,299,332	1,259,197	1,314,562

(3) EBITDA consists of net income (loss) plus interest expense, net of interest income, provision for (benefit from) corporate income taxes and depreciation and amortization. This term, as we define it, may not be comparable to a similarly titled measure used by other companies and is not a measure of performance presented in accordance with generally accepted accounting principles (GAAP). We use EBITDA as a measure of operating performance. EBITDA should not be considered as a substitute for net income, operating income, cash flows provided by operating activities or other income or cash flow data prepared in accordance with GAAP. The funds depicted by EBITDA are not necessarily available for discretionary use if they are reserved for particular capital purposes, to maintain compliance with debt covenants, to service debt or to pay taxes. Additional details related to EBITDA are provided in Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures.

The following table reconciles net income (loss), the most directly comparable GAAP measure, to EBITDA:

	Year Ended December 31,			Twelve Months Ended March 31,	Three Months Ended March 31,	
	2002	2003	2004	2005	2004	2005
Net income (loss)	$ 10,507	$ 7,429	$ (3,905)	$ (1,668)	$ (2,058)	$ 179
Interest expense, net of interest income	16,421	23,226	38,600	39,712	8,638	9,750
Provision for (benefit from) corporate income taxes	9,709	5,537	1,090	2,833	(1,617)	126
Cumulative effect of change in accounting principle	689					
Loss from discontinued operations	767					
Equity in the earnings of investees and rental income	(1,372)	(1,369)	(1,493)	(1,627)	(336)	(470)
Loss on extinguishment of debt		7,773				

Operating income	36,721	42,596	34,292	39,250	4,627	9,585
Loss from discontinued operations	(767)					
Equity in the earnings of investees and rental income	1,372	1,369	1,493	1,627	336	470
Cumulative effect of change in accounting principle	(689)					
Loss on extinguishment of debt		(7,773)				
Depreciation and amortization	31,748	34,927	36,869	37,491	9,117	9,739
EBITDA	$ 68,385	$ 71,119	$ 72,654	$ 78,368	$ 14,080	$ 19,794

(4) EBITDA margin is the ratio of EBITDA to total revenue.

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(5) Includes wholly owned and partly owned clubs. In addition, as of December 31, 2004 and March 31, 2005, we managed four university fitness clubs in which we did not have an equity interest.

(6) Represents members at wholly owned and partly owned clubs.

(7) Total revenue for a club is included in comparable club revenue increase (decrease) beginning on the first day of the thirteenth full calendar month of the club s operation.

(8) We define mature club revenue as revenue from clubs operated by us for more than 24 months.

(9) Revenue per weighted average club is calculated as total revenue divided by the product of the total number of clubs and their weighted average months in operation as a percentage of the period.

(10) Average revenue per member is total revenue for the period divided by the average number of memberships for the period, where average number of memberships for the period is derived by dividing the sum of the total memberships at the end of each month during the period by the total number of months in the period.

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RISK FACTORS

An investment in our common stock involves a high degree of risk. You should consider carefully the risks described below, together with the other information contained in this prospectus, before deciding to invest in our common stock. These risks could have a material and adverse impact on our business, results of operations and financial condition. If that were to happen, the trading price of our common stock could decline, and you could lose all or part of your investment.

Risks Related to Our Business

We may be unable to attract and retain members, which could have a negative effect on our business.

The performance of our clubs is dependent on our ability to attract and retain members, and we may not be successful in these efforts. Many of our members can cancel their club membership at any time upon 30 days notice. In addition, there are numerous factors that have in the past and could in the future lead to a decline in membership levels at established clubs or that could prevent us from increasing our membership at newer clubs, including harm to our reputation, a decline in our ability to deliver quality service at a competitive cost, the presence of direct and indirect competition in the areas in which the clubs are located, the public s interest in sports and fitness clubs and general economic conditions. As a result of these factors, membership levels might not be adequate to maintain or permit the expansion of our operations. In addition, a decline in membership levels may have a material adverse effect on our performance, financial condition and results of operations.

Our geographic concentration heightens our exposure to adverse regional developments.

As of March 31, 2005, we operated 94 fitness clubs in the New York metropolitan market, 19 fitness clubs in the Boston market, 18 fitness clubs in the Washington, D.C. market, six fitness clubs in the Philadelphia market and three fitness clubs in Switzerland. Our geographic concentration in the Northeast and Mid-Atlantic regions and, in particular, the New York area, heightens our exposure to adverse developments related to competition, as well as, economic and demographic changes in these regions. Our geographic concentration might result in a material adverse effect on our business, financial condition or results of operations in the future.

The level of competition in the fitness club industry could negatively impact our revenue growth rates and profits.

The fitness club industry is competitive and continues to become more competitive. We compete with other fitness clubs, physical fitness and recreational facilities established by local governments, hospitals and businesses for their employees, amenity and condominium clubs, the YMCA and similar organizations and, to a certain extent, with racquet and tennis and other athletic clubs, country clubs, weight reducing salons and the home-use fitness equipment industry. We also compete with other entertainment and retail businesses for the discretionary income in our target demographics. We might not be able to compete effectively in the future in the markets in which we operate. Competitors, which may include companies that are larger and have greater resources than us, may enter these markets to our detriment. These competitive conditions may limit our ability to increase dues without a material loss in membership, attract new members and attract and retain qualified personnel. Additionally, consolidation in the fitness club industry could result in increased competition among participants, particularly large multi-facility operators that are able to compete for attractive acquisition candidates or newly constructed club locations, thereby increasing costs associated with expansion through both acquisitions, and lease negotiation and real estate availability for newly constructed club locations.

Competitors offering lower pricing and a lower level of service could compete effectively against our facilities if such operators are willing to accept operating margins that are lower than ours. Furthermore, smaller and less expensive weight loss facilities present a competitive alternative for the de-conditioned market. We also face competition from competitors offering comparable or higher pricing with higher

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levels of service. The trend to larger outer-suburban family fitness centers, in areas where suitable real estate is more likely to be available, could also compete effectively against our suburban fitness-only models.

In addition, large competitors could enter the urban markets in which we operate to attempt to open a chain of clubs in these markets through one, or a series of, acquisitions.

If we are unable to identify and acquire suitable sites for new clubs, our revenue growth rate and profits may be negatively impacted.

To successfully expand our business, we must identify and acquire sites that meet the site selection criteria we have established. In addition to finding sites with the right geographical, demographic and other measures we employ in our selection process, we also need to evaluate the penetration of our competitors in the market. We face competition from other health and fitness center operators for sites that meet our criteria, and as a result we may lose those sites, our competitors could copy our format or we could be forced to pay higher prices for those sites. If we are unable to identify and acquire sites for new clubs, our revenue growth rate and profits may be negatively impacted. Additionally, if our analysis of the suitability of a site is incorrect, we may not be able to recover our capital investment in developing and building the new club.

We may experience prolonged periods of losses in our recently opened clubs.

We have opened a total of 11 new club locations that we have constructed in the 24-month period ended March 31, 2005. Upon opening a club, we typically experience an initial period of club operating losses. Enrollment from pre-sold memberships typically generates insufficient revenue for the club to generate positive cash flow. As a result, a new club typically generates an operating loss in its first full year of operation and substantially lower margins in its second full year of operations than a mature club. These operating losses and lower margins will negatively impact our future results of operations. This negative impact will be increased by the initial expensing of pre-opening costs, which include legal and other costs associated with lease negotiations and permitting and zoning requirements, as well as increased depreciation and amortization expenses, which will further negatively impact net income. We may, at our discretion, accelerate or expand our plans to open new clubs, which may adversely affect results from operations temporarily.

