TOWN SPORTS INTERNATIONAL HOLDINGS INC
Form 10-K
March 07, 2016

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

þ Annual Report pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2015

¨ Transition Report pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934
For the transition period from

Commission file number: 001-36803

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

DELAWARE	20-0640002
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5 PENN PLAZA — 4TH FLOOR NEW YORK, NEW YORK	10001 (Zip code)
(Address of principal executive offices)	

(212) 246-6700
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.001 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No þ

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

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

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

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2015 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $39.0 million (computed by reference to the last reported sale price on The Nasdaq National Market on that date). The registrant does not have any non-voting common stock outstanding.

As of March 1, 2016, there were 25,002,411 shares of Common Stock of the Registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2016 Annual Meeting of Stockholders, to be filed not later than April 29, 2016, are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding future financial results and performance, potential sales revenue, potential club closures, results of cost savings initiatives, legal contingencies and tax benefits and contingencies, future declarations and payments of dividends, and the existence of adverse litigation and other risks, uncertainties and factors set forth under Item 1A., entitled “Risk Factors”, of this Annual Report on Form 10-K and in our other reports and documents filed with the Securities and Exchange Commission (“SEC”). You can identify these forward-looking statements by the use of words such as “outlook”, “believes”, “expects”, “potential”, “continues”, “may”, “will”, “should”, “seeks”, “approximately”, “predict “plans”, “estimates”, “anticipates”, “target”, “could” or the negative version of these words or other comparable words. These statements are subject to various risks and uncertainties, many of which are outside our control, including, among others, the level of market demand for our services, economic conditions affecting our business, the success of our pricing model, the geographic concentration of our clubs, competitive pressure, the ability to achieve reductions in operating costs and to continue to integrate acquisitions, outsourcing of certain aspects of our business, environmental matters, the application of Federal and state tax laws and regulations, any security and privacy breaches involving customer data, the levels and terms of the Company’s indebtedness, and other specific factors discussed herein and in other SEC filings by us. We believe that all forward-looking statements are based on reasonable assumptions when made; however, we caution that it is impossible to predict actual results or outcomes or the effects of risks, uncertainties or other factors on anticipated results or outcomes and that, accordingly, one should not place undue reliance on these statements. Forward-looking statements speak only as of the date when made, and we undertake no obligation to update these statements in light of subsequent events or developments. Actual results may differ materially from anticipated results or outcomes discussed in any forward-looking statement.

PART I

Item 1. Business

In this Annual Report, unless otherwise stated or the context otherwise indicates, references to “Town Sports”, “TSI”, “the Company”, “we”, “our” and similar references refer to Town Sports International Holdings, Inc. and its subsidiaries, references to “TSI Holdings” refers to Town Sports International Holdings, Inc., and references to “TSI, LLC” refer to Town Sports International, LLC, our wholly-owned operating subsidiary.

General

Based on the number of clubs, we are one of the leading owners and operators of fitness clubs in the Northeast and Mid-Atlantic regions of the United States (“U.S.”) and one of the largest fitness club owners and operators in the U.S. As of December 31, 2015, the Company, through its subsidiaries, operated 152 fitness clubs (“clubs”) and three BFX Studio (“studio”) locations. Our clubs collectively served approximately 541,000 members as of December 31, 2015. We owned and operated a total of 105 clubs under the “New York Sports Clubs” (“NYSC”) brand name within a 120-mile radius of New York City as of December 31, 2015, including 37 locations in Manhattan where we are the largest fitness club owner and operator. We owned and operated 27 clubs in the Boston region under our “Boston Sports Clubs” (“BSC”) brand name, 12 clubs (one of which is partly-owned) in the Washington, D.C. region under our “Washington Sports Clubs” (“WSC”) brand name and five clubs in the Philadelphia region under our “Philadelphia Sports Clubs” (“PSC”) brand name as of December 31, 2015. In addition, we owned and operated three clubs in Switzerland as of December 31, 2015. We also have one partly-owned club that operated under a different brand name in Washington, D.C. as of December 31, 2015. 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 develop clusters of clubs to serve densely populated major metropolitan regions and we service such populations by clustering clubs near the highest concentrations of our target customers’ areas of both employment and residence. Our clubs are located for maximum convenience to our members in urban or suburban areas, close to transportation hubs or office or retail centers. Our members include a wide age demographic covering the student market to the active mature market. 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.

Over our 42-year history since 1973, we have developed and refined our club formats, which allows us to cost-effectively construct and efficiently operate our fitness clubs in the different real estate environments in which we operate. Our fitness-only clubs average approximately 20,000 square feet, while our multi-recreational clubs average approximately 38,000 square feet.

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The aggregate average size of our clubs is approximately 27,000 square feet. Our clubs typically have an open fitness area to accommodate cardiovascular and strength-training equipment, as well as special purpose rooms for group fitness classes and other exercise programs. We seek to provide a broad array of high-quality exercise programs and equipment that are popular and effective, promoting a quality exercise experience for our members. When developing clubs, we carefully examine the potential membership base and the likely demand for supplemental offerings such as swimming, basketball, children's programs, tennis or squash and, provided suitable real estate is available, we will add one or more of these offerings to our fitness-only format. For example, a multi-recreational club in a family market may include Sports Clubs for Kids programs, which can include swim lessons and sports camps for children.

We completed the introduction of a lower pricing model in the second quarter of 2015, offering reduced monthly dues. As of December 31, 2015, approximately 80% of our clubs were operating under this pricing model, with the remaining clubs principally comprising the Company's passport-only model. The clubs that are operating under the lower pricing model offer a similar level of service and amenities but at a lower price point. This model gives us an opportunity to recapture market share and compete against certain other gyms that opened in our markets. We believe our offerings are compelling because we include group exercise classes, top of the line equipment, pools and courts with price of certain memberships, when available. We continue to consider and make pricing adjustments in order to increase revenue while also driving membership growth.

We added 64,000 net members in the year ended December 31, 2015 compared to a net member loss of 13,000 in 2014. The ending member count of 541,000 included two adjustments decreasing the count during the year. In the third quarter we completed the conversion from our internally developed Club Management legacy system to a third-party developed software system which resulted in a one-time adjustment to our historical legacy member count of approximately 5,000 members. We believe this adjustment was non-revenue generated and therefore does not impact our consolidated financial statements. In addition there are approximately 2,000 members at one partly-owned club operating under a different brand name that were not included in the total member count as of December 31, 2015 however were included as of December 31, 2014 when the club was operating as a Washington Sports Club. We continue to account for this club as an equity investment.

Due to the rise in popularity of private studio offerings, we introduced our BFX Studio brand in 2014. We currently have three studio locations. This three-dimension luxury studio brand takes advantage of the rise in consumer demand for studio experiences. The studios include three unique offerings: Ride Republic, which is indoor cycling, Private Sessions for personal training and Master Class for certain group exercise classes. The studios are also staffed with high caliber instructors in each of the three core offerings and the studios are designed to appeal to all ages and all experience levels. This studio concept requires approximately 9,000 to 12,000 square feet of space per studio which compares to the approximately 27,000 square feet aggregate average size of our clubs.

Reportable Segments

During the fourth quarter of 2014, we began managing and reporting operating results through two reportable segments: clubs and BFX Studio. The clubs segment comprised clubs under the NYSC, BSC, PSC and WSC brand names, and the clubs we own and operate in Switzerland. BFX Studio is our private studio brand that was introduced in 2014 and is reported as a separate reportable segment as it does not meet the aggregation criteria to be aggregated with our fitness clubs. Previously, we had managed and reported operating results through one reportable segment. We reflect these segments for all the historical periods presented. For certain financial information relating to our segments, see Note 18 - Reportable Segments to our consolidated financial statements.

Industry Overview

According to the most recent information released by the International Health, Racquet and Sportsclub Association ("IHRSA"), total U.S. fitness club industry revenues increased at a compound annual growth rate of 4.5% from $20.3 billion in 2010 to $24.2 billion in 2014, with an 8.0% increase from 2013 to 2014. According to IHRSA, participation in health clubs has been growing steadily with total U.S. fitness club memberships increasing at a compound annual growth rate of 1.9% from 50.2 million in 2010 to an all time high of 54.1 million in 2014, with a 2.3% increase from 2013 to 2014. According to the IHRSA, the health club industry is witnessing a shift in the preferences of health club members. The club landscape includes traditional, full-service fitness centers that serve local communities and all age groups as well as affordable fitness centers with basic amenities. Studio concepts, including boxing, yoga, Pilates, group cycling, barre, boot camps, and sports-specific training, also shape the club market.

According to the IHRSA, demographic trends have helped drive the growth experienced by the fitness industry over the past decade. The average age of a health club member in 2013 was 39 years old and more than one-fourth of health club members were between the ages of 18 and 34 years old. The greatest membership growth in the past few years has been in the

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under-18 age group, which has grown 36.1% from 2010 to 2014 and in the over-55 age group, where membership grew 18.3% from 2010 to 2014. These two age groups made up approximately 38% of total U.S. health club members in 2014. The industry has benefited from the “millennials”, and aging “baby boomer” and “Eisenhower” generations as they place greater emphasis on their health, including a focus on fitness.

According to the Centers for Disease Control and Prevention, state prevalence of obesity continues to remain high across the country in 2014, with no state with a prevalence of obesity less than 20.0%. In 2014, 23 states had a prevalence of 25% or more and 22 of these states had a prevalence of 30% or more. As healthcare costs continue to rise in the U.S., some of the focus on combating obesity and other diseases is being directed at prevention. Both government and medical research has shown that exercise and other physical activity plays a critical role in preventing obesity and other health conditions, thereby reducing healthcare costs for treating obesity related sicknesses.

As the focus on exercise and overall healthy lifestyles continue to impact the health club industry, we believe that we are well positioned to benefit from these dynamics as a large operator with recognized brand names, leading regional market shares and an established operating history.

Competitive Strengths

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

Strong market position with leading brands. Based on number of clubs, we are one of the leading owners and operators of fitness clubs in the Northeast and Mid-Atlantic regions of the United States and one of the largest fitness club owners and operators in the United States. Our strong real estate presence in the New York, Boston, Washington D.C. and Philadelphia metropolitan regions enhances convenience to our members. We attribute our positions in these markets in part to the strength of our localized owner and operator brand names, which foster recognition as a local network of quality fitness clubs.

Regional clustering strategy provides significant benefits to members and corporations.   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, which provides the convenience of having fitness clubs near a member’s workplace and home. This is also a benefit to our corporate members, as many corporations have employees that will take advantage of multiple gym locations. Approximately 280,000, or 52%, of our members currently have a Passport Membership, including our corporate and group Passport Memberships, and because these memberships offer enhanced privileges and greater convenience, they typically generate higher monthly dues than our single club memberships in each respective region. Regional clustering also allows us to provide special facilities to all of our members within a local area, such as swimming pools and squash, tennis and basketball courts, without offering them at every location. In the year ended December 31, 2015, 32% of all club usage was by members visiting clubs other than their home clubs.

Regional clustering strategy designed to enhance revenues and achieve economies of scale.   We believe our regional clustering strategy allows us to enhance revenue and earnings growth by providing high-quality, conveniently located fitness facilities on a cost-effective basis. We believe that potential new entrants would need to establish or acquire a large number of clubs in a market to compete effectively with us. Our clustering strategy also enables us to achieve economies of scale with regard to sales, marketing, purchasing, general operations and corporate administrative expenses and reduces our capital spending needs. Regional clustering also provides the opportunity for members who relocate within a region to remain members of our clubs, thus aiding in member retention.

Expertise in site selection and development process.   We believe that our expertise in site selection and development provides an advantage over our competitors given the complex real estate markets in the metropolitan areas 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 potential 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.

Business Strategy

In the long-term, we seek to maximize our net member growth, revenues, earnings and cash flows using the following strategies:

Grow membership revenues. We seek to grow our membership revenues through driving membership growth and optimizing dues through price and member retention. In the second quarter of 2015, we completed the introduction of a lower pricing model to our clubs, offering a similar level of service and amenities at our non-passport clubs but at a lower price point. This pricing model gives us an opportunity to recapture market share and compete against certain other gyms that opened in our

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markets. We believe our offerings are compelling because we include group exercise classes, top of the line equipment, pools and courts with price of certain memberships, when available. Our member count increased 64,000 to 541,000 in 2015 compared to a loss of 13,000 in 2014. We continue to consider and make pricing adjustments in order to increase revenue while also driving membership growth.

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. Over the past five years, we have expanded the range of ancillary club services provided to members. Non-membership revenues have increased from $95.6 million, or 20.5% of revenues for the year ended December 31, 2011, to $101.6 million, or 24.0% of revenues for the year ended December 31, 2015. Personal training revenue, in particular, increased 17.3% over this five-year period and increased as a percentage of total revenue from 13.4% in 2011 to 17.3% in 2015. We offer a multi-session personal training membership product and fee-based class offerings to generate additional revenue. The fee-based class offerings include our Ultimate Fitness Experience (“UXF”) class and our fee-based Small Group Training programs. The Small Group Training programs include offerings such as Pilates Reformer Technique, Total Body Resistance Exercise (“TRX”) and Kettlebells. We also offer Sports Clubs for Kids programs at select clubs. In 2016, we plan to remain focused on increasing our ancillary programs with continued improvements in training and hiring and building on ancillary programs such as our personal training membership product. These sources of ancillary and other non-membership revenues generate incremental profits with minimal capital investment and assist in attracting and retaining members.

Optimization of our clubs. We remain committed to optimizing our existing club base, including through club closures when appropriate. During 2015, we opened three locations. We are also considering the sale of clubs or groups of clubs. We also plan to open one additional location in 2016 for a lease we signed in August 2014. In the event we build and acquire new clubs, the club expansion is expected to be funded with cash on hand or through internally generated cash flows.

Retain members by focusing on the member experience. Our Company’s mission is “Improving Lives Through Exercise.” We enact our mission through our “Ten Essentials,” which provide a clear road map for how we want our clubs to look and how we want to serve our members. This is the core of our member experience strategy and allows us to crystallize how we engage our staff to deliver a superior member experience. We tailor the hours of each club to the needs of the specific member demographic utilizing each club and offer a variety of ancillary services, including personal training, group classes, Small Group Training, Sports Clubs for Kids programs. We offer a variety of different sports facilities in each regional cluster of clubs; modern, varied and well-maintained exercise and fitness equipment; and an assortment of additional amenities including access to babysitting. Through hiring, developing and training a qualified and diverse team that is passionate about fitness and health; maintaining and enhancing our programs and services; and continually increasing our attention to individual member needs, we expect to demonstrate our commitment to increase the quality of the member experience, and thereby increase net membership. To better measure the member experience, we utilize member surveys and website feedback to help analyze the areas we can improve upon as well as the areas in which the members are satisfied overall.

Provide state-of-the-art fitness equipment and services. We help educate our members to best practices in their pursuit of fitness, wellness and healthy lifestyles and each of our clubs has a large array of cardiovascular machines, resistance training equipment, free weights and functional training zones. We have technicians who service and maintain our equipment on a timely basis. In addition, we have personal viewing television screens on most pieces of cardiovascular equipment which accommodate individual preferences and viewing, and many cardio machines now include embedded technology that offers both entertainment and tracking features that record workout results and communicate with many mobile technologies. Most clubs have between one and three studios used for exercise classes, including at least one large studio used for most group exercise classes, a cycling studio and a mind and body studio used for yoga and Pilates classes. We further offer a large variety of group fitness classes at each club and these classes are accessible to all members. The volume and variety of activities at each club allow each member to enjoy the club, whether customizing their own workout or participating in group activities and classes.