We could be subject to claims related to health or safety risks at our clubs.

Use of our clubs poses some potential health or safety risks to members or guests through exertion and use of our services and facilities including exercise equipment. Claims against us for death or injury suffered by members or their guests while exercising at a club might be asserted. We might not be able to successfully defend such claims. Additionally, we might not be able to maintain our general liability insurance on acceptable terms in the future or maintain a level of insurance that would provide adequate coverage against potential claims.

On February 13, 2003, in an action styled *Joseph Anaya vs. Town Sports International, Inc. et al.*, an individual filed suit against us in the Supreme Court of the State of New York, New York County, alleging that on January 14, 2003, he sustained serious bodily injury at one of our club locations. He filed an amended complaint on September 17, 2003, seeking $2 billion in damages. His cause of action seeking punitive damages, in the amount of $250 million, was dismissed on January 26, 2004. While we are unable to determine the ultimate outcome of the above action, we intend to contest the matter vigorously.

We have in force $51.0 million of insurance to cover claims of this nature. If any such judgment exceeds the amount for which we are covered by insurance by $2.5 million, we would be in default under the credit agreement governing TSI, Inc. s senior secured revolving credit facility. Also, if any uninsured judgment, when aggregated with any other judgments not covered by insurance equals $5.0 million or more, the judgment would constitute an event of default under the indentures governing TSI, Inc. s senior notes and our senior discount notes. It is possible that a final settlement or award related to this matter may exceed our insurance coverage.

Depending upon the outcome, this matter may have a material effect on our consolidated financial position, results of operations or cash flows.

Loss of key personnel and/or failure to attract and retain highly qualified personnel could make it more difficult for us to generate cash flow from operations and service our debt.

We are dependent on the continued services of our senior management team, particularly Mark N. Smith, Chairman; Robert J. Giardina, Chief Executive Officer; Richard G. Pyle, Chief Financial Officer; Alexander A. Alimanestianu, Chief Development Officer; and Randall C. Stephen, Chief Operating Officer. We believe the loss of such key personnel could have a material adverse effect on us and our financial performance. Currently, we do not have any long-term employment agreements with our executive officers, and we may not be able to attract and retain sufficient qualified personnel to meet our business needs.

We are subject to extensive government regulation and changes in these regulations could have a negative effect on our financial condition.

Our operations and business practices are subject to federal, state and local government regulation in the various jurisdictions in which our clubs are located, including: (1) general rules and regulations of the Federal Trade Commission, state and local consumer protection agencies and state statutes that prescribe certain forms and provisions of membership contracts and that govern the advertising, sale, financing and collection of such memberships, (2) state and local health regulations, (3) federal regulation of health and nutritional supplements and (4) regulation of rehabilitation service providers.

Statutes and regulations affecting the fitness industry have been enacted in jurisdictions in which we conduct business; many others into which we may expand have adopted or likely will adopt similar legislation. Typically, these statutes and regulations prescribe certain forms and provisions of membership contracts, 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 establish maximum prices for membership contracts and limitations on the term of 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 new member has the right to cancel his or her membership for a short period after joining set by the applicable law in the relevant jurisdiction and, in such event, is entitled to a refund of any initiation fee and dues paid. In addition, our membership contracts provide that a member may cancel his or her membership at any time for medical reasons or relocation a certain distance from the nearest club. The specific procedures and reasons for cancellation vary due to differing laws in the respective jurisdictions. In each instance, the canceling member is entitled to a refund of unused prepaid amounts only. Furthermore, where permitted by law, a fee is due upon cancellation and we may offset such amount against any refunds owed.

Changes in any statutes, rules or regulations could have a material adverse effect on our financial condition and results of operations.

Terrorism and the uncertainty of armed conflicts may have a material adverse effect on clubs and our operating results.

Terrorist attacks, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, and other acts of violence or war may affect the markets in which we operate, our operating results or the market on which our common stock will trade. Our geographic concentration in the major cities in the Northeast and Mid-Atlantic regions and, in particular, the New York and

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Washington, D.C. areas, heightens our exposure to any such future terrorist attacks, which may adversely affect our clubs and result in a decrease in our revenues. The potential near-term and long-term effect these attacks may have for our members, the markets for our services and the market for our common stock are uncertain; however, their occurrence can be expected to further negatively affect the United States economy generally, and specifically the regional markets in which we operate. The consequences of any terrorist attacks or any armed conflicts are unpredictable; and we may not be able to foresee events that could have an adverse effect on our business.

Disruptions and failures involving our proprietary information systems could cause customer dissatisfaction and adversely affect our billing and other administrative functions.

The continuing and uninterrupted performance of our information systems is critical to our success. Our members may become dissatisfied by any systems disruption or failure that interrupts our ability to provide our services to them, including programs and adequate staffing. Disruptions or failures that affect our billing and other administrative functions could have an adverse affect on our operating results.

We use a proprietary system developed internally to bill our members, track and analyze sales and membership statistics, the frequency and timing of member workouts, multi-club utilization, value-added services and demographic profiles by member. This system also assists us in evaluating staffing needs and program offerings. Correcting any disruptions or failures that affected our proprietary system could be difficult, time-consuming or expensive because we would need to use experts familiar with our system.

We have implemented numerous infrastructure changes to accommodate our growth, provide network redundancy, increase efficiencies in operations and improve management of all components of our technical architecture. In 2004, we constructed our disaster recovery site as well as a purpose-built member call center in a facility in Pennsylvania. The disaster recovery facility, including full network redundancy, will be completely operational for key business systems before the end of 2005. Fire, floods, earthquakes, power loss, telecommunications failures, break-ins, acts of terrorism and similar events could damage either our primary or back-up systems. In addition, computer viruses, electronic break-ins or other similar disruptive problems could also adversely affect our online sites. Any system disruption or failure, security breach or other damage that interrupts or delays our operations could cause us to lose members and adversely affect our business and results of operations.

The opening of new clubs by us in existing locations may negatively impact our comparable club revenue increases and our operating margins.

We currently operate clubs throughout the Northeast and Mid-Atlantic regions of the United States. We opened three clubs on February 1, 2005 and we have committed to open 10 additional clubs. Each of these ten openings are in existing markets. With respect to existing markets, it has been our experience that opening new clubs may attract some memberships away from other clubs already operated by us in those markets and diminish their revenues. In addition, as a result of new club openings in existing markets, and because older clubs will represent an increasing proportion of our club base over time, our mature club revenue increases may be lower in future periods than in the past.

Another result of opening new clubs is that our club operating margins may be lower than they have been historically while the clubs build membership base. We expect both the addition of pre-opening expenses and the lower revenue volumes characteristic of newly opened clubs to affect our club operating margins at these new clubs.

Our continued growth could place strains on our management, employees, information systems and internal controls, which may adversely impact our business and the value of your investment.

Over the past five years, we have experienced significant growth in our business activities and operations, including an increase in the number of our clubs. Future expansion will place increased demands on our administrative, operational, financial and other resources. Any failure to manage growth

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effectively could seriously harm our business. To be successful, we will need to continue to improve management information systems and our operating, administrative, financial and accounting systems and controls. We will also need to train new employees and maintain close coordination among our executive, accounting, finance, marketing, sales and operations functions. These processes are time-consuming and expensive, increase management responsibilities and divert management attention.

Our cash and cash equivalents are concentrated in one bank.

Our cash and cash equivalents are held, primarily, in a single commercial bank. These deposits are not collateralized. In the event the bank becomes insolvent, we would be unable to recover most of our cash and cash equivalents deposited at the bank.

The requirements of being a company with listed public equity may strain our resources and distract our management.

As a company with listed public equity, we will be subject to additional reporting requirements of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, and the Sarbanes-Oxley Act of 2002, and become subject to NASDAQ National Market rules promulgated in response to the Sarbanes-Oxley Act. These requirements, such as Section 404 of the Sarbanes-Oxley Act, may place a strain on our systems and resources. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal controls over financial reporting, significant resources and management oversight will be required. As a result, our management s attention may be diverted from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. NASDAQ National Market rules require that a majority of our board of directors be comprised of independent directors and certain committees of our board of directors be comprised solely of independent directors. We cannot assure you that our board and committees will satisfy these requirements in a timely manner. In addition, resignations or other changes in the composition of our board could make it difficult for us to continue to comply with these rules in a timely manner, which could result in the delisting of our common stock from The NASDAQ National Market.

Insiders will continue to have substantial control over us after this offering, which could limit your ability to influence the outcome of key transactions, including a change of control.

Our stockholders who each own greater than five percent of the outstanding common stock and their affiliates, and our executive officers and directors, in the aggregate, will beneficially own approximately % of the outstanding shares of our common stock after this offering. As a result, these stockholders, if acting together, would be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

Risks Related to Our Leverage

Our substantial leverage may impair our financial condition and we may incur significant additional debt.

We currently have a substantial amount of debt. As of March 31, 2005, our total consolidated debt was $400.0 million. On a pro forma basis after giving effect to this offering, our consolidated debt as of March 31, 2005 would have been $ million.

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Our substantial debt could have important consequences, including:

- making it more difficult for us to satisfy our obligations with respect to our outstanding indebtedness;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions of clubs and other general corporate requirements;
- requiring a substantial portion of our cash flow from operations for the payment of interest on our debt and reducing our ability to use our cash flow to fund working capital, capital expenditures, acquisitions of new clubs and general corporate requirements; and
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

These limitations and consequences may place us at a competitive disadvantage to other less-leveraged competitors.

Subject to specified limitations, the indentures governing our senior discount notes and TSI, Inc. s senior notes will permit us and our subsidiaries to incur substantial additional debt. In addition, as of March 31, 2005, we had $44.5 million of unutilized borrowings under our senior secured revolving credit facility, of which $34.6 million was available subject to certain limitations. If new debt is added to our and our subsidiaries current debt levels, the related risks that we and they now face could intensify.

After giving effect to our use of the net proceeds from this offering, servicing our debt will require, in aggregate, approximately $ million (comprised of principal and interest) of cash, and our ability to generate sufficient cash flows depends upon many factors, some of which are beyond our control.

Our ability to make payments on and refinance our debt and to fund planned capital expenditures depends on our ability to generate cash flows in the future. As of March 31, 2005, our total consolidated debt was $400.0 million. On a pro forma basis after giving effect to this offering, our consolidated debt as of March 31, 2005 would have been $ million. See Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual and Commitments Summary for a description of our aggregate long-term debt and operating lease obligations as of March 31, 2005. To some extent, our ability to generate cash flows in the future is subject to general economic, financial, competitive, legislative and regulatory factors and other factors that are beyond our control. We may be unable to continue to generate cash flow from operations at current levels. If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may have to refinance all or a portion of our existing debt or obtain additional financing. We cannot assure that any refinancing of this kind would be possible or that any additional financing could be obtained.

The inability to obtain additional financing could have a material adverse effect on our financial condition and on our ability to meet our obligations under our debt.

We may not have access to the cash flow and other assets of our subsidiaries that may be needed to make payments on our outstanding senior discount notes.

Our operations are conducted through our subsidiaries and our ability to make payment on our outstanding senior discount notes is dependent on the earnings and the distribution of funds from our subsidiaries. However, none of our subsidiaries are obligated to make funds available to us for payment on our outstanding senior discount notes. In addition, the terms of the indenture governing TSI, Inc. s existing senior notes and of TSI, Inc. s senior secured revolving credit facility significantly restrict TSI, Inc. and its subsidiaries from paying dividends and otherwise transferring assets to us. Furthermore, our subsidiaries are permitted under the terms of TSI, Inc. s senior secured revolving credit facility and other indebtedness (including under the indenture) to incur additional indebtedness that may severely restrict or prohibit the making of distributions, the payment of dividends or the making of loans by such subsidiaries to us.

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We cannot assure you that the agreements governing the current and future indebtedness of our subsidiaries will permit our subsidiaries to provide TSI, Inc. with sufficient dividends, distributions or loans to fund scheduled interest and principal payments on TSI, Inc. s senior notes when due.

Covenant restrictions under our indebtedness may limit our ability to operate our business and, in such an event, we may not have sufficient assets to settle our indebtedness.

The indentures governing our senior discount notes and TSI, Inc. s senior notes and certain of our other agreements regarding our indebtedness contain, among other things, covenants that may restrict our ability to finance future operations or capital needs or to engage in other business activities. The indentures governing our senior discount notes and TSI, Inc. s senior notes and certain of our other agreements regarding our indebtedness restrict, among other things, our ability and the ability of our restricted subsidiaries to:

- borrow money;
- pay dividends or make distributions;
- purchase or redeem stock;
- make investments and extend credit;
- engage in transactions with affiliates;
- engage in sale-leaseback transactions;
- consummate certain asset sales;
- effect a consolidation or merger or sell, transfer, lease or otherwise dispose of all or substantially all of our assets; and
- create liens on our assets.

In addition, our senior secured revolving credit facility requires TSI, Inc. to maintain specified financial ratios and satisfy certain financial condition tests that may require us to take action to reduce our debt or to act in a manner contrary to our business objectives. Such ratios include:

- a ratio not less than ranging from 2.50:1.00 to 3.50:1.00, depending on the period, of EBITDA, as that term is defined in the credit agreement governing our senior secured revolving credit facility, to interest expense;
- a ratio not greater than ranging from 4.00:1.00 to 2.75:1.00, depending on the period, of indebtedness to EBITDA; and
- a ratio not greater than 1.00:1.00 of senior secured indebtedness to EBITDA.

As of March 31, 2005, we are required to maintain an EBITDA to interest expense ratio of no less than 2.75:1.00, an indebtedness to EBITDA ratio of not greater than 3.75:1.00 and a senior secured indebtedness to EBITDA ratio of not greater than 1.00:1.00. As of March 31, 2005, we were in compliance with such ratios and our position relative to such ratios was 3.25:1.00, 3.32:1.00 and 0.14:1.00, respectively.

Events beyond our control, including changes in general economic and business conditions, may affect our ability to meet those financial ratios and financial condition tests. We may be unable to meet those tests and the lenders may decide not to waive any failure to meet those tests. A breach of any of these covenants would result in a default under the indenture governing our senior discount notes, TSI, Inc. s senior secured revolving credit facility and the indenture governing the senior notes issued by TSI, Inc. If an event of default under TSI, Inc. s senior secured revolving credit facility occurs, the lenders could elect to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable. If an event of default occurs under the indenture governing our senior discount notes or the indenture governing the senior notes issued by TSI, Inc., the noteholders could elect to declare due all amounts outstanding thereunder, together with accrued interest. If any such event should occur, we might not have sufficient assets to pay our indebtedness.

Risks Related to This Offering

We cannot assure you that a market will develop for our common stock or what the market price of our common stock will be.

Before this offering, there was no public trading market for our common stock, and we cannot assure you that one will develop or be sustained after this offering. If a market does not develop or is not sustained, it may be difficult for you to sell your shares of common stock at an attractive price or at all. We cannot predict the prices at which our common stock will trade. The initial public offering price for our common stock will be determined through our negotiations with the underwriters and may not bear any relationship to the market price at which our common stock will trade after this offering or to any other established criteria of the value of our business. It is possible that, in future quarters, our operating results may be below the expectations of securities analysts and investors. As a result of these and other factors, the price of our common stock may decline, possibly materially.