In addition, as part of our efforts to provide fitness equipment and services, our club formats are flexible and can easily adapt and respond to the changing demands of our customers. This flexibility allows us to compete against private studios with unique specialty offerings by adapting the space and formats in our own clubs to match the offerings provided by these private studios. We have a UXF training zone within our clubs that features an array of innovative equipment designed to maximize the member's workout. The UXF training zone is approximately 1,000 to 1,200 square feet with AstroTurf flooring, a TRX suspension training frame and a variety of functional training equipment including Kettle Bells, Battling Ropes and Power Sleds. The UXF training zone is open to members for free self guided workouts and UXF fee-based workout programs. The UXF training zone is also used by our personal trainers for their personal training sessions with our members.

BFX Studio. Due to the rise in popularity of private studio offerings, we introduced our BFX Studio brand in 2014. We currently have three studio locations. This three-dimension luxury studio brand takes advantage of the rise in consumer demand

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for studio experiences. The studios include three unique offerings: Ride Republic, which is indoor cycling, Private Sessions for personal training and Master Class for certain group exercise classes. The studios are also staffed with high caliber instructors in each of the three core offerings and the studios are designed to appeal to all ages and all experience levels. This studio concept requires approximately 9,000 to 12,000 square feet of space per studio which compares to the approximately 27,000 square feet aggregate average size of our clubs.

Marketing

Our in-house marketing agency is responsible for brand positioning, brand strategy, and product innovation for all of TSI's regional brands. The primary objective is to ensure that our regional brands seize market share and opportunities through well-defined and coordinated go-to-market strategies that focus on being a premier network of fitness clubs. We are organized to enable close collaboration between our marketing, sales, fitness and operations staff, which helps to align efforts around operational objectives and new product development. We seek to inspire brand experiences and in doing so, drive sustainable and quality growth, while building a strong reputation and loyalty with members. In order to have credible and authentic connections to create such desirability with our members, we utilize a market segmentation strategy which includes targeted marketing in addition to mass marketing. We seek to identify and understand consumers' individual motivations and goals for exercising in an effort to create meaningful products, services and experiences that build a lasting impression and brand loyalty.

Sales

We sell our memberships through four channels: direct sales at the club level; through corporate and group sales; through our online website; and through our call center principally to reach out to former members and to handle specific campaigns. We employ approximately 340 "in-club" membership sales consultants who are responsible for new membership sales in and around their designated club locations. Each club generally has two membership sales consultants. These consultants report directly to the club general manager, who, in turn, reports to a business director. Additional incentive-based compensation represents a majority of the compensation for the membership sales consultants. Membership sales consultants complete a classroom based sales training followed by ongoing training within the club environment. Training includes hands on experience of the entire sales process (from prospecting to after care) and product knowledge in what we consider a live but supervised environment. Through our corporate and group sales approach we concentrate on building long-term relationships with local and regional companies and other large groups. We also manage private fitness centers for both large and small corporations, colleges and universities, and private clubs through the Fitcorp Private Fitness Center. These managed sites include three managed university locations, and seven managed sites.

We also sell individual memberships online at www.mysportsclubs.com for our standard membership types and the website also enables us to sell memberships for pre-established corporate and group programs. The website also allows our members to give us direct feedback about our service levels and enables prospective members to sign up for our popular one-week trial membership. The online sales channel offers a high degree of convenience for customers who know and trust our brand and do not require up-front interaction with a membership sales consultant to make their decision. In addition, selling online significantly reduces our cost of sale. The web site also provides information about club locations, program offerings, exercise class schedules and sales promotions. Job seekers can also begin the employment application process through the site and investors can access financial information and resources.

Memberships

We believe that clustering clubs allows us to sell memberships based upon the opportunity for members to utilize multiple club locations near their workplace and their home. As of December 31, 2015, we currently offer the following types of memberships at our clubs:

- The Premier Membership allow members unlimited use of a single "home club". Premier members can also elect to pay a per visit fee of $12.95 to use non-home clubs. Membership dues for Premiere Memberships currently sell in the range of $19.99 to $44.99 per month. The price is dependent on club location and whether the member joins under a non-commit or a one-year commit contract.
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The Passport Membership entitles members to use any of our clubs in any region at any time. Membership dues for Passport memberships currently sell in the range of $59.99 to $69.99 per month while student Passport memberships sell in the range of $39.99 to $49.99. We also sell Premium Passport Memberships at three of our clubs in Boston that have a greater array of member services and facilities at monthly rates between $79.99 and $179.99 depending on the club.

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We offer both “month-to-month” and “commit” membership options. A member may cancel a month-to-month membership at any time for a fee. Under the commit model, new members commit to a one year membership, generally at a lower monthly rate than a month-to-month membership. When the members’ commit period is over, they retain membership as a month-to-month member until they choose to cancel. As of December 31, 2015, approximately 43% of our total members were on a month-to-month basis.

In joining a club, a new member signs a membership agreement that typically obligates the member to pay fees (“Joining Fees”) on the date of enrollment including a one-time initiation fee and the first annual fee. Initiation fees currently range between $0 and $20 while the annual fee currently charged is $59.99 for all memberships. These one-time Joining Fees averaged $72, $75 and $59 per sale for the years ended December 31, 2015, 2014 and 2013, respectively. The annual fee is also charged on each anniversary of the enrollment date, however is no longer considered a joining fee after the first payment.

Monthly EFT of individual membership dues on a per-member basis, including the effect of promotions, averaged approximately $50 per month for the year ended December 31, 2015, and $59 per month for both the years ended December 31, 2014 and 2013. Currently, approximately 98% of our members pay their membership dues the first of each month through EFT, with EFT membership revenue constituting approximately 72.3% of total consolidated revenue for the year ended December 31, 2015.

Usage

Our total club usage, based on the number of member visits, was 30.8 million and 28.7 million member visits for the years ended December 31, 2015 and 2014, respectively. In the year ended December 31, 2015, approximately 32% of total usage or club visits was to members’ non-home clubs, indicating that our members take advantage of our network of clubs. Our membership plans allow for club members under the Premier Membership to elect to pay a per visit fee of $12.95 to use non-home clubs. In the aggregate, approximately $719,000 and $2.2 million of usage fees were generated in 2015 and 2014, respectively. The decline in usage fees was primarily due to the adoption of our lower pricing strategy as the majority of our members existing at the time of this adoption were converted to Passport Membership. Usage fees are reported in membership dues in our consolidated statements of operations.

Non-Membership Revenue

The table below presents non-membership revenue components as a percentage of total revenue for the years ended December 31, 2011 through 2015.

	For the Years Ended December 31, ($ in thousands)									
	2015	%	2014	%	2013	%	2012	%	2011	%
Total revenue	$424,323	100.0%	$453,842	100.0%	$470,225	100.0%	$478,981	100.0%	$466,941	100.0%
Non-Membership Revenue:										
Personal training revenue	73,191	17.3 %	70,338	15.5 %	66,367	14.1 %	65,641	13.7 %	62,394	13.4 %
Other ancillary club revenue(1)	22,138	5.2 %	22,304	4.9 %	24,720	5.3 %	29,897	6.2 %	28,297	6.1 %
Fees and Other revenue(2)	6,254	1.5 %	5,971	1.3 %	5,985	1.3 %	5,804	1.2 %	4,890	1.0 %
Total non-membership revenue	$101,583	24.0 %	$98,613	21.7 %	$97,072	20.7 %	$101,342	21.2 %	$95,581	20.5 %

(1) Other ancillary club revenue primarily consists of Sports Clubs for Kids, racquet sports, Small Group Training and studio classes.

(2) Fees and other revenue primarily consist of rental income, marketing revenue and management fees. The year ended December 31, 2013 includes $424 for the correction of an accounting error related to out of period rental income.

Club Format and Locations

Our clubs are generally located in middle- or upper-income residential, commercial, urban and suburban neighborhoods within major metropolitan areas that are capable of supporting the development of a cluster of clubs. Our clubs typically have

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high visibility and are easily accessible. In the New York metropolitan, Boston, Washington, D.C. and Philadelphia markets, we have created clusters of clubs in urban areas and their commuter suburban areas aligned with our operating strategy of offering our target members the convenience of multiple locations close to where they live and work, reciprocal use privileges, and standardized facilities and services.

Approximately 64% of our existing clubs are fitness-only clubs and the remaining clubs are multi-recreational. Our fitness-only clubs generally range in size from 15,000 to 25,000 square feet and average approximately 20,000 square feet. Our multi-recreational clubs generally range in size from 20,000 to 65,000 square feet, with one club being approximately 200,000 square feet. The average multi-recreational club size is approximately 38,000 square feet. We currently have three studio locations. The studio generally ranges from 9,000 to 12,000 square feet and consist of three spaces including a cycling studio, group exercise studio and a personal training area.

Our existing club base consists of clubs which we have developed and constructed as well as clubs we have acquired. Over the past five years from January 1, 2011 to December 31, 2015, we constructed seven new clubs and three studios and acquired six clubs, while closing or relocating 21 clubs. Currently, 51 of our clubs, or approximately 34% of our existing club base, were from acquisitions of privately owned single and multi-club businesses. In the year ended December 31, 2015, we constructed and opened one club and two studios, and closed seven clubs, ending the year with 152 total clubs under operation. This compares to opening of four clubs and one studio, and closings of eight clubs during the year ended December 31, 2014. In both 2015 and 2014, we also upgraded certain existing clubs and plan to continue to do so in 2016.

Our facilities include a mix of cardiovascular and strength equipment from some of the best manufacturers including Life Fitness, Technogym, Nautilus, Cybex®, Precor®, Star Trac®, Hammer®, Woodway® and Octane®. At many locations, additional amenities are also offered, including swimming pools, racquet and basketball courts, UXF functional training zones, babysitting services, and pro-shops. Personal training services are offered at all locations for an additional charge. Our fee-based programs offered at many of our clubs, include personal training, Small Group Training, children’s programs, and summer camps for kids.

Our clubs also feature personal entertainment units. The units are typically mounted on or near individual pieces of cardiovascular equipment and are equipped with a flat-panel color screen for television viewing. We believe our members prefer the flexibility to view and listen to the programs of their choice during their cardiovascular workout. Recently most manufacturers are including embedded screens on their newest cardio fitness equipment which offer enhancements to both on-demand entertainment along with workout data tracking and connectivity to most mobile technologies.

Club Services and Operations

Our clubs are structured to provide an enhanced member experience through effective execution of our operating plan. Our club and support team members are the key to delivering a valued member experience and our operations are organized to maximize their overall effectiveness. Our club operations include:

Management. We believe that our success is largely dependent on the selection and development of our team members. Our management structure is designed to strike the right balance between consistent execution of operational excellence and nurturing a leader’s capacity for entrepreneurial decision making. Our learning and development system allows for all club positions to receive training on the key elements of their role as well as development training for growth. We believe a critical component to our growth is our ability to leverage internally-developed management talent.

Functional Support. Functional teams provide technical expertise and support designed to drive the member experience and revenue growth in specific areas of our clubs’ services, including sales and marketing, fitness and ancillary programming, learning and development, as well as facility management and member service.

Driving excellence in fitness and ancillary programming is critical to our success. Members receive an introductory one-hour assessment session with a fitness manager who helps to develop a customized routine that supports the member’s fitness goals. This initial assessment session includes a 30-minute workout evaluation, cardio, strength and endurance testing, and movement screening. Members who elect to receive personal training can benefit from one-on-one coaching and guidance, with refreshed programs that evolve as the members achieve their fitness goals. All of our fitness clubs offer our personal training membership products where members can select from a package of one to 16 personal training sessions per month. These sessions must be used in each respective month they are issued. Members who purchase this product commit to a three month period. Members can also purchase prepaid single sessions or multi-session packages which are sold at a premium to the personal training membership product. The personal training membership product provides members with a certified personal trainer who works with the member to create an individualized goal-based program. Our fitness teams are trained to provide superior fitness solutions to address member needs. We believe the qualifications of the personal training staff help to ensure

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that members receive a consistent level of quality service throughout our clubs and that our personal training programs provide valuable guidance to our members as well as a significant source of incremental revenue for us. We believe that members who participate in personal training programs typically have a longer membership life.

Our commitment to providing a quality exercise experience to our members also includes group exercise programming. Our instructors teach a variety of classes, including dance, cycling, strength conditioning, boxing, yoga, Pilates and step classes. Instructors report through local club management and are further supported by regional managers responsible for ensuring consistency in class content, scheduling, training and instruction. We also provide Small Group Training offerings to our members, which are fee-based programs that have smaller groups, with a maximum of four to eight members per class, and provide more focused and typically more advanced classes. Our fee-based offerings also include UXF classes.

In addition to group exercise, we offer a variety of ancillary programming for children under our Sports Clubs for Kids brand. As of December 31, 2015, Sports Clubs for Kids was being offered in 30 locations throughout our New York Sports Clubs, Boston Sports Clubs, Washington Sports Clubs and Philadelphia Sports Clubs regions. Our Sports Clubs for Kids programming positions our multi-recreational clubs as family clubs, which we believe provides us with a competitive advantage. Depending upon the facilities available at a location, Sports Clubs for Kids programming can include traditional youth offerings such as day camps, sports camps, swim lessons, hockey and soccer leagues, gymnastics, dance, and birthday parties. It also can include non-competitive “learn-to-play” sports programs.

Our facilities and equipment management teams are dedicated to ensuring our clubs and fitness equipment are operating at the highest standard of performance for our members. Local teams are deployed to provide on-site support to clubs as needed.

Our club support and member services groups act as a coordinating point for all departments, supporting excellence in program execution and ensuring consistency of policies and procedures across the entire organization that support the member experience.

Employee Compensation and Benefits

We provide performance-based incentives to our management. Senior management compensation, for example, is tied to our overall performance. Departmental directors, business directors and club level managers can achieve bonuses tied to meeting specific revenue profit, member retention and net member gain targets. We offer our employees various benefits including health, dental and disability insurance; pre-tax healthcare, commuting and dependent care accounts; free gym membership; and a 401(k) plan. We believe the availability of employee benefits provides us with a strategic advantage in attracting and retaining quality managers and staff, program instructors and professional personal trainers and that this strategic advantage in turn translates into a more consistent and higher-quality workout experience for those members who utilize such services.

Centralized Information Systems

We recognize the value of enhancing and extending the uses of information technology (“IT”) in virtually every area of our business. Our IT strategy is aligned to support our business strategy and operating plans. We maintain an ongoing comprehensive program to replace or upgrade key systems and to optimize their performance.

In 2015, we completed our program to replace our proprietary, internally developed Club Management system with a third-party developed software platform. This new platform processes new memberships, bills members, checks in members, as well as tracks and analyzes sales and membership statistics, the frequency and timing of member workouts, cross-club utilization, member life, value-added services and demographic profiles by member.

We continuously implement infrastructure changes to accommodate growth, provide network redundancy, better manage telecommunications and data costs, increase efficiencies in operations and improve management of all components of our technical architecture, including disaster recovery. Improvements in the IT infrastructure will continue to be made in the future in order to better serve our business needs.

Intellectual Property

We have registered various trademarks and service marks with the U.S. Patent and Trademark Office, including, NEW YORK SPORTS CLUBS and NYSC, WASHINGTON SPORTS CLUBS and WSC, BOSTON SPORTS CLUBS and BSC, PHILADELPHIA SPORTS CLUBS and PSC, UXF, SPORTS CLUBS FOR KIDS,

COMPANIESGETFIT.COM, BFX STUDIO, RIDE REPUBLIC, MASTER CLASS, and PRIVATE SESSIONS. We continue to register other trademarks and service marks. We believe that our rights to these properties are adequately protected.

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Competition

The fitness club industry is highly competitive and continues to become more competitive. The number of health clubs in the U.S. has increased from 29,890 in 2011 to 34,460 in 2015, based on the most recent information available according to the IHRSA. In each of the markets in which we operate, we compete with other fitness clubs, physical fitness and recreational facilities.

We consider the following groups to be our primary competitors in the health and fitness industry:

- commercial, multi-recreational and fitness-only chains, including, among others, Equinox Holdings, Inc., Lifetime Fitness, Inc., Crunch, New York Health and Racquet, LA Fitness International LLC, 24 Hour Fitness Worldwide, Inc., Retro Fitness, Snap Fitness, Anytime Fitness, David Barton, Edge Fitness, Onelife Fitness, Orange Theory, UFC Gym, Work Out World, XSport Fitness, Planet Fitness and Blink Fitness;
- private studios, including, among others, Flywheel, SoulCycle, Barry's Bootcamp and Cross-Fit, as well as other private studios offering cycling, yoga or Pilates;
- the YMCA and similar non-profit organizations;
- physical fitness and recreational facilities established by local governments, hospitals and businesses;
- exercise and small fitness clubs; racquet, tennis and other athletic clubs;
- amenity gyms in apartments, condominiums and offices;
- weight-reducing salons;
- country clubs; and
- the home-use fitness equipment industry.

The principal methods of competition include pricing and ease of payment, required level of members' contractual commitment, level and quality of services, training and quality of supervisory staff, size and layout of facility and convenience of location with respect to access to transportation and pedestrian traffic.

Historically, our club service offerings were in the mid-tier of the value/service proposition and designed to appeal to a large portion of the population who utilize fitness facilities. The number of competitor clubs that offer lower pricing and a lower level of service have continued to grow in our markets over the last few years. These clubs have attracted, and may continue to attract, members away from both our fitness-only clubs and our multi-recreational clubs. As a means of facing the shift in fitness industry, we introduced a lower pricing model where we believe we have a higher value-to-service proposition.

We also face competition from club operators offering comparable or higher pricing with higher levels of service. Larger outer-suburban family fitness centers, in areas where suitable real estate is more likely to be available, also compete effectively against our suburban formats. Also, we face competition from the rising popularity and demand for private studios offering niche boutique experiences.

We also compete with other entertainment and retail businesses for the discretionary income in our target demographics. There can be no assurance that we will be able to compete effectively in the future in the markets in which we operate. Competitors, who may include companies that are larger and have greater resources than us, may enter these markets to our detriment. These competitive conditions may result in increased price competition and limit our ability to 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 and/or newly constructed club locations. This increased competition could increase our costs associated with expansion through both acquisitions and for real estate availability for newly constructed club locations.

We believe that our market leadership, experience and operating efficiencies enable us to provide the consumer with a superior product in terms of convenience, quality service and affordability. We believe that there are barriers to entry in our metropolitan areas, including restrictive zoning laws, lengthy permit processes and a shortage of appropriate real estate, which could discourage any large competitor from attempting to open a chain of clubs in these markets. However, such a competitor could enter these markets more easily through one, or a series of, acquisitions. These barriers of entry are significant in our four metropolitan regions; however, they are less challenging in our surrounding suburban locations.

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Seasonality of Business

Seasonal trends have a limited effect on our overall business. Generally, we experience greater membership growth at the beginning of each year and experience an increased rate of membership attrition during the summer months. In addition, during the summer months, we experience a slight increase in operating expenses due to our outdoor pool and summer camp operations, generally matched by seasonal revenue recognition from season pool memberships and camp revenue.

Government Regulation

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 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 as well as state and local health regulations.

Statutes and regulations affecting the fitness industry have been enacted in jurisdictions in which we conduct business and other states into which we may expand in the future have adopted or may 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 or in certain circumstances, such as for medical reasons or relocation to a certain distance from the nearest club, 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. The specific procedures and reasons for cancellation vary due to differing laws in the respective jurisdictions, but in each instance, the canceling member is entitled to a refund of unused prepaid amounts. We are also 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 to comply with these requirements and believe that our activities are in substantial compliance with all applicable statutes, rules and decisions.

We primarily accept payments for our memberships through electronic fund transfers from credit cards, and, therefore, we are subject to both federal and state legislation and certification requirements, including the Electronic Funds Transfer Act. Some states, such as New York, have passed or have considered legislation requiring gyms and health clubs to offer non-automatic renewal membership option at all times and/or limit the duration for which gym memberships can auto-renew through EFT payments, if at all. Our business relies heavily on the fact that our memberships continue on a month-to-month basis after the completion of any initial term requirements (if any), and compliance with these laws, regulations, and similar requirements may be onerous and expensive, and variances and inconsistencies from jurisdiction to jurisdiction may further increase the cost of compliance and doing business. States that have such health club statutes provide harsh penalties for violations, including membership contracts being void or voidable.

Additionally, the collection, maintenance, use, disclosure and disposal of individually identifiable data by our businesses are regulated at the federal, state and provincial levels as well as by certain financial industry groups, such as the Payment Card Industry Organization and the National Automated Clearing House Association. Federal, state and financial industry groups may also consider from time to time new privacy and security requirements that may apply to our businesses and may impose further restrictions on our collection, disclosure and use of individually identifiable information that are housed in one or more of our databases.

The tax treatment of membership dues varies by state. Some states in which we operate require sales tax to be collected on membership dues and personal training sessions. Several others states in which we operate have proposed similar tax legislation. These taxes have the effect of increasing the payments by our members, which could impede our ability to attract new members or induce members to cancel their membership.

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

Employees

On December 31, 2015, we had approximately 7,500 employees, of whom approximately 3,000 were employed full-time. We are not a party to any collective bargaining agreement with our employees. We operate with an open door policy and encourage and welcome the communication of our employees' ideas, suggestions and concerns, and believe this strengthens our employee relations. We have never experienced any significant labor shortages or had any difficulty in obtaining adequate replacements for departing employees. We consider our relations with our employees to be good.

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Available Information

We make available through our web site at http://investor.mysportsclubs.com/ in the “Investor Relations — SEC Filings” section, free of charge, all reports and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the “SEC”). Occasionally, we may use our web site as a channel of distribution of material company information. Financial and other material information regarding the Company is routinely posted on and accessible at http://investor.mysportsclubs.com/. In addition, you may automatically receive email alerts and other information about the Company by enrolling through the “Email Alerts” section at http://investor.mysportsclubs.com.

The foregoing information regarding our website and its content is for convenience only. The content of our website is not deemed to be incorporated by reference into this report nor should it be deemed to have been filed with the SEC.

Item 1A. Risk Factors

Investors should carefully consider the risks described below and all other information in this Annual Report on Form 10-K. The risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business and operations. If any of the following risks actually occur, our business, financial condition, cash flows or results of operations could be materially adversely affected.

Risks Related to Our Business

Our future profitability is not assured.

Our operating results for future periods are subject to numerous uncertainties and there can be no assurances that we will be profitable in the foreseeable future, if at all. If our revenues decrease in a given period, we may be unable to reduce operating expenses as a significant part of our operating expenses are fixed, which could materially and adversely affect our business and, therefore, our results of operations and lead to a net loss (or a larger net loss) for that period and subsequent periods.

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

The performance of our clubs is highly dependent on our ability to attract and retain members, and we may not be successful in these efforts. Most of our members hold month-to-month memberships and accordingly, most members can cancel their club membership at any time without penalty. In addition, we experience attrition and must continually engage existing members and attract new members in order to maintain our membership levels and ancillary sales. There are numerous factors that have in the past and could in the future lead to a decline in membership levels or that could prevent us from increasing our membership, including 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 fitness clubs and general economic conditions. In order to increase membership levels, we may from time to time offer lower membership rates and initiation fees. Any decrease in our average membership rates or reductions in initiation fees may adversely impact our results of operations.

Negative economic conditions, including increased unemployment levels and decreased consumer confidence, have in the past contributed to and in the future could lead to significant pressures and declines in economic growth, including reduced consumer spending. In a depressed economic and consumer environment, consumers and businesses may postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a material negative effect on the demand for our services and products and such decline in demand may continue as the economy continues to struggle and disposable income declines. Other factors that could influence demand include increases in fuel and other energy costs, conditions in the residential real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence and other macroeconomic factors affecting consumer spending behavior. We believe the challenges to the global economy during the past several years have adversely affected our business and our revenues and profits and continuing challenges may result in additional adverse effects. As a result of these factors, membership levels might not be adequate to maintain our operations at current levels or permit the expansion of our operations.

In addition, to the extent our corporate clients are adversely affected by negative economic conditions, they may decide, as part of expense reduction strategies, to curtail or cancel club membership benefits provided to their respective employees. Any reductions in corporate memberships may lead to membership cancellations as we cannot assure that employees of

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corporate customers will choose to continue their memberships without employer subsidies. A decline in membership levels may have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

The fitness club industry is highly competitive and continues to become more competitive. In each of the markets in which we operate, we compete with other fitness clubs, private studios, 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 include companies that are larger and have greater resources than us and also 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.

The number of competitor clubs that offer lower pricing and a lower level of service continue to grow in our markets. These clubs have attracted, and may continue to attract, members away from both our fitness-only clubs and our multi-recreational clubs, particularly in the current consumer environment. Furthermore, smaller and less expensive weight loss facilities present a competitive alternative for consumers.

We also face competition from competitors offering comparable or higher pricing with higher levels of service or offerings. Larger outer-suburban, multi-recreational family fitness centers, in areas where suitable real estate is more likely to be available, also compete against our suburban, fitness-only models.

We also face competition from the increased popularity and demand for private studios offering group exercise classes. The prevalence of these smaller studios may compete against our own studio type offerings, such as cycling, Yoga and Pilates, as consumers may opt to use these competing studios to fulfill their fitness needs.

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

The conversion of certain of our clubs to our new pricing strategy has and may in the future negatively impact our comparable club revenue growth and our operating margins.

We have adopted a strategic initiative to convert a substantial majority of our clubs to our new pricing strategy, which depends in substantial part on our ability to attract a significant number of additional new members at each of our clubs. We have initially experienced lower revenues and margin pressure in connection with these conversions. To the extent we are unable to attract a sufficient number of new members, or if existing members at such clubs convert their existing memberships to our new lower cost memberships at higher numbers than we have anticipated, our revenues and results of operations will be materially adversely impacted. Our results of operations have been and will continue to be materially impacted by the change in pricing strategy to the extent we do not attract sufficient numbers of new members to offset these lower prices.

Declines in revenue have adversely affected our results or operations and cash flow from operations and we may be compelled to take additional actions which may not be successful in mitigating such effects.

We have been experiencing declining revenue from members for several years as the fitness industry continues to be highly competitive in the geographic regions in which we compete. New members have been joining at lower monthly rates and cancellations of members paying higher rates, primarily from the conversion to the lower pricing model, will continue to negatively impact our liquidity if these trends are not reversed. In response to this, we initiated cost savings initiatives in 2015 that have continued into fiscal 2016 to help mitigate the impact the decline in revenue has had on our profitability and cash flow from operations.

We may consider additional actions within our control, including the sale of certain assets, additional club closures and entering into arrangements with revenue generating partnerships, some which may utilize a “shop-in-shop” concept. We may also consider additional strategic alternatives including opportunities to reduce TSI LLC’s existing debt and further cost savings initiatives, among other possibilities. Our ability to continue to meet our obligations beyond 2016 is dependent on our ability to generate positive cash flow from a combination of initiatives, including those mentioned above. Failure to successfully implement these initiatives could have a material adverse effect on our liquidity and our operations and we would need to implement alternative plans that could include additional asset sales, additional reductions in operating costs, deferral of capital expenditures, further reductions in working capital and debt restructurings. There can be no assurance that such alternatives would be available to us or that we would be successful in their implementation.

Low consumer confidence levels, increased competition and decreased spending could negatively impact our financial position and result in club closures and fixed asset and goodwill impairments.

In the year ended December 31, 2015, we closed six clubs, while in 2014 we closed eight clubs. We recognized $14.6 million of fixed asset impairments in the year ended December 31, 2015 and $4.6 million of fixed asset impairments in the year ended December 31, 2014. In addition, we recorded goodwill impairment charges of $31.6 million in the year ended December 31, 2015, primarily due to existing members downgrading their memberships to those with lower monthly dues and new members enrolling at lower rates. In the year ended December 31, 2014, we recorded goodwill impairment charges of $137,000 related to one outlier club, in part due to decreased membership. Some of our club closures and impairments were due, in large part, to the economic and consumer environment, and increased competition in areas in which our clubs operate. If the economic and consumer environment were to deteriorate or not improve or if we are unable to improve the overall competitive position of our clubs, our operating performance may experience declines and we may need to recognize additional impairments of our fixed assets and goodwill and may be compelled to close additional clubs. In addition, we cannot ensure that we will be able to replace any of the revenue lost from these closed clubs from our other club operations. We will continue to monitor the results and changes in expectations of these clubs closely to determine if additional fixed asset or goodwill impairment charges will be necessary.

Our geographic concentration heightens our exposure to adverse regional developments.

As of December 31, 2015, we operated 105 fitness clubs in the New York metropolitan market, 27 fitness clubs in the Boston market, 12 fitness clubs in the Washington, D.C. market, five 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 metropolitan area, heightens our exposure to adverse developments in these areas, including those related to economic and demographic changes in these regions, competition, severe weather, potential terrorist threats or other unforeseen events.

For example, in the year ended December 31, 2012, as a result of flooding and power outages caused by Hurricane Sandy, 131 clubs were closed on October 29, 2012, with one club that closed permanently, 16 clubs that remained closed for over a week and one club that was closed for over a year and reopened in December 2013. We cannot predict the impact that any future severe weather events will have on our ability to avoid wide-spread or prolonged club closures. Any such events affecting the areas in which we operate might result in a material adverse effect on our business, financial condition, cash flows and results of operations in the future.

Any condition that causes people to refrain, or prevents people, from visiting our clubs, such as severe weather, outbreaks of pandemic or contagious diseases, or threats of terrorist attacks may adversely affect our business, operating results and financial condition.

Our business and operations could be materially and adversely affected by severe weather or outbreaks of pandemic or contagious diseases, threats of terrorist attacks or other conditions that cause people to refrain, or prevent people, from visiting our clubs. Our business could be severely impacted by a widespread regional, national or global health epidemic. A widespread health epidemic or perception of a health epidemic (such as Ebola), whether or not traced to one of our clubs, may cause members and prospective members to avoid public gathering places or otherwise change their behaviors and impact our ability to staff our clubs. Outbreaks of disease, such as influenza, could reduce traffic in our clubs. Any of these events would negatively impact our business. In addition, any negative publicity relating to these and other health-related matters may affect members' perceptions of our clubs, reduce member and prospective member visits to our clubs and negatively impact demand for our club offerings.

Further, terrorist attacks, such as the attacks that occurred in New York City 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 trades. Our geographic concentration in the major cities in the Northeast and

Mid-Atlantic regions and, in particular, the New York City and 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 U.S. 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.