The price of our common stock may be volatile.

The trading price of our common stock following this offering may fluctuate substantially. The price of our common stock that will prevail in the market after this offering may be higher or lower than the price you pay, depending on many factors, some of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose all or part of your investment in our common stock. Factors that could cause fluctuations in the trading price of our common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of health and fitness companies;
- actual or anticipated changes in our earnings or fluctuations in our operating results;
- actual or anticipated changes in the expectations of securities analysts;
- general economic conditions and trends;
- the seasonality of our business;
- the opening of new clubs;
- major catastrophic events;
- loss of external funding sources;
- sales of large blocks of our stock or sales by insiders; or
- departures of key personnel.

In the past, following periods of volatility in the market price of a company s securities, securities class action litigation has often been brought against that company. If our stock price is volatile, we may become the target of securities litigation. Securities litigation could result in substantial costs and divert our management s attention and resources from our business.

We do not anticipate paying cash dividends on our shares of common stock in the foreseeable future.

We intend to retain any future earnings to fund the operation and expansion of our business and, therefore, we do not anticipate paying cash dividends on our shares of common stock in the foreseeable future. In addition, the terms of our senior secured revolving credit facility and certain of our debt financing agreements prohibit us from paying dividends without the consent of the lenders. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

Sales of outstanding shares of our common stock into the market in the future could cause the market price of our common stock to drop significantly, even if our business is doing well.

After this offering, we will have outstanding shares of our common stock. Of these shares, the shares sold in this offering will be freely tradable except for any shares purchased by our affiliates as that term is used in Rule 144 under the Securities Act of 1933, as amended, which we refer to as the Securities Act. The remaining shares will become available for resale in the public market, in compliance with the requirements of the federal securities laws, at various times commencing 181 days after the date of this prospectus in accordance with lock-up agreements holders of these shares have with the underwriters. However, the underwriters can waive these restrictions and allow these stockholders to sell their shares at any time without prior notice.

In addition, shares of our common stock reserved for issuance pursuant to outstanding options will become eligible for sale in the public market once permitted by provisions of the lock-up agreements and Rule 144 or Rule 701 under the Securities Act, as applicable.

If the shares or the shares described above are sold, or if it is perceived that they will be sold in the public market, the trading price of our common stock could drop significantly.

If you purchase shares of our common stock in this offering, you will experience immediate dilution.

If you purchase shares of our common stock in this offering, you will experience immediate dilution of $ per share, assuming an initial public offering price of $ per share, because the price that you pay will be substantially greater than the net tangible book value per share of the common stock that you acquire. This dilution is due in large part to the fact that our earlier investors paid substantially less than the initial public offering price when they purchased their shares of our capital stock. You will experience additional dilution upon the exercise of options to purchase common stock under our equity incentive plans or if we issue restricted stock to our employees under these plans.

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FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve risks and uncertainties. These forward-looking statements, which are usually accompanied by words such as may, might, will, should, could, intends, estim predicts, potential, continue, believes, anticipates, plans, expects and similar expressions, relate to, withou statements about our market opportunities, our strategy, our competition, our projected revenues and expense levels and the adequacy of our available cash resources. You should not place undue reliance on any of the forward-looking statements contained in this prospectus. Our actual results could differ materially from those expressed or implied by these forward-looking statements as a result of various factors, including the various risks described in Risk Factors and elsewhere in this prospectus. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

INDUSTRY AND MARKET DATA

Industry and market data used throughout this prospectus were obtained through surveys and studies conducted by third parties, industry and general publications (including, without limitation, the International Health, Racquet and Sportsclub Association), internal company research and management estimates. We have not independently verified market and industry data from third-party sources. We believe internal company estimates are reasonable and market definitions are appropriate. Neither such estimates nor these definitions have been verified by any independent sources.

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USE OF PROCEEDS

We estimate that we will receive net proceeds from the sale of the shares of our common stock in this offering of approximately $ million, assuming an initial public offering price of $ per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses. The selling stockholders will receive proceeds only if the underwriters exercise their over-allotment option. We will not receive any proceeds from any sale of shares by the selling stockholders.

We intend to use the net proceeds to us from this offering to redeem a portion of our existing senior discount notes and TSI, Inc. s senior notes and pay related premiums and interest thereon through the redemption date. The indentures allow us to use the net cash proceeds of this offering to redeem up to 35% of the notes issued under each indenture, in the case of the senior notes at a redemption price equal to 109.625% of the principal amount thereof and in the case of the senior discount notes at a redemption price equal to 111% of the accreted value thereof at the redemption date. At March 31, 2005, the aggregate principal amount of redeemable debt was approximately $138.7 million.

Pending the use described above, we intend to invest the net proceeds of this offering in short-term, interest-bearing, investment-grade securities.

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DIVIDEND POLICY

On March 15, 2004, our Board of Directors approved a common stock distribution of $52.50 per share to all stockholders of record on March 15, 2004. This distribution totaled $68.9 million and was paid on March 17, 2004. Also, in lieu of a common stock distribution, vested common stock option holders were paid a total of $1.1 million recorded as payroll expense.

We intend to retain future earnings, if any, to finance the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Consequently, stockholders will need to sell shares of our common stock to realize a return on their investment, if any.

The terms of the indenture governing our senior discount notes and TSI, Inc. s senior secured revolving credit facility significantly restrict the payment of dividends by us. The terms of the indenture governing TSI, Inc. s senior notes and its senior secured revolving credit facility significantly restrict TSI, Inc. and its subsidiaries from paying dividends to us. Furthermore, our subsidiaries are permitted under the terms of TSI, Inc. s senior secured revolving credit facility and other indebtedness (including under the indenture governing our senior discount notes and TSI, Inc. s senior notes) to incur additional indebtedness that may severely restrict or prohibit the payment of dividends by such subsidiaries to us. See Risk Factors Our substantial leverage may impair our financial condition and we may incur significant additional debt.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of March 31, 2005:

on an actual basis; and

on a pro forma basis to give effect to our sale of shares of our common stock in this offering at an assumed public offering price of $ per share, after deducting the estimated underwriting discounts and commissions and our estimated offering expenses, and our application of the estimated net proceeds as described in the Use of Proceeds section of this prospectus.

You should read the following table in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus and our consolidated financial statements and the related notes appearing at the end of this prospectus.

	As of March 31, 2005	
	Actual	Pro Forma
	(In thousands, except share and per share data)	
Cash and cash equivalents	$ 71,778	$
Senior secured revolving credit facility(1)	$	$
Long-term debt (senior notes), including current installments	255,000	
Long-term debt (senior discount notes), including current installments	141,280	
Long-term debt (other), including current installments	3,683	
Total long-term debt, including current installments	399,963	
Stockholders (deficit) equity:		
Common stock, $0.001 par value; 2,500,000 shares authorized; 1,309,123 shares issued and outstanding, actual; shares issued and outstanding, pro forma	1	
Additional paid-in capital	(114,087)	
Unearned compensation	(274)	
Accumulated other comprehensive income (currency translation adjustment)	731	
Retained earnings (accumulated deficit)	(3,563)	
Total stockholders (deficit) equity	(117,192)	
Total capitalization	$ 282,771	$

(1) $44,500 of available borrowings, net of $5,500 of outstanding letters of credit.