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Our dependence on a limited number of suppliers for equipment and certain products and services could result in disruptions to our business and could adversely affect our revenues and gross profit.

Equipment and certain products and services used in our stores, including our exercise equipment and point-of-sale software and hardware, are sourced from third-party suppliers. Although we believe that adequate substitutes are currently available, we depend on these third-party suppliers to operate our business efficiently and consistently meet our business requirements. The ability of these third-party suppliers to successfully provide reliable and high-quality services is subject to technical and operational uncertainties that are beyond our control, including, for our overseas suppliers, vessel availability and port delays or congestion. Any disruption to our suppliers' operations could impact our supply chain and our ability to service our existing stores and open new stores on time or at all and thereby generate revenue. If we lose such suppliers or our suppliers encounter financial hardships unrelated to the demand for our equipment or other products or services, we may not be able to identify or enter into agreements with alternative suppliers on a timely basis on acceptable terms, if at all. Transitioning to new suppliers would be time consuming and expensive and may result in interruptions in our operations. If we should encounter delays or difficulties in securing the quantity of equipment we require to open new and refurbish existing stores, our suppliers encounter difficulties meeting our demands for products or services, our websites experience delays or become impaired due to errors in the third-party technology or there is a deficiency, lack or poor quality of products or services provided, our ability to serve our members and grow our brand would be interrupted. If any of these events occur, it could have a material adverse effect on our business and operating results.

Our trademarks and trade names may be infringed, misappropriated or challenged by others.

We believe our brand names and related intellectual property are important to our business. We seek to protect our trademarks, trade names and other intellectual property by exercising our rights under applicable trademark and copyright laws. If we were to fail to successfully protect our intellectual property rights for any reason, it could have an adverse effect on our business, results of operations and financial condition. Any damage to our reputation could cause membership levels to decline and make it more difficult to attract new members.

Use of social media may adversely impact our reputation or subject us to fines or other penalties.

There has been a substantial increase in the use of social media platforms, including blogs, social media websites and other forms of internet-based communication, which allow individuals' access to a broad audience of consumers and other interested persons. Negative commentary about us may be posted on social media platforms or similar devices at any time and may harm our reputation or business. Consumers value readily available information about health clubs and often act on such information without further investigation and without regard to its accuracy. The harm may be immediate without affording us an opportunity for redress or correction. In addition, social media platforms provide users with access to such a broad audience that collective action against our stores, such as boycotts, can be more easily organized. If such actions were organized, we could suffer reputational damage as well as physical damage to our stores.

We also use social medial platforms as marketing tools. For example, we maintain Facebook and Twitter accounts. As laws and regulations rapidly evolve to govern the use of these platforms and devices, the failure by us, our employees or third parties acting at our direction to abide by applicable laws and regulations in the use of these platforms and devices could adversely impact our business, financial condition and results of operations or subject us to fines or other penalties.

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 over the long term, we must identify and acquire sites that meet our site selection criteria. 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 or we could be forced to pay higher prices for those sites. If we are unable to identify and acquire sites for new clubs on attractive terms, 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 and when we open new clubs in existing markets our comparable club revenue growth and our operating margins may be negatively impacted.

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 initially generate positive cash flow. As a result, a new club typically generates an operating loss in its first full year of operations and substantially lower margins in its second full year of operations than a club opened for more than 24 months. These operating losses and lower margins will negatively

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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 depreciation and amortization expenses, which will further negatively impact our results of operations. We may, at our discretion, accelerate or expand our plans to open new clubs, which may adversely affect results from operations.

We currently operate clubs throughout the Northeast and Mid-Atlantic regions of the United States. In the case of existing markets, our experience has been 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 a 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.

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

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, but not limited to the following:

- general rules and regulations of the Federal Trade Commission;
- rules and regulations of state and local consumer protection agencies;
- state statutes that prescribe certain forms and provisions of membership contracts
- state statutes that govern the advertising, sale, financing and collection of memberships;
- federal and state laws and regulations governing privacy and security of information; and
- state and local health regulations

Any changes in such laws or regulations could have a material adverse effect on our financial condition and results of operations.

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 physical exertion and use of our services and facilities, including exercise equipment. Claims might be asserted against us for injury suffered by, or death of members or guests while exercising at a club. We might not be able to successfully defend such claims. As a result, 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.

Depending upon the outcome, these matters may have a material effect on our consolidated financial position, results of operations and cash flows.

We may be exposed to other litigation from time to time that can have significant adverse effects upon us.

In the ordinary course of conducting our business, we are exposed to litigation from time to time that can have significant adverse effects upon our consolidated financial position, results of operations and cash flows. At any given time there may be one or more civil actions initiated against us, including the matters disclosed under “Legal Proceedings” in this Form 10-K. If one or more of these pending lawsuits, or any lawsuits in the future are adjudicated in a manner adverse to our interests, or if a settlement of any lawsuit requires us to pay a significant amount, the result could have an adverse impact on our consolidated financial position, results of operations and cash flows. In addition, any litigation, regardless of the outcome, may distract our management from the operation of our business.

Security and privacy breaches may expose us to liability and cause us to lose customers.

Federal and state law requires us to safeguard our customers’ financial information, including credit card information. Although we have established security procedures and protocol, including credit card industry compliance procedures, to protect against identity theft and the theft of our customers’ financial information, our security and testing measures may not

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prevent security breaches and breaches of our customers' privacy may occur, which could harm our business. For example, a significant number of our users provide us with credit card and other confidential information and authorize us to bill their credit card accounts directly for our products and services. Typically, we rely on encryption and authentication technology licensed from third parties to enhance transmission security of confidential information. Techniques used to obtain unauthorized access or to sabotage systems change frequently and are constantly evolving. These techniques and other advances in computer capabilities, new discoveries in the field of cryptography, inadequate facility security or other developments may result in a compromise or breach of the technology used by us or one of our vendors to protect customer data. We may be unable to anticipate these techniques or to implement adequate preventive or reactive measures. Several recent, highly publicized data security breaches at other companies have heightened consumer awareness of this issue. Further, a significant number of states require the customers be notified if a security breach results in the disclosure of their personal financial account or other information. Additional states and governmental entities are considering such "notice" laws. In addition, other public disclosure laws may require that material security breaches be reported.

Any compromise of our security or that of our third party vendors or noncompliance with privacy or other laws or requirements could harm our reputation, cause our members to lose confidence in us, or harm our financial condition and, therefore, our business. In addition, a party who is able to circumvent our security measures or exploit inadequacies in our security measures or that of our third party vendors, could, among other effects, misappropriate proprietary information, cause interruptions in our operations or expose members to computer viruses or other disruptions. We may be required to make significant expenditures to protect against security breaches or to remedy problems caused by any breaches. Actual or perceived vulnerabilities may lead to claims against us. To the extent the measures taken by us or our third party vendors prove to be insufficient or inadequate, we may become subject to litigation or administrative sanctions, which could result in significant fines, penalties or damages and harm to our reputation.

Changes in legislation or requirements related to electronic fund transfer, or our failure to comply with existing or future regulations, may adversely impact our business.

We primarily accept payments for our memberships through electronic fund transfers from members' bank accounts and, therefore, we are subject to federal, state and provincial legislation and certification requirements governing electronic funds transfer ("EFT"), including the Electronic Funds Transfer Act. Some states, such as New York, have passed or have considered legislation requiring gyms and health clubs to offer a prepaid membership option at all times and/or limit the duration for which gym memberships can auto-renew through EFT payments, if at all. Our business relies heavily on the fact that our memberships continue on a month-to-month basis after the completion of any initial term requirements, and compliance with these laws and regulations and similar requirements may be onerous and expensive. In addition, variances and inconsistencies from jurisdiction to jurisdiction may further increase the cost of compliance and doing business. States that have such health club statutes provide harsh penalties for violations, including membership contracts being void or voidable. Our failure to comply fully with these rules or requirements may subject us to fines, higher transaction fees, penalties, damages and civil liability and may result in the loss of our ability to accept EFT payments, which would have a material adverse effect on our business, results of operations and financial condition. In addition, any such costs, which may arise in the future as a result of changes to the legislation and regulations or in their interpretation, could individually or in the aggregate cause us to change or limit our business practice, which may make our business model less attractive to our members.

We are subject to a number of risks related to ACH, credit card and debit card payments we accept.

We accept payments through automated clearing house ("ACH"), credit card and debit card transactions. For ACH, credit card and debit card payments, we pay interchange and other fees, which may increase over time. An increase in those fees would require us to either increase the prices we charge for our memberships, which could cause us to lose members or suffer an increase in our operating expenses, either of which could harm our operating results.

If we or any of our processing vendors have problems with our billing software, or the billing software malfunctions, it could have an adverse effect on our member satisfaction and could cause one or more of the major credit card companies to disallow our continued use of their payment products. In addition, if our billing software fails to work properly and, as a result, we do not automatically charge our members' credit cards, debit cards or bank accounts on a timely basis or at all, we could lose membership revenue, which would harm our operating results.

If we fail to adequately control fraudulent ACH, credit card and debit card transactions, we may face civil liability, diminished public perception of our security measures and significantly higher ACH, credit card and debit card related costs, each of which could adversely affect our business, financial condition and results of operations. The termination of our ability to process payments through ACH transactions or on any major credit or debit card would significantly impair our ability to operate our business.

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Regulatory changes in the terms of credit and debit card usage, including any existing or future regulatory requirements, could have an adverse effect on our business.

Our business relies heavily on the use of credit and debit cards in sales transactions. Regulatory changes to existing rules or future regulatory requirements affecting the use of credit and debit cards or the fees charged could impact the consumer and financial institutions that provide card services. This may lead to an adverse impact on our business if the regulatory changes result in unfavorable terms to either the consumer or the banking institutions.

Disruptions and failures involving our 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. We use a fully-integrated information system to process new memberships, bill members, check-in members and track and analyze sales and membership statistics, the frequency and timing of member workouts, cross-club utilization, member life, value-added services and demographic profiles by member. This system also assists us in evaluating staffing needs and program offerings. We believe that, without investing in enhancements, this system was approaching the end of its life cycle. Thus, in 2011, we began the process of replacing this system with a new system through a multi-year phase in implementation program which was completed in 2015. Correcting any disruptions or failures that affect our proprietary system or the new system, as it is implemented, could be difficult, time-consuming and expensive because we would need to use contracted consultants familiar with our system.

Any failure of our current system could also cause us to lose members and adversely affect our business and results of operations. Our members may become dissatisfied by any systems disruption or failure that interrupts our ability to provide our services to them. Disruptions or failures that affect our billing and other administrative functions could have an adverse effect on our operating results.

Infrastructure changes are being undertaken to accommodate our growth, provide network redundancy, better manage telecommunications and data costs, increase efficiencies in operations and improve management of all components of our technical architecture. Fire, floods, earthquakes, power loss, telecommunications failures, break-ins, acts of terrorism and similar events could damage our systems. In addition, computer viruses, electronic break-ins or other similar disruptive problems could also adversely affect our sites. Any system disruption or failure, security breach or other damage that interrupts or delays our operations could cause us to lose members, damage our reputation, and adversely affect our business and results of operations.

Our growth could place strains on our management, employees, information systems and internal controls, which may adversely impact our business.

Future expansion will place increased demands on our administrative, operational, financial and other resources. Any failure to manage growth 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.

Outsourcing certain aspects of our business could result in disruption and increased costs.

We have outsourced certain aspects of our business to third party vendors that subject us to risks, including disruptions in our business and increased costs. For example, we have engaged third parties to host and manage certain aspects of our data center, information and technology infrastructure and electronic pay solutions. Accordingly, we are subject to the risks associated with the vendor's ability to provide these services to meet our needs. If the cost of these services is more than expected, if the vendor is not able to handle the volume of activity or perform the quality of service that we expect, if we or the vendor are unable to adequately protect our data and information is lost, if our ability to deliver our services is interrupted, or if our third party vendors face financial or other difficulties, then our business and results of operations may be negatively impacted.

Our cash and cash equivalents are concentrated in a small number of banks.

Our cash and cash equivalents are held, primarily, in a small number of commercial banks. These deposits are not collateralized. In the event these banks become insolvent, we would be unable to recover most of our cash and cash equivalents deposited at the banks. Cash and cash equivalents held in two commercial banks as of December 31, 2015 totaled $64.8 million. During 2015, in any one month, this amount has been as high as approximately $110.8 million.

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Because of the capital-intensive nature of our business, we may have to incur additional indebtedness or issue new equity securities and, if we are not able to obtain additional capital, our ability to operate or expand our business may be impaired and our results of operations could be adversely affected.

Our business requires significant levels of capital to finance the development of additional sites for new clubs and the construction of our clubs. If cash from available sources is insufficient or unavailable due to restrictive credit markets, or if cash is used for unanticipated needs, we may require additional capital sooner than anticipated. In the event that we are required or choose to raise additional funds, we may be unable to do so on favorable terms or at all. Furthermore, the cost of debt financing could significantly increase, making it cost-prohibitive to borrow, which could force us to issue new equity securities. If we issue new equity securities, existing shareholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise funds on acceptable terms, we may not be able to execute our current growth plans, take advantage of future opportunities or respond to competitive pressures. Any inability to raise additional capital when required could have an adverse effect on our business plans and operating results.

We may incur rising costs related to construction of new clubs and maintaining our existing clubs. If we are not able to pass these cost increases through to our members, our returns may be adversely affected.

Our clubs require significant upfront investment. If our investment is higher than we had planned, we may need to outperform our operational plan to achieve our targeted return. We cannot assure that we can offset cost increases by increasing our membership dues and other fees and improving profitability through cost efficiencies.

We may be required to remit unclaimed property to states for unused, expired personal training sessions.

We recognize revenue from personal training sessions as the services are performed (i.e., when the session is trained). Unused personal training sessions expire after a set, disclosed period of time after purchase and are not refundable or redeemable by the member for cash. The State of New York has informed us that it is considering whether we are required to remit the amount received by us for unused, expired personal training sessions to the State of New York as unclaimed property. As of December 31, 2015, we had approximately $15.0 million of unused and expired personal training sessions that had not been recognized as revenue and was recorded as deferred revenue. We do not believe that these amounts are subject to the escheatment or abandoned property laws of any jurisdiction, including the State of New York. However, it is possible that one or more of these jurisdictions may not agree with our position and may claim that we must remit all or a portion of these amounts to such jurisdiction. This could have a material adverse effect on our cash flows.

Our growth and profitability could be negatively impacted if we are unable to renew or replace our current club leases on favorable terms, or at all, and we cannot find suitable alternate locations.

We currently lease substantially all of our fitness club locations pursuant to long-term leases (generally 15 to 20 years, including option periods). During the next five years, or the period from January 1, 2016 through December 31, 2020, we have leases for 20 club locations that are due to expire without any renewal options, three of which expire in 2016, and 53 club locations that are due to expire with renewal options. For leases with renewal options, several of them provide for our unilateral option to renew for additional rental periods at specific rental rates (for example, based on the consumer price index or stated renewal terms already set in the leases) or based on the fair market rate at the location. Our ability to negotiate favorable terms on an expiring lease or to negotiate favorable terms on leases with renewal options, or conversely for a suitable alternate location, could depend on conditions in the real estate market, competition for desirable properties and our relationships with current and prospective landlords or may depend on other factors that are not within our control. Any or all of these factors and conditions could negatively impact our revenue, growth and profitability.

We may have exposure to additional tax liabilities.

From time to time, we are under audit by federal and local tax authorities and we may be liable for additional tax obligations and may incur additional costs in defending any claims that may arise. For example, as of December 31, 2015, certain of our state and local tax returns from years 2006 through 2012 were currently being examined by certain state and local jurisdictions and it is difficult to predict the final outcome or timing of resolution of any particular matter regarding these examinations. In particular, on January 13, 2016, we received from the State of New

York a revised assessment related to tax years 2006-2009 for $4.1 million, inclusive of $1.6 million of interest. We continue to evaluate the merits of the proposed assessment as new information becomes available during continued discussions with the State of New York. We have not recorded a tax reserve related to the proposed assessment. It is difficult to predict the ultimate outcome of this or any other tax examination and the result of any such tax examination could have a material adverse effect on our results of operations and financial condition.

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Risks Related to Our Leverage and Our Indebtedness

On November 15, 2013, TSI, LLC entered into a $370.0 million senior secured credit facility ("2013 Senior Credit Facility"). The 2013 Senior Credit Facility consists of a $325.0 million term loan facility ("2013 Term Loan Facility"), and a $45.0 million revolving loan facility ("2013 Revolving Loan Facility"). The 2013 Term Loan Facility matures on November 15, 2020, and the 2013 Revolving Loan Facility matures on November 15, 2018.

We may be negatively affected by economic conditions in the U.S. and key international markets.

We must maintain liquidity to fund our working capital, service our outstanding indebtedness and finance investment opportunities. Without sufficient liquidity, we could be forced to curtail our operations or we may not be able to pursue new business opportunities. The principal sources of our liquidity are funds generated from operating activities, available cash and cash equivalents and borrowings under our 2013 Revolving Loan Facility. If our current resources do not satisfy our liquidity requirements, we may have to seek additional financing.

Economic conditions, both domestic and foreign, may affect our financial performance. Prevailing economic conditions, including unemployment levels, inflation, availability of credit, energy costs and other macro-economic factors, as well as uncertainty about future economic conditions, adversely affect consumer spending and, consequently, our business and results of operations.

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

We currently have a substantial amount of debt. As of December 31, 2015, our total outstanding consolidated debt was $275.4 million. In addition, as of December 31, 2015, under the 2013 Revolving Loan Facility there were no outstanding borrowings and outstanding letters of credit issued totaled $2.9 million. The unutilized portion of the 2013 Revolving Loan Facility as of December 31, 2015 was $42.1 million and the available unutilized portion, based on the Company's total leverage ratio exceeding 4.50:1.00 as of December 31, 2015, was $11.3 million. Our substantial debt could have important consequences, including:

- making it more difficult to satisfy our obligations, including 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 new clubs and other general corporate requirements;
- requiring a substantial portion of our cash flow from operations for the payment of interest on our debt, which is variable on our 2013 Revolving Loan Facility and partially variable on our 2013 Term Loan Facility, and/or principal pursuant to excess cash flow requirements and reducing our ability to use our cash flow to fund working capital, capital expenditures and acquisitions of new clubs and general corporate requirements;
- increasing our vulnerability to interest rate fluctuations in connection with borrowings under our 2013 Senior Credit Facility, some of which are at variable interest rates;
- limiting our ability to refinance our existing indebtedness on favorable terms, or at all; 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. If new debt is added to our and our subsidiaries' current debt levels, the related risks that we and they currently face could intensify.

The current debt under the 2013 Senior Credit Facility has a floating interest rate and an increase in interest rates may negatively impact our financial results.

Interest rates applicable to our debt are expected to fluctuate based on economic and market factors that are beyond our control. In particular, the unhedged portion of $115.4 million, of our outstanding debt under our 2013 Senior Credit Facility as of December 31, 2015 has a floating interest rate. Any significant increase in market interest rates, and in particular the short-term Eurodollar rates, would result in a significant increase in interest expense on our debt, which could negatively impact our net income and cash flows.

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The Company may be unsuccessful in its efforts to effectively hedge against interest rate changes on our variable rate debt.

In its normal operations, the Company is exposed to market risk relating to fluctuations in interest rates. In order to minimize the negative impact of such fluctuations on the Company's cash flows, the Company may enter into derivative financial instruments, such as interest rate swaps. The Company's current interest rate swap arrangement is with one financial institution and covers $160.0 million of our current $275.4 million outstanding term loan principal balance with the swap expiring on May 15, 2018. We are exposed to credit risk if the counterparty to the agreement is not able to perform on its obligations. Additionally, a failure on our part to effectively hedge against interest rate changes may adversely affect our financial condition and results of operations. We are required to record the interest rate swap at its fair value. Changes in interest rates can significantly impact the valuation of the instrument resulting in non-cash changes to our financial position.

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.

Our 2013 Senior Credit Facility and the agreements related thereto contain, among other things, covenants that may restrict our ability to finance future operations or capital needs or to engage in other business activities and that may impact our ability and the ability of our restricted subsidiaries to:

- incur debt;
- 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.

The 2013 Senior Credit Facility provides for a financial covenant in the situation where the total utilization of the revolving loan commitments (other than letters of credit up to $5.5 million at any time outstanding) exceeds 25% of the aggregate amount of those commitments. In such event, our subsidiaries are required to maintain a total leverage ratio of no greater than 4.50:1.00. While not subject to the total leverage ratio covenant as of December 31, 2015 as the Company's only utilization of the 2013 Revolving Loan Facility at that date was $2.9 million of issued and outstanding letters of credit thereunder, because the Company's total leverage ratio as of that date was in excess of 4.50:1.00, the Company is currently not able to utilize more than 25% of the 2013 Revolving Loan Facility. The Company will continue not to be able to utilize more than 25% of the 2013 Revolving Loan Facility until it has a total leverage ratio of no greater than 4.50:1.00.

Events beyond our control, including changes in general economic and business conditions, may affect our ability to meet certain financial ratios under the 2013 Senior Credit Facility. We may be unable to meet those tests and the lenders may decide not to waive any failure to meet those tests. A failure to satisfy these tests could limit our ability to obtain funds to pay dividends or cause a default under the 2013 Senior Credit Facility. If an event of default under the 2013 Senior Credit Facility occurs, the lenders could elect to terminate any and all outstanding undrawn commitments to lend and declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable. If any such event should occur, we might not have sufficient assets to pay our indebtedness and meet our other obligations, which would have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Common Stock

The stock ownership of certain large shareholders will likely limit your ability to influence corporate matters.

As of March 1, 2016, the Company had three stockholders (including Patrick Walsh, the Executive Chairman of our board of directors) which, together with each such stockholder's affiliates, beneficially owned 12.3%, 18.6% and 16.2% of our outstanding common stock, respectively, based on public filings made by such shareholders. Each of these stockholders may vote their stock with respect to certain matters, including any determinations with respect to mergers or other business

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combinations, the acquisition of assets for stock consideration or disposition of all or substantially all of our assets, and the issuance of any additional common stock or other equity securities, in a manner which may not be viewed as beneficial by other stockholders.

Our stock price could be extremely volatile, and, as a result, you may not be able to resell your shares at or above the price you paid for them.

In recent years the stock market in general has been highly volatile. As a result, the market price and trading volume of our common stock is likely to be similarly volatile, and investors in our common stock may experience a decrease, which could be substantial, in the value of their stock, including decreases unrelated to our results of operations or prospects, and could lose part or all of their investment. The price of our common stock could be subject to wide fluctuations in response to a number of factors, including those described elsewhere in this report and others such as:

- actual or anticipated fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- changes in the market's expectations about our operating results;
- success of competitors;
- our operating results failing to meet the expectation of securities analysts or investors in a particular period;
- changes in financial estimates and recommendations by securities analysts concerning us or our industry in general;
- operating and stock price performance of other companies that investors deem comparable to the Company;
- our ability to market new and enhanced services on a timely basis;
- changes in laws and regulations affecting our business;
- our ability to meet compliance requirements;
- commencement of, or involvement in, litigation involving us;
- changes in our capital structure, such as future issuances of securities or the incurrence of additional debt;
- any major change in our board of directors or management;
- sales of substantial amounts of common stock by our directors, executive officers or significant stockholders or the perception that such sales could occur; and
- general economic and political conditions such as recessions, interest rates, fuel prices, and acts of war or terrorism.

In the past, securities class action litigation has often been initiated against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources, and could also require us to make substantial payments to satisfy judgments or to settle litigation.

Your percentage ownership in us may be diluted by future issuances of capital stock, which could reduce your influence over matters on which stockholders vote.

Our board of directors has the authority, without action or vote of our stockholders, to issue all or any part of our authorized but unissued shares of common stock, including shares issuable upon the exercise of options, or shares of our authorized but unissued preferred stock. Issuances of common stock or voting preferred stock would reduce your influence over matters on which our stockholders vote and, in the case of issuances of preferred stock, would likely result in your interest in us being subject to the prior rights of holders of that preferred stock.

Because we have no current plans to pay cash dividends on our common stock for the foreseeable future, you may not receive any return on investment unless you sell your common stock for a price greater than that which you paid for it.

We may retain future earnings, if any, for future operations, expansion and debt repayment and have no current plans to pay any cash dividends for the foreseeable future. Any decision to declare and pay dividends in the future will be made at the

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discretion of our board of directors and will depend on, among other things, our results of operations, financial condition, cash requirements, contractual restrictions and other factors that our board of directors may deem relevant. In addition, our ability to pay dividends may be limited by covenants of any existing and future outstanding indebtedness we or our subsidiaries incur, including our credit facility. As a result, you may not receive any return on an investment in our common stock unless you sell our common stock for a price greater than that which you paid for it.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We lease our fitness clubs pursuant to long-term leases (generally 15 to 20 years, including options). In the next five years, or the period from January 1, 2016 through December 31, 2020, we have leases for 20 club locations that are due to expire without any renewal options, three of which are due to expire in 2016, and 53 club locations that are due to expire with renewal options. Renewal options include terms for rental increases based on the consumer price index, fair market rates or stated renewal terms already set in the lease agreements.

We lease approximately 20,000 square feet of office space in New York City and have smaller regional offices in Fairfax, VA and Boston, MA, for administrative and general corporate purposes.

We lease approximately 82,000 square feet in Elmsford, NY for the operation of a centralized laundry facility for New York Sports Clubs offering towel service, and for construction and equipment storage. This space also serves as corporate office space. Total square footage related to the laundry facility is 42,000 and total square footage related to the corporate office and warehouse space is 40,000.

On September 12, 2014, we completed the legal sale of our property (building and land) on East 86th Street, New York City, to an unaffiliated third-party for gross proceeds of $85.7 million, which included $150,000 of additional payments to the Company. Concurrent with the closing of the transaction, we leased back the portion of the property comprising our health club (“Initial Lease”) and had agreed to vacate the property in connection with the Purchaser's future development of a new luxury, high-rise multi-use building. In connection with vacating the property, we had agreed to enter into a new lease (“New Club Lease”) for approximately 24,000 square feet in the new building for the purpose of operating a health club upon completion of construction by the purchaser/landlord. This sale-leaseback transaction was characterized as a financing arrangement for accounting purposes rather than a sale until any continuing involvement has ceased. As of December 31, 2014, the total financing arrangement was $83.4 million, which was net of $1.8 million held in escrow for our former tenant in the building. As part of the transaction, we incurred $3.2 million of real property transfer taxes, broker fees and other costs which were deferred and were being amortized over the term of the Initial Lease of 25 years, which included option periods. The net fees were included in Other assets on the accompanying consolidated balance sheets as December 31, 2014.

On December 23, 2015, we terminated the Initial Lease and the agreement to enter into the New Club Lease and received gross proceeds of $3.5 million in connection with the termination. We must vacate the currently leased area by March 12, 2016 or we will be required to return the gross proceeds of the lease termination to the purchaser/landlord. Because the lease was terminated with no continuing involvement, this sale-leaseback transaction was accounted for as a completed sale as of December 23, 2015. Under this treatment, we have recorded a $77.1 million gain on the sale of the property, recorded in Gain on sale of building in our consolidated statements of operations for the year ended December 31, 2015. As of December 23, 2015, the net book value of the building and building improvements was $2.8 million and the book value of the land was $986,000 and the net book value of the deferred building financing costs was $3.0 million. The gain on the sale of the building is also net of $3.5 million of deferred lease receivable related to our former tenant.

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The following table provides information regarding our club locations:

Location	Address	Date Opened or Management Assumed
New York Sports Clubs:		
Manhattan	151 East 86th Street	January 1977
Manhattan	61 West 62nd Street	July 1983
Manhattan	614 Second Avenue	July 1986
Manhattan	1601 Broadway	September 1991
Manhattan	349 East 76th Street	April 1994
Manhattan	248 West 80th Street	May 1994
Manhattan	502 Park Avenue	February 1995
Manhattan	117 Seventh Avenue South	March 1995
Manhattan	303 Park Avenue South	December 1995
Manhattan	30 Wall Street	May 1996
Manhattan	1635 Third Avenue	October 1996
Manhattan	575 Lexington Avenue	November 1996
Manhattan	278 Eighth Avenue	December 1996
Manhattan	200 Madison Avenue	February 1997
Manhattan	2162 Broadway	November 1997
Manhattan	633 Third Avenue	April 1998
Manhattan	217 Broadway	March 1999
Manhattan	23 West 73rd Street	April 1999
Manhattan	34 West 14th Street	July 1999
Manhattan	503-511 Broadway	July 1999
Manhattan	1372 Broadway	October 1999
Manhattan	300 West 125th Street	May 2000
Manhattan	19 West 44th Street	August 2000
Manhattan	128 Eighth Avenue	December 2000
Manhattan	2527 Broadway	August 2001
Manhattan	3 Park Avenue	August 2001
Manhattan	10 Irving Place	November 2001
Manhattan	230 West 41st Street	November 2001
Manhattan	1221 Avenue of the Americas	January 2002
Manhattan	200 Park Avenue	December 2002
Manhattan	232 Mercer Street	September 2004
Manhattan	225 Varick Street	August 2006
Manhattan	885 Second Avenue	February 2007
Manhattan	301 West 145th Street	October 2007
Manhattan	1400 5th Avenue	December 2007
Manhattan	75 West End Avenue	April 2013
Manhattan	28-30 Avenue A	March 2015
Bronx, NY	1601 Bronxdale Avenue	November 2007
Brooklyn, NY	110 Boerum Place	October 1985
Brooklyn, NY	1736 Shore Parkway	June 1998
Brooklyn, NY	179 Remsen Street	May 2001
Brooklyn, NY	324 Ninth Street	August 2003
Brooklyn, NY	1630 E 15th Street	August 2007
Brooklyn, NY	7118 Third Avenue	May 2004