The number of shares of our common stock outstanding after this offering is based on the number of shares outstanding as of March 31, 2005. This table excludes:

68,446 shares of common stock issuable upon exercise of options at a weighted average exercise price of $84.65 per share; and an additional 24,177 shares of common stock reserved for issuance under our stock option plan.

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DILUTION

Our unaudited pro forma net tangible book value as of March 31, 2005 was approximately $ million, or approximately $ per share. Pro forma net tangible book value per share is determined by dividing the amount of our tangible net worth, or total tangible assets less total liabilities, by the pro forma number of shares of our common stock outstanding. Dilution to new investors represents the difference between the amount per share paid by investors in this offering and the net tangible book value per share of our common stock immediately after the completion of this offering. After giving effect to our sale of the shares offered hereby at an assumed initial public offering price of $ per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses and the application of the estimated net proceeds therefrom, our pro forma net tangible book value as of March 31, 2005 would have been $, or $ per share. This represents an immediate increase in pro forma net tangible book value of $ per share to existing stockholders and an immediate dilution in pro forma net tangible book value of $ per share to new investors. The following table illustrates this per share dilution:

Assumed initial public offering price per share		$
Pro forma net tangible book value per share as of March 31, 2005	$	
Increase per share attributable to new investors		
Pro forma net tangible book value per share after this offering		
Dilution per share to new investors		$

The following table sets forth, on a pro forma basis as of March 31, 2005, the total number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid to us by existing stockholders and by new investors who purchase shares of common stock in this offering, before deducting the estimated underwriting discounts and commissions and estimated offering expenses, assuming an initial public offering price of $ per share:

	Shares Purchased		Total Consideration		
	Number	Percent	Amount	Percent	Average Price Per Share
Existing stockholders		%	$	%	$
New investors					
					$
Total		100.0%	$	100.0%	

The foregoing tables and calculations assume no exercise of any stock options outstanding as of March 31, 2005. Specifically, these tables and calculations exclude:

- 68,446 shares of our common stock issuable upon exercise of options outstanding as of March 31, 2005 at a weighted average exercise price of $84.65 per share; and
- an additional 24,177 shares of our common stock reserved for issuance under our stock option plan.

New investors will experience additional dilution upon the exercise of options to purchase common stock or if we issue restricted stock to our employees under our plan.

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SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA
(In thousands, except share, per share, club and membership data)

The selected consolidated balance sheet data as of December 31, 2003 and 2004 and the selected consolidated statement of operations and cash flow data for the years ended December 31, 2002, 2003 and 2004 have been derived from our audited consolidated financial statements included elsewhere herein. The selected consolidated balance sheet data as of March 31, 2005 and the selected consolidated statement of operations and cash flow data for the three months ended March 31, 2004 and 2005 have been derived from our unaudited consolidated financial statements included elsewhere herein. The selected consolidated balance sheet data as of December 31, 2000, 2001 and 2002 and the selected consolidated statement of operations and cash flow data for the years ended December 31, 2000 and 2001 have been derived from our audited consolidated financial statements not included herein. In the opinion of management, the unaudited information has been prepared substantially on the same basis as our audited consolidated financial statements appearing elsewhere herein and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited consolidated quarterly results of operations and unaudited consolidated balance sheet data. Other data and club and membership data for all periods presented have been derived from our unaudited books and records. Our historical results are not necessarily indicative of results for any future period and interim results are not necessarily indicative of results for any future interim period or for a full year. You should read these selected consolidated financial and other data, together with the accompanying notes, in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus and our consolidated financial statements and the related notes appearing at the end of this prospectus.

	Year Ended December 31,					Three Months Ended March 31,	
	2000	2001	2002	2003	2004	2004	2005
Statement of Operations Data:							
Revenues	$ 222,776	$ 280,382	$ 318,055	$ 341,172	$ 353,031	$ 86,128	$ 93,846
Operating expenses:							
Payroll and related	90,801	112,766	129,105	130,585	138,302	36,258	36,396
Club operating	68,806	88,941	99,113	111,069	116,847	27,898	31,449
General and administrative	14,626	18,785	21,368	21,995	24,719	6,226	6,677
Depreciation and amortization(1)	26,248	32,185	31,748	34,927	36,869	9,117	9,739
Goodwill impairment(2)					2,002	2,002	
Operating income	22,295	27,705	36,721	42,596	34,292	4,627	9,585
Loss on extinguishment of debt(3)				7,773			
Interest expense, net of interest income	13,120	14,527	16,421	23,226	38,600	8,638	9,750
Equity in the earnings of investees and rental	(1,052)	(1,251)	(1,372)	(1,369)	(1,493)	(336)	(470)

income

Income (loss) from continuing operations before provision for (benefit from) corporate income taxes	10,227	14,429	21,672	12,966	(2,815)	(3,675)	305
Provision for (benefit from) corporate income taxes	5,031	6,853	9,709	5,537	1,090	(1,617)	126
Income (loss) from continuing operations	5,196	7,576	11,963	7,429	(3,905)	(2,058)	179

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	Year Ended December 31,					Three Months Ended March 31,	
	2000	2001	2002	2003	2004	2004	2005
Loss from discontinued operations(4) (including loss on club closure of $996 in 2002), net of income tax benefit of $551	(365)	(530)	(767)				
Cumulative effect of change in accounting principle, net of income tax benefit of $612(5)			(689)				
Net income (loss)	4,831	7,046	10,507	7,429	(3,905)	(2,058)	179
Accreted dividends on preferred stock	(9,016)	(10,201)	(11,543)	(10,984)	(784)	(783)	
Net income (loss) attributable to common stockholders	$ (4,185)	$ (3,155)	$ (1,036)	$ (3,555)	$ (4,689)	$ (2,841)	$ 179
Basic earnings (loss) per share:							
Continuing operations	$ 4.24	$ 6.09	$ 9.59	$ 5.95	$ (3.01)	$ (1.63)	$ 0.14
Discontinued operations	$ (0.30)	$ (0.43)	$ (0.61)	$	$	$	$
Change in accounting principle	$	$	$ (0.55)	$	$	$	$
Net income (loss)	$ (3.42)	$ (2.53)	$ (0.83)	$ (2.85)	$ (3.61)	$ (2.26)	$ 0.14

Diluted earnings (loss) per share(6):							
Continuing operations	$ 4.24	$ 6.09	$ 9.18	$ 5.95	$ (3.01)	$ (1.63)	$ 0.14
Discontinued operations	$ (0.30)	$ (0.43)	$ (0.59)	$	$	$	$
Change in accounting principle	$	$	$ (0.53)	$	$	$	$
Net income (loss)	$ (3.42)	$ (2.53)	$ (0.76)	$ (2.85)	$ (3.61)	$ (2.26)	$ 0.14
Weighted average number of shares used in calculating earnings (loss) per share:							
Basic	1,225,453	1,244,775	1,247,674	1,247,674	1,299,332	1,259,197	1,312,289
Diluted(6)	1,225,453	1,244,775	1,307,228	1,247,674	1,299,332	1,259,197	1,314,562

	As of December 31,					
	2000	**2001**	**2002**	**2003**	**2004**	**As of March 31, 2005**
Balance Sheet Data:						
Cash and cash equivalents	$ 3,365	$ 5,458	$ 5,551	$ 40,802	$ 57,506	$ 71,778
Working capital (deficit)	(38,414)	(42,565)	(43,192)	(9,087)	7,259	12,149
Total assets	256,085	296,005	314,250	362,199	384,771	399,596
Long-term debt, including current installments	144,498	163,979	160,943	261,877	396,461	399,963
Redeemable senior preferred stock	48,029	54,687	62,125			
Redeemable Series A preferred stock(7)	26,580	30,432	34,841	39,890		
Total stockholders deficit(7)(8)	(30,491)	(32,797)	(31,740)	(34,294)	(117,017)	(117,192)