Brooklyn, NY	439 86th Street	April 2008

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Location	Address	Date Opened or Management Assumed
Brooklyn, NY	147 Greenpoint Avenue	June 2014
Queens, NY	69-33 Austin Street	April 1997
Queens, NY	153-67 A Cross Island Parkway	June 1998
Queens, NY	2856-2861 Steinway Street	February 2004
Queens, NY	8000 Cooper Avenue	March 2007
Queens, NY	99-01 Queens Boulevard	June 2007
Queens, NY	39-01 Queens Blvd	December 2007
Staten Island, NY	300 West Service Road	June 1998
Scarsdale, NY	696 White Plains Road	October 1995
Mamaroneck, NY	124 Palmer Avenue	January 1997
Croton-on-Hudson, NY	420 South Riverside Drive	January 1998
Larchmont, NY	15 Madison Avenue	December 1998
Nanuet, NY	58 Demarest Mill Road	May 1998
Great Neck, NY	15 Barstow Road	July 1989
East Meadow, NY	625 Merrick Avenue	January 1999
Commack, NY	6136 Jericho Turnpike	January 1999
Oceanside, NY	2909 Lincoln Avenue	May 1999
Long Beach, NY	265 East Park Avenue	July 1999
Garden City, NY	833 Franklin Avenue	May 2000
Huntington, NY	350 New York Avenue	February 2001
Syosset, NY	49 Ira Road	March 2001
West Nyack, NY	3656 Palisades Center Drive	February 2002
Woodmere, NY	158 Irving Street	March 2002
Hartsdale, NY	208 E. Hartsdale Avenue	September 2004
Somers, NY	Somers Commons, 80 Route 6	February 2005
White Plains, NY	4 City Center	September 2005
Hawthorne, NY	24 Saw Mill River Road	January 2006
Dobbs Ferry, NY	50 Livingstone Avenue	June 2008
Smithtown, NY	5 Browns Road	December 2007
Carmel, NY	1880 Route 6	July 2007
Hicksville, NY	100 Duffy Avenue	November 2008
New Rochelle, NY	Trump Plaza, Huguenot Street	March 2008
Deer Park, NY	455 Commack Avenue	March 2009
Garnerville, NY	20 W. Ramapo Road	October 2011
Stamford, CT	106 Commerce Road	January 1998
Danbury, CT	38 Mill Plain Road	January 1998
Greenwich, CT	6 Liberty Way	May 1999
Westport, CT	427 Post Road, East	January 2002
West Hartford, CT	65 Memorial Road	November 2007
Princeton, NJ	301 North Harrison Street	May 1997
Matawan, NJ	450 Route 34	April 1998
Marlboro, NJ	34 Route 9 North	April 1998
Ramsey, NJ	1100 Route 17 North	June 1998
Mahwah, NJ	7 Leighton Place	June 1998
Springfield, NJ	215 Morris Avenue	August 1998
Colonia, NJ	1250 Route 27	August 1998

Hoboken, NJ	59 Newark Street	October 1998
West Caldwell, NJ	913 Bloomfield Avenue	April 1999

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Location	Address	Date Opened or Management Assumed
Jersey City, NJ	147 Two Harborside Financial Center	June 2002
Newark, NJ	1 Gateway Center	October 2002
Ridgewood, NJ	129 S. Broad Street	June 2003
Westwood, NJ	35 Jefferson Avenue	June 2004
Livingston, NJ	39 W. North Field Rd.	February 2005
Hoboken, NJ	210 14th Street	December 2006
Englewood, NJ	34-36 South Dean Street	December 2006
Clifton, NJ	202 Main Avenue	March 2007
Montclair, NJ	56 Church Street	January 2008
Butler, NJ	1481 Route 23	January 2009
East Brunswick, NJ	300 State Route 18	March 2009
Bayonne, NJ	550 Route 440 North	December 2011
Boston Sports Clubs:		
Boston, MA	1 Bulfinch Place	August 1998
Boston, MA	201 Brookline Avenue	June 2000
Boston, MA	361 Newbury Street	November 2001
Boston, MA	350 Washington Street	February 2002
Boston, MA	505 Boylston Street	January 2006
Boston, MA	560 Harrison Avenue	February 2006
Boston, MA	695 Atlantic Avenue	October 2006
Boston, MA	One Beacon Street	May 2013
Boston, MA	800 Boylston Street	May 2013
Boston, MA	100 Summer Street	May 2013
Boston, MA	540 Gallivan Road	October 2014
Boston, MA	95 Washington Street	November 2014
Allston, MA	15 Gorham Street	July 1997
Wellesley, MA	140 Great Plain Avenue	July 2000
Lynnfield, MA	425 Walnut Street	July 2000
Lexington, MA	475 Bedford Avenue	July 2000
Cambridge, MA	625 Massachusetts Avenue	January 2001
West Newton, MA	1359 Washington Street	November 2001
Waltham, MA	840 Winter Street	November 2002
Watertown, MA	311 Arsenal Street	January 2006
Newton, MA	135 Wells Avenue	August 2006
Somerville, MA	1 Davis Square	December 2007
Medford, MA	70 Station Landing	December 2007
Westborough, MA	1500 Union Street	September 2008
Woburn, MA	300 Presidential Way	December 2008
Wayland, MA	Wayland Town Center	November 2014
Providence, RI	131 Pittman Street	December 2008
Washington Sports Clubs:		
Washington, D.C.	1835 Connecticut Avenue, N.W .	January 1990
Washington, D.C.	2251 Wisconsin Avenue, N.W	May 1994
Washington, D.C.	1211 Connecticut Avenue, N.W	July 2000
Washington, D.C.	1345 F Street, N.W	August 2002
Washington, D.C.	783 Seventh Street, N.W	October 2004

Washington, D.C.	3222 M Street, N.W	February 2005
Washington, D.C.	14th Street, N.W	June 2008
North Bethesda, MD	10400 Old Georgetown Road	June 1998

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Location	Address	Date Opened or Management Assumed
Silver Spring, MD	8506 Fenton Street	November 2005
Bethesda, MD	6800 Wisconsin Avenue	November 2007
Fairfax, VA	11001 Lee Highway	October 1999
Clarendon, VA	2700 Clarendon Boulevard	November 2001
Philadelphia Sports Clubs:		
Philadelphia, PA	220 South 5th Street	January 1999
Philadelphia, PA	2000 Hamilton Street	July 1999
Chalfont, PA	One Highpoint Drive	January 2000
Philadelphia, PA	1735 Market Street	October 2000
Radnor, PA	555 East Lancaster Avenue	December 2006
Swiss Sports Clubs:		
Basel, Switzerland	St. Johanns-Vorstadt 41	August 1987
Zurich, Switzerland	Glarnischstrasse 35	August 1987
Basel, Switzerland	Gellerstrasse 235	August 2001
BFX Studio:		
Manhattan, NY	555 Sixth Avenue	September 2014
Manhattan, NY	30 Broad Street	March 2015
Boston, MA	699 Boylston Street	June 2015
Future openings:		
Manhattan, NY	1231 Third Avenue	

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Item 3. Legal Proceedings

On February 7, 2007, in an action styled White Plains Plaza Realty, LLC v. TSI, LLC et al., the landlord of one of TSI, LLC's former health and fitness clubs filed a lawsuit in state court against it and two of its health club subsidiaries alleging, among other things, breach of lease in connection with the decision to close the club located in a building owned by the plaintiff and leased to a subsidiary of TSI, LLC, the tenant, and take additional space in a nearby facility leased by another subsidiary of TSI, LLC. Following a determination of an initial award, which TSI, LLC and the tenant have paid in full, the landlord appealed the trial court's award of damages, and on August 29, 2011, an additional award (amounting to approximately $900,000) (the "Additional Award"), was entered against the tenant, which has recorded a liability. Separately, TSI, LLC is party to an agreement with a third-party developer, which by its terms provides indemnification for the full amount of any liability of any nature arising out of the lease described above, including attorneys' fees incurred to enforce the indemnity. As a result, the developer reimbursed TSI, LLC and the tenant the amount of the initial award in installments over time and also agreed to be responsible for the payment of the Additional Award, and the tenant has recorded a receivable related to the indemnification for the Additional Award. The developer and the landlord are currently litigating the payment of the Additional Award and judgment was entered against the developer on June 5, 2013, in the amount of approximately $1.0 million, plus interest, which judgment was upheld by the appellate court on April 29, 2015. TSI, LLC does not believe it is probable that TSI, LLC will be required to pay for any amount of the Additional Award.

On or about October 4, 2012, in an action styled James Labbe, et al. v. Town Sports International, LLC, plaintiff commenced a purported class action in New York State court on behalf of personal trainers employed in New York State. Labbe is seeking unpaid wages and damages from TSI, LLC and alleges violations of various provisions of the New York State labor law with respect to payment of wages and TSI, LLC's notification and record-keeping obligations. The Company completed settlement negotiations, pursuant to which TSI will pay its trainers the aggregate sum of $165,000 in exchange for full releases. The settlement agreement is currently in the process of being executed by the parties, which will become effective upon approval of the court and the class.

On January 21, 2016, in an action styled Triangle 17 Center, LLC v. Town Sports International Holdings (NJ), LLC, ET AL., a Landlord of one of TSI's competitors filed an action, claiming that TSI engaged in sham litigation to prevent the opening of a competitor's facility in close proximity to TSI's location in Ramsey, New Jersey. As this matter is in its infancy stage, it is difficult to determine what, if any, liability TSI may have in connection with this suit, however upon the initial advice of counsel TSI believes it has meritorious defenses to the claims asserted and as such TSI does not believe it is probable that TSI will be required to pay any amounts in connection with this litigation.

In addition to the litigation discussed above, the Company is involved in various other lawsuits, claims and proceedings incidental to the ordinary course of business, including personal injury, employee relations claims and landlord tenant disputes. The results of litigation are inherently unpredictable. Any claims against the Company, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources. The results of these other lawsuits, claims and proceedings cannot be predicted with certainty. The Company establishes accruals for loss contingencies when it has determined that a loss is probable and that the amount of loss, or range of loss, can be reasonably estimated. Any such accruals are adjusted thereafter as appropriate to reflect changes in circumstances. We currently believe that the ultimate outcome of such lawsuits, claims and proceedings will not, individually or in the aggregate, have a material adverse effect on our consolidated financial position, results of operations or liquidity. However, depending on the amount and timing, an unfavorable resolution of some or all of these matters could materially affect our future results of operations in a particular period.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Price Range of Common Stock

Our common stock currently trades on The NASDAQ Global Market, under the symbol CLUB. The following table sets forth, for each quarterly period in the last two fiscal years, the high and low sales prices (in dollars per share) of our common stock as quoted or reported on The NASDAQ Global Market:

	High	Low
Year ended December 31, 2015:		
First Quarter	$7.69	$6.00
Second Quarter	$7.01	$2.54
Third Quarter	$3.13	$1.92
Fourth Quarter	$3.08	$1.12
Year ended December 31, 2014:		
First Quarter	$14.70	$8.14
Second Quarter	$8.78	$5.65
Third Quarter	$7.36	$4.01
Fourth Quarter	$7.00	$5.37

Holders

As of March 1, 2016, there were approximately 109 holders of record of our common stock. There are additional holders who are not "holders of record" but who beneficially own stock through nominee holders such as brokers and benefit plan trustees.

Dividends Policy

On each of March 5, 2014 and June 5, 2014 the Company paid a quarterly cash dividend of $0.16 per share to common stock holders. The Company did not pay any dividends in 2015. The cash dividends were funded by available cash on hand.

The board of directors does not currently intend to pay dividends. The declaration and payment of dividends to holders of our common stock by us, if any, are subject to the discretion of our board of directors. Our board of directors will take into account such matters as general economic and business conditions, our strategic plans, our financial results and condition, contractual, legal and regulatory restrictions on the payment of dividends by us and our subsidiaries and such other factors as our board of directors may consider to be relevant. If we decide to pay a dividend, we may rely on cash on hand at TSI Holdings, which was $30.3 million at December 31, 2015, and distributions received from our subsidiaries to provide the funds necessary to pay dividends on our common stock. The existing credit agreement of TSI, LLC restricts the ability of our subsidiaries to pay cash distributions to TSI Holdings in order for TSI Holdings to pay cash dividends except (a) in an amount, when combined with certain prepayments of indebtedness, of up to $35.0 million, subject to pro forma compliance with a total leverage ratio of no greater than 4.50:1.00 and no default or event of default existing or continuing under the credit agreement, and (b) an additional amount based on excess cash flow, such additional amounts subject to pro forma compliance with a total leverage ratio of less than 4.00:1.00 and no default or event of default existing or continuing under the credit agreement.

Issuer Purchases of Equity Securities

We did not purchase any equity securities during the fourth quarter ended December 31, 2015.

Recent Sales of Unregistered Securities

We did not sell any securities during the year ended December 31, 2015 that were not registered under the Securities Act of 1933, as amended, other than as previously reported in a Current Report on Form 8-K.

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Stock Performance Graph

The graph depicted below compares the annual percentage change in our cumulative total stockholder return with the cumulative total return of the Russell 2000 and the NASDAQ composite indices.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Town Sports International Holdings, Inc, the NASDAQ Composite Index,
and the Russell 2000 Index

* $100 invested on 12/31/10 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

	December 31,					
	2010	2011	2012	2013	2014	2015
Town Sports International Holdings, Inc	$100.00	$181.03	$342.49	$479.68	$202.11	$40.42
NASDAQ Composite	$100.00	$100.53	$116.92	$166.19	$188.78	$199.95
Russell 2000	$100.00	$95.82	$111.49	$154.78	$162.35	$155.18

Notes :

(1) The graph covers the period from December 31, 2010 to December 31, 2015.

(2) The graph assumes that $100 was invested at the market close on December 31, 2010 in our common stock, in the Russell 2000 and in the NASDAQ composite indexes and that all dividends were reinvested.

(3) A special cash dividend of $3.00 per share of common stock was declared by our board of directors on November 16, 2012 to shareholders of record on November 30, 2012, paid on December 11, 2012. On each of November 26, 2013, March 5, 2014 and June 5, 2014, we paid a quarterly cash dividend of $0.16 per share to common stock holders.

(4) Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

(5) We include a comparison against the Russell 2000 because there is no published industry or line-of-business index for our industry and we do not have a readily definable peer group that is publicly traded.

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Notwithstanding anything to the contrary set forth in any of our previous or future filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate by reference this Annual Report on Form 10-K or future filings made by the Company under those statutes, the Stock Performance Graph is not deemed filed with the Securities and Exchange Commission, is not deemed soliciting material and shall not be deemed incorporated by reference into any of those prior filings or into any future filings made by the Company under those statutes, except to the extent that the Company specifically incorporates such information by reference into a previous or future filing, or specifically requests that such information be treated as soliciting material, in each case under those statutes.

Item 6. Selected Financial Data

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, 2015 and 2014 and the selected consolidated statement of operations and cash flow data for the years ended December 31, 2015, 2014 and 2013 have been derived from our audited consolidated financial statements included elsewhere herein. The selected consolidated balance sheet data as of December 31, 2013, 2012 and 2011 and the selected consolidated statement of operations and cash flow data for the years ended December 31, 2012 and 2011 have been derived from our audited consolidated financial statements not included herein. 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. You should read these selected consolidated financial and other data, together with the accompanying notes, in conjunction with the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of this Annual Report and our consolidated financial statements and the related notes appearing at the end of this Annual Report.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Statement of Operations Data:					
Revenues	$424,323	$453,842	$470,225	$478,981	$466,941
Operating expenses:					
Payroll and related	175,898	177,009	174,894	181,632	177,528
Club operating	196,725	192,716	179,683	178,950	176,463
General and administrative	30,683	31,352	28,431	24,139	25,799
Depreciation and amortization	47,887	47,307	49,099	49,391	51,536
Impairment of fixed assets	14,571	4,569	714	3,436	—
Impairment of goodwill	31,558	137	—	—	—
Gain on sale of building(1)	(77,146)	—	—	—	—
Gain on lease termination(2)	(2,967)	—	—	—	—
Insurance recovery related to damaged property(3)	—	—	(3,194)	—	—
Operating (loss) income	7,114	752	40,598	41,433	35,615
(Gain) loss on extinguishment of debt(4)	(17,911)	493	750	1,010	4,865
Interest expense, net of interest income	20,579	19,039	22,616	24,597	24,127
Equity in the earnings of investees and rental income	(2,361)	(2,402)	(2,459)	(2,461)	(2,391)
Income (loss) before (benefit) provision for corporate income taxes	6,807	(16,378)	19,691	18,287	9,014
(Benefit) provision for corporate income taxes(5)	(14,351)	52,611	7,367	6,321	2,699
Net loss (income)	$21,158	$(68,989)	$12,324	$11,966	$6,315

Earnings (loss) per share:					
Basic	$0.86	$(2.84)	$0.51	$0.51	$0.28
Diluted	$0.84	$(2.84)	$0.50	$0.50	$0.27
Dividends declared per common share(6)	$—	$0.32	$0.16	$3.00	$—

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	As of December 31, 2015	2014	2013	2012	2011
Balance Sheet Data:					
Cash and cash equivalents	$76,217	$93,452	$73,598	$37,758	$47,880
Working capital surplus (deficit)	27,947	52,280	27,830	(11,825)	(18,311)
Total assets	305,360	409,833	413,792	404,770	450,402
Long-term debt, including current installments	268,999	299,871	314,909	310,339	288,994
Total stockholders' (deficit) equity	(96,245)	(118,084)	(43,516)	(55,496)	354
Net debt(7)	199,200	214,832	251,402	277,985	243,870

	Year Ended December 31, 2015	2014	2013	2012	2011
Cash Flow Data:					
Cash provided by (used in):					
Operating activities	$24,870	$4,758	$67,388	$60,053	$74,885
Investing activities	(31,571)	(42,054)	(30,606)	(22,490)	(30,907)
Financing activities	(10,511)	57,503	(975)	(47,722)	(35,349)
Other Data:					
Non-cash rental income, net of non-cash rental expense	(3,647)	(5,399)	(5,692)	(4,037)	(3,663)
Non-cash share-based compensation expense	1,386	1,911	2,204	1,306	1,412

	Year Ended December 31, 2015	2014	2013	2012	2011
Club and Membership Data:					
New clubs opened	1	4	—	—	2
Clubs acquired	—	—	6	—	—
Clubs closed	(6)	(8)	(4)	—	(2)
Wholly-owned clubs operated at end of period	151	156	160	158	158
Total clubs operated at end of period(8)	152	158	162	160	160
BFX Studio at end of period	3	1	—	—	—
Total members at end of period(9)	541,000	484,000	497,000	510,000	523,000
Restricted members at end of period(10)	—	20,000	41,000	38,000	38,000
Comparable club revenue (decrease) increase(11)	(5.6)%	(4.2)%	(1.8)%	1.6%	1.8%
Revenue per weighted average club (in thousands)(12)	$2,777	$2,842	$2,971	$3,032	$2,934
Average revenue per member(13)	$823	$941	$934	$922	$915
Average Joining Fees collected per member(14)	$72	$75	$59	$57	$55
Annual attrition(15)	46.9%	44.3%	41.9%	41.0%	39.9%

(1) The $77,146 gain on sale of building in the year ended December 31, 2015 was related to the sale of our East 86th Street property. Refer to Note 10 – Gain on Sale of Building to the Company's consolidated financial statements for further details.

(2) The $2,967 net gain on lease termination in the year ended December 31, 2015 was related to the termination of a future lease for a planned club opening that was not yet effective.

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(3) The $3,194 of insurance recovery related to damaged property in the year ended December 31, 2013 related to property damaged by Hurricane Sandy.

(4) The $17,911 gain on extinguishment of debt recorded for the year ended December 31, 2015 included the write-off of related deferred financing costs and debt discount of $249 and $707, respectively. In the year ended December 31, 2015, TSI Holdings purchased $29,829 principal amount of debt outstanding under the 2013 Senior Credit Facility in the open market for $10,947, and such debt was transferred to TSI, LLC and cancelled.

The $493 loss on extinguishment of debt recorded for the year ended December 31, 2014 is comprised of the write-off of unamortized debt issuance costs and debt discount, in connection with the fourth quarter 2014 mandatory prepayment of $13,500 on the 2013 Term Loan Facility.

The $750 loss on extinguishment of debt recorded for the year ended December 31, 2013 is comprised of the write-off of net deferred financing costs and debt discount in connection with the November 15, 2013 debt refinancing. The proceeds from the 2013 Senior Credit Facility were used to repay the remaining outstanding principal amounts of the 2011 Senior Credit Facility of $315,743 plus accrued and unpaid interest.

The $1,010 loss on extinguishment of debt recorded for the year ended December 31, 2012 is comprised of a $464 write-off of net deferred financing costs and debt discount related to the August 22, 2012 debt repricing and a write-off of $546 of net deferred financing costs and debt discount in connection with the August 28, 2012 voluntary prepayment of $15,000 on our term loan facility.

The $4,865 loss on extinguishment of debt recorded for the year ended December 31, 2011 resulted from a debt refinancing on May 11, 2011. The proceeds from our 2011 Senior Credit Facility were used to repay the remaining outstanding principal amount of our 2007 Senior Credit Facility of $164,000 and the remaining outstanding principal amount of our senior discount notes due 2014 of $138,450. We incurred $2,538 of call premium on the senior discount notes together with the write-off of $2,327 of net deferred financing costs related to the debt extinguishment.

(5) Corporate income taxes for the year ended December 31, 2015 and 2014 included non-cash charges of $43,681 and $60,368, respectively, related to tax valuation allowances. Corporate income taxes for the year ended December 31, 2013, 2012 and 2011 included income tax benefits totaling $16, $483 and $343, respectively, related to the correction of accounting errors. For the year ended December 31, 2015, 2014 and 2013, see Note 15 — Corporate Income Taxes to the Company’s consolidated financial statements for further details.

(6) In April 2014, February 2014 and November 2013, the board of directors of the Company declared quarterly cash dividends of $0.16 per share. The quarterly dividend was discontinued in the second quarter of 2014.

In the year ended December 31, 2012, the board of directors of the Company declared a special cash dividend of $3.00 per share.

(7) Net debt represents the total principal balance of long-term debt outstanding, net of cash and cash equivalents.

(8) Includes wholly-owned and partly-owned clubs. Not included in the total club count are locations that are managed by us in which we do not have an equity interest. These managed sites include three fitness clubs located in colleges and universities and nine managed sites.

(9) Represents members (including restricted members) at wholly-owned and partly-owned clubs. Restricted members primarily include students and teachers.

(10) Restricted members ("Restricted Memberships") primarily include students and teachers. This membership allowed for club usage at restricted times, at a discount to other memberships offered. The Restricted Membership was discontinued as clubs transitioned to the lower pricing model and the Company aggregates all members beginning in fiscal 2015.

(11) 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.

(12) 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.

(13) Average revenue per member is total revenue from wholly-owned clubs for the period divided by the average number of memberships from wholly-owned clubs for the period, including Restricted Memberships prior to 2015, summer student

and summer pool memberships, 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.

(14) Average joining fees collected per member is calculated as total initiation and annual fees divided by the number of new members during each respective year. New members exclude pre-sold and summer pool membership, and include Restricted Memberships prior to 2015.

(15) Annual attrition is calculated as total member losses for the year divided by the average monthly member count over the year during each respective year. The member count excludes pre-sold and summer pool memberships and includes Restricted Memberships prior to 2015.

Item 7. 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 Annual Report and our consolidated financial statements and the related notes appearing at the end of this Annual Report. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions (see "FORWARD-LOOKING STATEMENTS" discussion). 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 "Item 1A. Risk Factors" of this Annual Report.

Overview

Based on the number of clubs, we are one of the leading owners and operators of fitness clubs in the Northeast and Mid-Atlantic regions of the United States ("U.S.") and one of the largest fitness club owners and operators in the U.S. As of December 31, 2015, the Company, through its subsidiaries, operated 152 fitness clubs ("clubs") and three BFX Studio ("studio") locations. Our clubs collectively served approximately 541,000 members as of December 31, 2015. We owned and operated a total of 105 clubs under the "New York Sports Clubs" ("NYSC") brand name within a 120-mile radius of New York City as of December 31, 2015, including 37 locations in Manhattan where we are the largest fitness club owner and operator. We owned and operated 27 clubs in the Boston region under our "Boston Sports Clubs" ("BSC") brand name, 12 clubs (one of which is partly-owned) in the Washington, D.C. region under our "Washington Sports Clubs" ("WSC") brand name and five clubs in the Philadelphia region under our "Philadelphia Sports Clubs" ("PSC") brand name as of December 31, 2015. In addition, we owned and operated three clubs in Switzerland as of December 31, 2015. We also have one partly-owned club that operated under a different brand name in Washington, D.C. as of December 31, 2015. 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 develop clusters of clubs to serve densely populated major metropolitan regions and we service such populations by clustering clubs near the highest concentrations of our target customers' areas of both employment and residence. Our clubs are located for maximum convenience to our members in urban or suburban areas, close to transportation hubs or office or retail centers. Our members include a wide age demographic covering the student market to the active mature market. 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.

We completed the introduction of a lower pricing model in the second quarter of 2015, offering reduced monthly dues. As of December 31, 2015, approximately 80% of our clubs were operating under this pricing model, with the remaining clubs principally comprising the Company's passport-only model. The clubs that are operating under the lower pricing model offer a similar level of service and amenities but at a lower price point. This model gives us an opportunity to recapture market share and compete against certain other gyms that opened in our markets. We believe our offerings are compelling because we include group exercise classes, top of the line equipment, pools and courts with price of certain memberships, when available. The effect of new members enrolling at lower monthly dues combined with members who cancelled who were paying higher monthly dues was only partially offset by an increase in membership sales volume. We continue to consider and make pricing adjustments in order to increase revenue while also driving membership growth.

We added 64,000 net members in the year ended December 31, 2015 compared to a net member loss of 13,000 in 2014. The ending member count of 541,000 included two adjustments decreasing the count during the year. In the third quarter we completed the conversion from our internally developed Club Management legacy system to a third-party developed software system which resulted in a one-time adjustment to our historical legacy member count of approximately 5,000 members. We believe this adjustment was non-revenue generated and therefore does not impact our consolidated financial statements. In addition there are approximately 2,000 members at one partly-owned club operating under a different brand name that were not

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included in the total member count as of December 31, 2015 however were included as of December 31, 2014 when the club was operating as a Washington Sports Club. We continue to account for this club as an equity investment.

Due to the rise in popularity of private studio offerings, we introduced our BFX Studio brand in 2014. We currently have three studio locations. This three-dimension luxury studio brand takes advantage of the rise in consumer demand for studio experiences. The studios include three unique offerings: Ride Republic, which is indoor cycling, Private Sessions for personal training and Master Class for certain group exercise classes. The studios are also staffed with high caliber instructors in each of the three core offerings and the studios are designed to appeal to all ages and all experience levels. This studio concept requires approximately 9,000 to 12,000 square feet of space per studio which compares to the approximately 27,000 square feet aggregate average size of our clubs.

In September 2014, we completed the previously announced legal sale of our East 86th Street property for gross proceeds of $85.7 million to an unaffiliated third-party, which housed one of our New York Sports Clubs as well as a retail tenant that generated rental income for us. This sale-leaseback transaction was characterized for accounting purposes as a financing rather than a sale until any continuing involvement in the property ceased. In December 2015, we terminated our current lease and the agreement to enter into our future lease with the purchaser/landlord, and received gross proceeds of $3.5 million in connection with the termination. Because the lease was terminated with no continuing involvement, this sale-leaseback transaction was accounted for as a completed sale. Under this treatment, we have recorded a $77.1 million gain, previously accounted for as a financing, on the sale of the property and, recorded in Gain on sale of building in our consolidated statements of operations for the year ended December 31, 2015. Refer to Note 10 – Sale of Building to our consolidated financial statements for further details.

In December 2015, TSI Holdings purchased $29.8 million principal amount of debt outstanding under the 2013 Senior Credit Facility in the open market for $10.9 million, and such debt was transferred to TSI, LLC and cancelled, which resulted in a gain on extinguishment of debt of $17.9 million, including the write-off of related deferred financing costs and debt discount of $249,000 and $707,000, respectively.

Revenue and Operating Expenses

We have two principal sources of revenue:

- Membership revenue: Our largest sources of revenue are dues inclusive of monthly membership fees, annual maintenance fees, initiation and processing fees paid by our members. In addition, we collect usage fees on a per visit basis for non-passport members using non-home clubs. These dues and fees comprised 76.0% of our total revenue for the year ended December 31, 2015. We recognize revenue from membership dues in the month when the services are rendered. Approximately 98% of our members pay their monthly dues by Electronic Funds Transfer, or EFT, while the balance is paid annually in advance. We recognize revenue from initiation and processing fees over the estimated average membership life and annual fees over a twelve month period.
- Ancillary club revenue: For the year ended December 31, 2015, we generated 17.3% of our revenue from personal training and 5.2% of our revenue from other ancillary programs and services consisting of Sports Club for Kids, racquet sports, Small Group Training and studio classes, as well as sales of miscellaneous sports products. We continue to grow ancillary club revenue by building on ancillary programs such as our personal training membership product and our fee-based Small Group Training programs.

We also receive revenue (approximately 1.5% of our total revenue for the year ended December 31, 2015) from the rental of space in our facilities to operators who offer wellness-related offerings, such as physical therapy and juice bars. In addition, we sell in-club advertising and sponsorships and generate management fees from certain club facilities that we do not wholly own. We also collect laundry related revenue for the laundering of towels for third parties. We refer to these revenues as Fees and other revenue.

Our performance is dependent in part on our ability to continually attract and retain members at our clubs. In the years ended December 31, 2015 and 2014, our attrition rate was 46.9% and 44.3%, respectively.

Our operating and selling expenses are comprised of both fixed and variable costs. Fixed costs include club and supervisory and other salary and related expenses, occupancy costs, including most elements of rent, utilities, 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, certain facility repairs and club supplies.

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

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development expenses. Payroll and related expenses are included in a separate line item on the consolidated statement of operations and are not included in general and administrative expenses. Approximately 40% of general and administrative expenses relate directly to club operations including phone and data lines, computer maintenance, business licenses, office and sales supplies, general liability insurance, recruiting and training.

As clubs mature and increase their membership base, fixed costs are typically spread over an increasing revenue base and operating margins tend to improve. Conversely, when our membership base declines, our operating margins are negatively impacted.

Our primary capital expenditures relate to the construction or acquisition of new club facilities and upgrading and expanding our existing clubs. The construction and equipment costs 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 partial replacement of the fitness equipment each year for which we are currently budgeting approximately 1% of projected annual revenue. Expansions of certain facilities are also performed from time to time, when incremental space becomes available on acceptable terms and utilization and demand for the facility dictate. In this regard, facility remodeling is also considered where appropriate.

Operating income is impacted by certain charges and benefits which can fluctuate year to year. In 2015, operating income included goodwill impairment charges of $31.6 million associated with the NYSC and BSC regions, and fixed asset impairment charges of $14.6 million related to underperforming clubs, partially offset by a gain on lease termination of $3.0 million. In 2014, operating income was impacted by fixed asset impairment charges of $4.6 million related to underperforming clubs. In 2013, operating income included benefits of $3.2 million resulting from insurance proceeds collected primarily in connection with property damaged by Hurricane Sandy and $424,000 related to the recognition of out of period non-cash rental income, partially offset by fixed asset impairment charges totaling $714,000.