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	Year Ended December 31,					Three Months Ended March 31,	
	2000	2001	2002	2003	2004	2004	2005
Cash Flow Data:							
Cash provided by (used in):							
Operating activities	$ 42,601	$ 45,073	$ 54,338	$ 58,870	$ 57,125	$ 19,692	$ 24,851
Investing activities	(72,076)	(59,083)	(43,715)	(43,351)	(40,686)	(8,241)	(10,190)
Financing activities	5,715	16,103	(10,530)	19,732	265	1,410	(389)
Other Data:							
Non-cash rental expense, net of non-cash rental income	2,976	4,224	1,670	1,650	525	332	190
Non-cash compensation expense incurred in connection with stock options	1,836	1,149	1,207	198	64	10	15
EBITDA(9)	49,230	60,611	68,385	71,119	72,654	14,080	19,794
EBITDA margin(10)	22.1%	21.6%	21.5%	20.8%	20.6%	16.3%	21.1%

	Year Ended December 31,					Three Months Ended March 31,	
	2000	2001	2002	2003	2004	2004	2005
Club and Membership Data:							
New clubs opened	9	12	8	3	5	3	3
Clubs acquired(11)	11	2	4		3		
Clubs closed, relocated or sold	(1)		(2)	(3)			
Wholly owned clubs operated at end of period	103	117	127	127	135	130	138
Total clubs operated at end of period(12)	105	119	129	129	137	132	140
Members at end of period(13)	278,000	317,000	342,000	342,000	383,000	365,000	398,000
Comparable club revenue increase (decrease)(14)	22.6%	14.5%	5.8%	3.5%	2.5%	(0.1)%	6.0%
Mature club revenue increase	18.6%	12.3%	4.1%	1.6%	2.1%	(0.5)%	4.8%

(decrease)(15)							
Revenue per weighted average club(16)	$ 2,403	$ 2,592	$ 2,581	$ 2,680	$ 2,680	$ 668	$ 685
Average revenue per member(17)	917	937	964	987	960	243	240

(1) Effective January 1, 2002 we implemented Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. In connection with this implementation, we no longer amortize goodwill, but rather test it for impairment when circumstances indicate it is necessary, and at a minimum annually. The following table reconciles reported net income to net income adjusted for the impact of SFAS No. 142 for the periods presented:

	Year Ended December 31,	
	2000	**2001**
Net income as reported	$ 4,831	$ 7,046
Goodwill amortization	3,545	4,436
Deferred tax benefit	(1,064)	(1,344)
Accreted dividends on preferred stock	(9,016)	(10,201)
Net loss attributable to common stockholders as adjusted	$ (1,704)	$ (63)
(Loss) per share:		
Basic	$ (1.39)	$ (0.05)
Diluted	$ (1.39)	$ (0.05)

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(2) In the quarter ended March 31, 2004, we performed our annual impairment test. 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 is measured as the difference between the carrying value and the implied fair value of goodwill, which is determined based on purchase price allocation. As a result of this review, we determined that the goodwill at one of our remote clubs was not recoverable. The goodwill impairment associated with this underperforming club amounted to $2,002. A deferred tax benefit of $881 was recorded in connection with this impairment. Since this club is remote from one of our clusters, it does not benefit from the competitive advantage that our clustered clubs have, and as a result it is more susceptible to competition. We have reduced our projections of future cash flows of this club to take into account the impact of a recent opening of a competitor.

(3) The $7,773 loss on extinguishment of debt recorded in 2003 is a result of the refinancing of our debt on April 16, 2003. In connection with this refinancing, we wrote off $3,700 of deferred financing costs related to extinguished debt, paid a $3,000 call premium and incurred $1,000 of additional interest on TSI, Inc. s $9^3/4\%$ notes representing interest incurred during the 30-day redemption notification period.

(4) In the quarter ended December 31, 2002, we closed or sold two remote underperforming, wholly owned clubs. In connection with the closure of one of the clubs, we recorded club closure costs of $996 related to the write-off of fixed assets. We have accounted for these two clubs as discontinued operations and, accordingly, the results of their operations have been classified as discontinued in our consolidated statement of operations and prior periods have been reclassified in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

Revenues and loss from operations from these discontinued clubs was as follows for the periods presented:

	Year Ended December 31,		
	2000	**2001**	**2002**
Revenues	$ 1,217	$ 1,660	$ 1,607
Loss from operations of discontinued clubs (including loss on club closure of $996 in 2002)	(597)	(894)	(1,318)
Benefit from corporate income tax	(232)	(364)	(551)
Loss from discontinued operations	$ (365)	$ (530)	$ (767)

(5) Effective January 1, 2002, we implemented SFAS No. 142. In connection with the SFAS No. 142 transitional impairment test, we recorded a $1,300 write-off of goodwill. A deferred tax benefit of $612 was recorded as a result of this goodwill write-off, resulting in a net cumulative effect of change in accounting principle of $689 in 2002. The write-off of goodwill related to four remote underperforming clubs. The impairment test was performed with discounted estimated future cash flows as the criteria for determining fair market value. The impairment loss recorded was measured by comparing the carrying value to the fair value of impaired goodwill.

(6) The diluted weighted average number of shares used in calculating earnings (loss) per share is the weighted average number of shares of common stock plus the weighted average conversion of any dilutive common stock equivalents, such as the assumed weighted average exercise of dilutive stock options using the treasury stock method. For the years ended December 31, 2000, 2001, 2003 and 2004 and the three months ended March 31, 2004, these common stock equivalents were antidilutive and have been excluded from the diluted weighted average number of shares. For the year ended December 31, 2002 and the three months ended March 31, 2005,

the shares issuable upon the exercise of stock options were dilutive. The number of shares excluded from the computation of diluted earnings per share was 64,286, 60,812, 52,807 and 15,191 for the years ended December 31, 2000, 2001, 2003 and 2004, respectively, and 38,710 for the three months ended March 31, 2004. For the year ended December 31, 2002 and the three months ended March 31,

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2005, non-cash compensation expense of $38 and $9, respectively, has been added back to net income (loss) attributable to common stockholders in determining diluted earnings per share.

The following table summarizes the weighted average number of shares of common stock outstanding for basic and diluted earnings per share computations:

	Year Ended December 31,			Three Months Ended March 31,	
	2002	2003	2004	2004	2005
Weighted average number of shares outstanding basic	1,247,674	1,247,674	1,299,332	1,259,197	1,312,289
Effect of dilutive stock options	59,554				2,273
Weighted average number of shares outstanding diluted	1,307,228	1,247,674	1,299,332	1,259,197	1,314,562

(7) We had 153,637 shares of Series A Redeemable Preferred Stock (Series A stock) outstanding at December 31, 2000, 2001, 2002 and 2003. We have reclassified our 2001 financial statements to account for a redemption feature included in the Series A stock, in accordance with the guidance in EITF Topic No. D-98, Classification and Measurement of Redeemable Securities (EITF Topic No. D-98). EITF Topic No. D-98 provides additional guidance on the appropriate classification of redeemable preferred stock upon the occurrence of an event that is not solely within the control of an issuer. EITF Topic No. D-98 requires retroactive application in the first fiscal quarter ending after December 15, 2001 by reclassifying the financial statements of prior periods. The carrying value of the Series A stock, which was previously presented as a component of stockholders deficit, has been reclassified as redeemable preferred stock outside of stockholders deficit. The reclassification of the 2001 financial statements for the Series A stock had no effect on our net income, net loss attributable to common stockholders, cash flow provided by operations or total assets. The following sets forth the overall effect of the reclassification on our stockholders deficit:

	As of December 31,	
	2000	2001
Stockholders deficit prior to reclassification	$ (3,911)	$ (2,365)
Reclassification of Series A stock	(26,580)	(30,432)
Stockholders deficit after the reclassification	$ (30,491)	$ (32,797)

The balance sheet data for all periods presented have been adjusted to reflect the above reclassification.

(8) In 2004, we paid a common stock distribution totaling $68,900, or $52.50 per share.

(9) EBITDA consists of net income (loss) plus interest expense, net of interest income, provision for (benefit from) corporate income taxes and depreciation and amortization. This term, as we define it, may not be comparable to a similarly titled measure used by other companies and is not a measure of performance presented in accordance with generally accepted accounting principles (GAAP). We use EBITDA as a measure of operating

performance. EBITDA should not be considered as a substitute for net income, operating income, cash flows provided by operating activities or other income or cash flow data prepared in accordance with GAAP. The funds depicted by EBITDA are not necessarily available for discretionary use if they are reserved for particular capital purposes, to maintain compliance with debt covenants, to service debt or to pay taxes. Additional details related to EBITDA are provided in Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures.

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The following table reconciles net income (loss), the most directly comparable GAAP measure, to EBITDA:

	Year Ended December 31,					Three Months Ended March 31,	
	2000	2001	2002	2003	2004	2004	2005
Net income (loss)	$ 4,831	$ 7,046	$ 10,507	$ 7,429	$ (3,905)	$ (2,058)	$ 179
Interest expense, net of interest income	13,120	14,527	16,421	23,226	38,600	8,638	9,750
Provision for (benefit from) corporate income taxes	5,031	6,853	9,709	5,537	1,090	(1,617)	126
Cumulative effect of change in accounting principle			689				
Loss from discontinued operations	365	530	767				
Equity in the earnings of investees and rental income	(1,052)	(1,251)	(1,372)	(1,369)	(1,493)	(336)	(470)
Loss on extinguishment of debt				7,773			
Operating income	22,295	27,705	36,721	42,596	34,292	4,627	9,585
Loss from discontinued operations	(365)	(530)	(767)				
Equity in the earnings of investees and rental income	1,052	1,251	1,372	1,369	1,493	336	470
Cumulative effect of change in accounting principle			(689)				
Loss on extinguishment of debt				(7,773)			
Depreciation and amortization	26,248	32,185	31,748	34,927	36,869	9,117	9,739
EBITDA	$ 49,230	$ 60,611	$ 68,385	$ 71,119	$ 72,654	$ 14,080	$ 19,794

(10) EBITDA margin is the ratio of EBITDA to total revenue.

(11) During 2000, we acquired two formerly partly owned clubs and relocated one club upon expiration of its lease.

(12) Includes wholly owned and partly owned clubs. In addition, as of December 31, 2004 and March 31, 2005, we managed four university fitness clubs in which we did not have an equity interest.

(13) Represents members at wholly owned and partly owned clubs.

(14) Total revenue for a club is included in comparable club revenue increase (decrease) beginning on the first day of the thirteenth full calendar month of the club s operation.

(15) We define mature club revenue as revenue from clubs operated by us for more than 24 months.

(16) Revenue per weighted average club is calculated as total revenue divided by the product of the total number of clubs and their weighted average months in operation as a percentage of the period.

(17) Average revenue per member is total revenue for the period divided by the average number of memberships for the period, where average number of memberships for the period is derived by dividing the sum of the total memberships at the end of each month during the period by the total number of months in the period.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and consolidated results of operations in conjunction with the Selected Consolidated Financial and Other Data section of this prospectus and our consolidated financial statements and the related notes appearing at the end of this prospectus. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth in the Risk Factors section and elsewhere in this prospectus.

Overview

We are one of the two leading owners and operators of fitness clubs in the Northeast and Mid-Atlantic regions of the United States and the third largest fitness club operator in the United States, in each case as measured by number of clubs. As of March 31, 2005, we owned and operated 138 fitness clubs and partly owned and operated two fitness clubs. These 140 clubs collectively served approximately 398,000 members. We have developed and refined our urban-commuter fitness club model through our clustering strategy, offering fitness clubs close to our members work and home. Our club model targets the upper value market segment, comprising individuals aged between 21 and 50 with income levels between $50,000 and $150,000 per year. We believe that the upper value segment is not only the broadest segment of the market, but also the segment with the greatest growth opportunities.

Our revenues, operating income, net loss and EBITDA for the twelve months ended March 31, 2005 were $360.7 million, $39.3 million, $1.7 million and $78.4 million, respectively. Our revenues, operating income, net loss and EBITDA for the year ended December 31, 2004 were $353.0 million, $34.3 million, $3.9 million and $72.7 million, respectively. Our revenues, operating income, net income and EBITDA for the three months ended March 31, 2005 were $93.8 million, $9.6 million, $0.2 million and $19.8 million, respectively.

Our goal is to be the most recognized health club network in each of the four major metropolitan regions we serve. We believe that our strategy of clustering clubs provides significant benefits to our members and allows us to achieve strategic operating advantages. In each of our markets, we have developed clusters by initially opening or acquiring clubs located in the more central urban markets of the region and then branching out from these urban centers to suburbs and neighboring communities. Capitalizing on this clustering of clubs, as of March 31, 2005, approximately half of our members participated in our passport membership plan that allows unlimited access to all of our clubs in our clusters for a higher monthly membership fee.

We have executed our clustering strategy successfully in the New York region through the network of fitness clubs we operate under our New York Sports Clubs brand name. We are the largest fitness club operator in Manhattan with 37 locations (more than twice as many as our nearest competitor) and operate a total of 94 clubs under the New York Sports Clubs brand name within a 50 mile radius of New York City. We operate 19 clubs in the Boston region under our Boston Sports Clubs brand name, 18 clubs in the Washington, D.C. region under our Washington Sports Clubs brand name and have begun establishing a similar cluster in the Philadelphia region with six clubs under our Philadelphia Sports Clubs brand name. In addition, we operate three clubs in Switzerland. We employ localized brand names for our clubs to create an image and atmosphere consistent with the local community and to foster recognition as a local network of quality fitness clubs rather than a national chain.

We consider that we have two principal sources of revenues:

- Our largest sources of revenue are membership revenues consisting of dues and initiation fees paid by our members. This comprises 83.6% and 82.8% of our total revenue for the year ended December 31, 2004 and the three months ended March 31, 2005, respectively. We recognize revenue from membership dues in the month when the services are rendered. Over 90% of our

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members pay their monthly dues by electronic funds transfer, or EFT, while the balance pay annually in advance. We recognize revenue from initiation fees over the expected average life of the membership, which is 24 months. It is important therefore to operate facilities that are convenient, offer good price/value relationship and have a wide variety of fitness service offerings in order to attract and retain members at each facility. More recently, our initiation fees recognized per new member sale have been depressed by our efforts to combat discounting by competitors in certain of our markets, as well as our offering of commit memberships for a fixed term at a discounted initial fee.

We generated 15.0% and 16.5% of our revenue for the year ended December 31, 2004 and the three months ended March 31, 2005, respectively, from ancillary club revenue. Ancillary club revenue consists of personal training, programming for children, group fitness training and other member activities, as well as sales of miscellaneous sports products. This total ancillary club revenue stream has increased as a percentage of total revenue more recently as we have focused on increasing revenue per member from our maturing club base.

The balance of our revenue (approximately 1.4% in 2004) principally relates to rental of space in our facilities to operators who offer wellness-related offerings such as physical therapy. In addition, we generate management fees from certain club facilities that we do not wholly own and sell in-club advertising and sponsorships. We refer to this as Fees and Other revenue. Settlements from our business interruption insurance claim associated with the terrorist attacks of September 11, 2001, which we refer to as the September 11 events, are separately disclosed. These settlements occurred in 2002 and 2003 and totaled $1.0 million and $2.8 million for the years ended December 31, 2002 and 2003, respectively.

Revenue consists of:

	Year Ended December 31,			Three Months Ended March 31,	
	2002	**2003**	**2004**	**2004**	**2005**
			(In thousands)		
Membership dues	$ 255,501	$ 273,334	$ 282,716	$ 68,981	$ 74,577
Initiation fees	14,360	13,892	12,439	3,217	3,078
Membership revenue	269,861	287,226	295,155	72,198	77,655
Personal training revenue	28,450	31,170	34,821	8,489	10,380
Other ancillary club revenue	16,481	17,269	18,199	4,618	4,796
Ancillary club revenue	44,931	48,439	53,020	13,107	15,176
Total club revenue	314,792	335,665	348,175	85,305	92,831
Fees and Other revenue	2,238	2,707	4,856	823	1,015
Business interruption insurance proceeds	1,025	2,800			
Total revenue	$ 318,055	$ 341,172	$ 353,031	$ 86,128	$ 93,846

Our operating and selling expenses are comprised of both fixed and variable costs. Fixed costs include club and supervisory salary and related expenses, occupancy costs including certain elements of rent, housekeeping and contracted maintenance expenses, as well as depreciation. Variable costs are primarily related to payroll associated with ancillary club revenue, membership sales compensation, advertising, utilities, certain facility repairs, insurance and club supplies. As clubs mature and increase their membership base, fixed costs are typically spread over an increasing revenue base and our operating margins tend to improve.

General and administrative expenses include costs relating to our centralized support functions, such as accounting, information systems, purchasing and member relations, as well as consulting fees and real estate development expenses.

Our primary capital expenditures relate to the construction of new club facilities and upgrading and expanding our existing clubs. The construction and equipment costs for new clubs vary based on the costs of construction labor, as well as the planned service offerings and size and configuration of the facility. We perform routine improvements at our clubs and replacement of the fitness equipment each year for which we budget approximately 4.0% of each club s annual revenue. Expansions of certain facilities are also performed from time to time, when incremental space becomes available on economic terms, and utilization and demand for the facility dictates. In this connection, facility remodeling is also considered where appropriate.

During the last several years, we have increased revenues, operating income, cash flows provided by operating activities and EBITDA by expanding our club base in New York, Boston, Washington, D.C. and Philadelphia. As a result of expanding our club base and the relatively fixed nature of our operating costs, our operating income has increased from $22.3 million for the year ended December 31, 2000 to $34.3 million for the year ended December 31, 2004. Cash flows provided by operating activities increased from $42.6 million in 2000 to $57.1 million in 2004. EBITDA increased from $49.2 million in 2000 to $72.7 million in 2004. Net income was $4.8 million in 2000 and net loss was $3.9 million in 2004.

	Year Ended December 31,					Three Months Ended March 31,	
	2000	2001	2002	2003	2004	2004	2005
	(In thousands)						
Operating income	$ 22,295	$ 27,705	$ 36,721	$ 42,596	$ 34,292	$ 4,627	$ 9,585
Increase (decrease) over prior period	n/a	24.3%	32.5%	16.0%	(19.5)%	(66.4)%	107.2%
Net income (loss)	$ 4,831	$ 7,046	$ 10,507	$ 7,429	$ (3,905)	$ (2,058)	$ 179
Increase (decrease) over prior period	n/a	45.8%	49.1%	(29.3)%	(152.6)%	(178.7)%	108.7%
Cash flows provided by operating activities	$ 42,601	$ 45,073	$ 54,338	$ 58,870	$ 57,125	$ 19,692	$ 24,851
Increase (decrease) over prior period	n/a	5.8%	20.6%	8.3%	(3.0)%	(16.6)%	26.2%
EBITDA	$ 49,230	$ 60,611	$ 68,385	$ 71,119	$ 72,654	$ 14,080	$ 19,794
Increase (decrease) over prior period	n/a	23.1%	12.8%	4.0%	2.2%	(37.3)%	40.6%

We have focused on building or acquiring club facilities in areas where we believe the market is underserved or where new clubs are intended to replace existing clubs at their lease expiration. Based on our historical experience, a new club tends to experience a significant increase in revenues during its first three years of operation as it reaches maturity. Because there is relatively little incremental cost associated with such increasing revenue, there is a greater proportionate increase in profitability. We believe that the revenues and operating income of our immature clubs will increase as they mature. As a result of our expansion, however, operating income margins may be negatively impacted in the near term, as further new clubs are added.

As of March 31, 2005, 138 of the existing fitness clubs were wholly owned by us and our consolidated financial statements include the operating results of all such clubs. Two locations in Washington, D.C. were managed and partly owned by us, with our profit sharing percentages approximating 20% (after priority distributions) and 45%, respectively, and are treated as unconsolidated affiliates. In addition, we provide management services at four university fitness clubs in which we have no equity interest.

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Historical Club Growth

	Year Ended December 31,					Three Months Ended March 31,
	2000	2001	2002	2003	2004	2005
Wholly owned clubs operated at beginning of period	84	103	117	127	127	135
New clubs opened	9	12	8	3	5	3
Clubs acquired(1)	11	2	4		3	
Clubs closed, relocated or sold	(1)		(2)	(3)		
Wholly owned clubs operated at end of period	103	117	127	127	135	138
Total clubs operated at end of period(2)	105	119	129	129	137	140

(1) During 2000, we acquired two formerly partly owned clubs and relocated one club upon expiration of its lease.

(2) Includes wholly owned and partly owned clubs. In addition, as of December 31, 2004 and March 31, 2005, we managed four university fitness clubs in which we did not have an equity interest.

Existing Club Revenue

We define mature club revenue as revenue at those clubs that were operated by us for the entire period presented and that same entire period of the preceding year. Under this definition, mature clubs for periods shown are those clubs that were operated for more than 24 months. Our mature club revenue increased 18.6%, 12.3%, 4.1%, 1.6% and 2.1% for the years ended December 31, 2000, 2001, 2002, 2003 and 2004, respectively. We define comparable club revenue as revenue at those clubs that were operated by us for over 12 months and comparable club revenue growth as revenue for the 13th month and thereafter as applicable as compared to the same period at the prior year. Our comparable club revenue increased 22.6%, 14.5%, 5.8%, 3.5% and 2.5% for the years ended December 31, 2000, 2001, 2002, 2003 and 2004, respectively.

Key determinants of comparable club revenue growth are new memberships, member retention rates and pricing. The commit membership model that we recently implemented encourages new members to commit to a one- or two-year membership at a discount to the month-to-month plan and with a discounted initiation fee. Since the implementation of the new membership model, attrition rates have declined dramatically and comparable club revenues have increased.

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The following table depicts our mature club and comparable club revenue growth for each of the quarters and years beginning January 1, 2002 forward.

	Mature Club Revenue		Comparable Club Revenue	
	Quarter	**Full Year**	**Quarter**	**Full Year**
2002				
Q1	3.8%		7.4%	
Q2	4.1%		6.6%	
Q3	3.3%		5.1%	
Q4	0.9%	4.1%	3.9%	5.8%
2003				
Q1	1.8%		6.2%	
Q2	(0.2)%			