	Year Ended December 31,					
	2015		2014		2013	
	($ amounts in thousands)					
Operating income	$7,114		$752		$40,598	
Increase (decrease) over prior period	846.0	%	(98.1	)%	(2.0	)%
Net income (loss)	$21,158		$(68,989	)	$12,324	
Increase (decrease) over prior period	130.7	%	(659.8	)%	3.0	%
Cash flows provided by operating activities	$24,870		$4,758		$67,388	
Increase (decrease) over prior period	422.7	%	(92.9	)%	12.2	%

Historically, we have focused on building or acquiring clubs 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 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. In contrast, operating income margins may be negatively impacted in the near term in our recent and planned club openings. In most cases, we are able to transfer many of the members of closed clubs to other clubs thereby enhancing overall profitability. During 2015, we opened one club and two studio locations. We also plan to open one additional location in 2016 for a lease signed in August 2014. In addition, our operating income margins have been, and may continue to be negatively affected by our conversion to the lower pricing model in a substantial majority of our clubs.

As of December 31, 2015, 151 of our fitness clubs were wholly-owned by us and our consolidated financial statements include the operating results of all such clubs. One location in Washington, D.C. was partly-owned by us, with our profit sharing percentage approximating 45%, and is treated as an unconsolidated affiliate for which we apply the equity method of accounting. We also partly owned another location in Washington D.C. that is not part of the WSC with a profit sharing percentage approximating 20% (after priority distributions) for which the equity accounting is also applied. In addition, we provide management services at locations where we do not have an equity interest which include three fitness clubs located in colleges and universities and nine managed sites.

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Comparable Club Revenue

We define comparable club revenue as revenue at those clubs that were operated by us for over 12 months and comparable club revenue increase (decrease) as revenue for the 13th month and thereafter as applicable as compared to the same period of the prior year.

	Comparable Club Revenue Increase (Decrease)	
	Quarter	Full-Year
2013		
First Quarter	(2.4)%	
Second Quarter	(1.7)%	
Third Quarter	(1.7)%	
Fourth Quarter (a)	(1.3)%	(1.8)%
2014		
First Quarter	(4.7)%	
Second Quarter	(4.5)%	
Third Quarter	(4.5)%	
Fourth Quarter	(3.9)%	(4.2)%
2015		
First Quarter	(3.5)%	
Second Quarter	(5.4)%	
Third Quarter	(7.1)%	
Fourth Quarter	(6.7)%	(5.6)%

(a) Comparable club revenue for the fourth quarter of 2013 excludes $424,000 of out of period rental income recognized resulting from the correction of an accounting error.

Key determinants of comparable club revenue increases (decreases) are new memberships, member retention rates, pricing and ancillary revenue increases (decreases).

Our member count increased 64,000 to 541,000 in 2015. The effect of new members enrolling at lower monthly dues combined with members who cancelled who were paying higher monthly dues was only partially offset by an increase in membership sales volume. We continue to consider and make pricing adjustments in order to increase revenue while also driving membership growth. The comparable club revenue declines experienced in 2013 and 2014 were primarily due to the impact of membership declines. We experienced an overall member loss of 13,000 in each of 2013 and 2014.

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Historical Club Count

	Year Ended December 31,		
	2015	2014	2013
Wholly-owned clubs operated at beginning of period	156	160	158
New clubs opened	1	4	—
Clubs acquired	—	—	6
Clubs closed	(6)	(8)	(4)
Wholly-owned clubs operated at end of period	151	156	160
Partly-owned clubs operated at end of period(1)	1	2	2
Total clubs operated at end of period(1)(2)(3)	152	158	162

(1) Excludes one partly-owned club that operated under a different brand name in our Washington, D.C. region.

(2) Includes wholly-owned and partly-owned clubs. Not included in the total club count are locations that are managed by us in which we do not have an equity interest. These managed sites include three fitness clubs located in colleges and universities and nine managed sites.

(3) Excludes three studio locations.

Consolidated Results of Operations

The following table sets forth certain operating data as a percentage of revenue for the periods indicated:

	Year Ended December 31,		
	2015	2014	2013
Revenues	100.0 %	100.0 %	100.0 %
Operating expenses:			
Payroll and related	41.5	39.0	37.2
Club operating	46.4	42.5	38.2
General and administrative	7.2	6.9	6.0
Depreciation and amortization	11.3	10.4	10.5
	106.4	98.8	91.9
Impairment of fixed assets	3.4	1.0	0.2
Impairment of goodwill	7.4	—	—
Gain on sale of building	(18.2)	—	—
Gain on lease termination	(0.7)	—	—
Insurance recovery related to damaged property	—	—	(0.7)
	(8.1)	1.0	(0.5)
Operating income	1.7	0.2	8.6
(Gain) loss on extinguishment of debt	(4.2)	0.1	0.1
Interest expense	4.9	4.2	4.8
Equity in the earnings of investees and rental income	(0.6)	(0.5)	(0.5)
Income (loss) before (benefit) provision for corporate income taxes	1.6	(3.6)	4.2
(Benefit) provision for corporate income taxes	(3.4)	11.6	1.6
Net income (loss)	5.0 %	(15.2)%	2.6 %

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Year ended December 31, 2015 compared to year ended December 31, 2014
Revenue
Revenue (in thousands) was comprised of the following for the periods indicated:

	Year Ended December 31,							
	2015			2014				
	Revenue	% Revenue		Revenue	% Revenue		% Variance	
Membership dues	$309,096	72.8	%	$343,185	75.6	%	(9.9	)%
Initiation and processing fees	13,644	3.2	%	12,044	2.7	%	13.3	%
Membership revenue	322,740	76.0	%	355,229	78.3	%	(9.1	)%
Personal training revenue	73,191	17.3	%	70,338	15.5	%	4.1	%
Other ancillary club revenue	22,138	5.2	%	22,304	4.9	%	(0.7	)%
Ancillary club revenue	95,329	22.5	%	92,642	20.4	%	2.9	%
Fees and other revenue	6,254	1.5	%	5,971	1.3	%	4.7	%
Total revenue	$424,323	100.0	%	$453,842	100.0	%	(6.5	)%

Total revenue decreased $29.5 million, or 6.5%, for the year ended December 31, 2015 compared to the year ended December 31, 2014, as a result of lower membership revenue partially offset by higher ancillary club revenue. Revenue decreased approximately $25.5 million at our clubs opened or acquired prior to December 31, 2013 and $11.7 million at clubs that closed subsequent to December 31, 2013. These decreases were partially offset by a $7.7 million increase in revenue from our clubs that were opened or acquired subsequent to December 31, 2013.
Membership dues revenue decreased $34.1 million in the year ended December 31, 2015 compared to the year ended December 31, 2014. The effect of new members enrolling at lower monthly dues combined with members who cancelled who were paying higher monthly dues was only partially offset by an increase in membership sales volume. The decline was also partially offset by an increase in annual fees recognized of $9.9 million. Beginning in the third quarter of 2014, new memberships charge an annual fee beginning on the first day of membership and on each annual anniversary date thereafter and are deferred and recognized, on a straight-line basis over 12 months. We continue to consider and make pricing adjustments in order to increase revenue while also driving membership growth.
Initiation and processing fees revenue increased $1.6 million in the year ended December 31, 2015 compared to the year ended December 31, 2014, primarily reflecting an increased amount of initiation fees charged during the first half of 2015 associated with an increase in membership sales volume, partially offset by a reduction in these fees charged during the second half of 2015 due to sales promotion. Our total member count increased 64,000 to 541,000 in 2015 compared to a decrease of 13,000 members in 2014 primarily due to the implementation of the lower pricing model. Initiation and processing fees are recognized into revenue over the estimated average membership life.
Personal training revenue increased $2.9 million to $73.2 million in the year ended December 31, 2015 compared to the year ended December 31, 2014. Personal training revenue increased as a percentage of total revenue from 15.5% in 2014 to 17.3% in 2015. Our long-term goal is to generate approximately 20% of revenue from personal training. We offer a multi-session personal training membership product and fee-based class offerings to generate additional revenue.
Other ancillary club revenue decreased $166,000 in the year ended December 31, 2015 compared to the year ended December 31, 2014, primarily driven by decreased revenue from guest fees as these fees were not charged in most of our clubs for the majority of the year ended December 31, 2015. These decreases were partially offset by increased revenue from our studio classes.
Comparable club revenue decreased 5.6% in the year ended December 31, 2015 compared to the prior year. The price of our membership dues and fees decreased which was partially offset by an increase in memberships at our comparable clubs.

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Operating Expenses

Operating expenses (in thousands) were comprised of the following for the periods indicated:

	Year Ended December 31,			
	2015	2014	$ Variance	% Variance
Payroll and related	$175,898	$177,009	$(1,111)	(0.6)%
Club operating	196,725	192,716	4,009	2.1%
General and administrative	30,683	31,352	(669)	(2.1)%
Depreciation and amortization	47,887	47,307	580	1.2%
Impairment of fixed assets	14,571	4,569	10,002	>100%
Impairment of goodwill	31,558	137	31,421	>100%
Gain on sale of building	(77,146)	—	(77,146)	N/M
Gain on lease termination	(2,967)	—	(2,967)	N/M
Operating expenses	$417,209	$453,090	$(35,881)	(7.9)%

N/M - not meaningful

Operating expenses increased due to the following factors:

Payroll and related. Payroll and related expenses for the year ended December 31, 2015 decreased $1.1 million, or 0.6%, compared to the prior year. Personal training payroll increased $2.4 million which was related to the increase in personal training revenue. The increase also included $3.0 million separation obligations related to the departure of certain executive officers and severance charges of $817,000 associated with certain employees. These increases were more than offset by decreased overhead expenses and club expenses of $7.3 million associated with headcount reductions and other cost savings initiatives. These cost reductions primarily occurred in the second half of 2015.

Club operating. Club operating expenses increased $4.0 million or 2.1% compared to the year ended December 31, 2014. This increase was principally attributable to the following:

- Marketing expenses increased $3.2 million in the year ended December 31, 2015 compared to the prior year principally due to increased advertising spend associated with the lower pricing model.
- Rent and occupancy expenses increased $2.5 million in the year ended December 31, 2015 compared to the prior year principally due to the following:

Mature clubs expenses increased $3.1 million resulting from rent escalations.

Expenses associated with newly opened and future clubs and studio locations had increased $919,000.

In the year ended December 31, 2014, we recognized $2.9 million of gains related to the reversal of deferred rent in connection with leases terminated early which decreased rent and occupancy expenses in that period.

Offsetting the above increases were savings of $4.6 million for closed clubs.

- The above increases were partially offset by the results of our cost savings initiatives.

General and administrative. General and administrative expense decreased $669,000, or 2.1%, in the year ended December 31, 2015 compared to the year ended December 31, 2014, primarily reflecting the results of our cost savings initiatives of $2.2 million, partially offset by increased general liability insurance expenses of $577,000 associated with an increase in reserves for claims related to prior periods. In addition, in 2015 there was an increase in costs of $200,000 associated with stock awards granted to the new members of the Board of Directors and $699,000 associated with the changes to our Board of Directors and other related expenses.

Depreciation and amortization. In the year ended December 31, 2015 compared to the year ended December 31, 2014, depreciation and amortization expense increased $580,000, or 1.2%, principally due to the addition of new locations during 2014 and 2015.

Impairment of fixed assets. In the year ended December 31, 2015, we recorded fixed asset impairment charges of $14.6 million compared to $4.6 million in the year ended December 31, 2014, all related to underperforming clubs.

Impairment of goodwill. As a result of the significant decrease in market capitalization and a decline in our current performance primarily due to existing members downgrading their memberships to those with lower monthly dues and new members enrolling at lower rates that occurred between February 28, 2015 and May 31, 2015, we performed an interim impairment test as of May 31, 2015. We concluded that there would be no remaining implied fair value of goodwill attributable

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to the NYSC and BSC regions. Accordingly, as of May 31, 2015, we wrote off $31.6 million of goodwill associated with these reporting units. The February 28, 2014 annual impairment test resulted in a goodwill impairment charge of $137,000 associated with the Outlier Clubs in the year ended December 31, 2014.

Gain on Sale of Building. On September 12, 2014, we completed the legal sale of our property (building and land) on East 86th Street, New York City, to an unaffiliated third-party for gross proceeds of $85.7 million, which included $150,000 of additional payments to the Company. Concurrent with the closing of the transaction, we leased back the portion of the property comprising our health club (“Initial Lease”) and had agreed to vacate the property in connection with the Purchaser's future development of a new luxury, high-rise multi-use building. In connection with vacating the property, we had agreed to enter into a new lease (“New Club Lease”) for approximately 24,000 square feet in the new building for the purpose of operating a health club upon completion of construction by the purchaser/landlord. This sale-leaseback transaction was characterized as a financing arrangement for accounting purposes rather than a sale until any continuing involvement has ceased.

On December 23, 2015, we terminated the Initial Lease and the agreement to enter into the New Club Lease and received gross proceeds of $3.5 million in connection with the termination. We must vacate the currently leased area by March 12, 2016 or we will be required to return the gross proceeds of the lease termination to the purchaser/landlord. Because the lease was terminated with no continuing involvement, this sale-leaseback transaction was accounted for as a completed sale as of December 23, 2015. Under this treatment, we have recorded a $77.1 million gain, previously accounted for as a financing, on the sale of the property, recorded in Gain on sale of building in our consolidated statements of operations for the year ended December 31, 2015. Refer to Note 10 – Building Financing Arrangement to our consolidated financial statements for further details.

Gain on lease termination. In the year ended December 31, 2015, we recorded a $3.0 million net gain on lease termination related to the termination of a future lease for a planned club opening that was not yet effective.

Gain (Loss) on Extinguishment of Debt

In the year ended December 31, 2015, TSI Holdings purchased $29.8 million principal amount of debt outstanding under the 2013 Senior Credit Facility in the open market for $10.9 million, and such debt was transferred to TSI, LLC and cancelled, which resulted in a gain on extinguishment of debt of $17.9 million, including the write-off of related deferred financing costs and debt discount of $249,000 and $707,000, respectively.

In the year ended December 31, 2014, loss on extinguishment of debt was $493,000, comprised of the write-off of unamortized debt issuance costs and debt discount in connection with the November 2014 mandatory prepayment of $13.5 million on the 2013 Term Loan Facility. This mandatory payment was related to the sale of the East 86th Street property pursuant to the terms of the 2013 Senior Credit Facility as described in the Liquidity and Capital Resources section.

Interest Expense

Interest expense increased by $1.5 million in the year ended December 31, 2015 compared to the year ended December 31, 2014, primarily reflecting the non-cash rental income related to our former tenant at the East 86th Street property. Because the legal sale of our East 86th Street property was characterized for accounting purposes as a financing rather than a sale, the rental payments following the sale during portions of the years ended December 31, 2014 and 2015 were treated as interest on the financing arrangement until any continuing involvement in the property ceased. In December 2015, we terminated our current lease and the agreement to enter into our future lease with the purchaser/landlord, so this sale-leaseback transaction was accounted for as a completed sale in December 2015. This was partially offset by a decrease in interest expense due to principal payments made on and purchases of debt outstanding under our 2013 Term Loan Facility.

(Benefit) Provision for Corporate Income Taxes

We recorded income tax benefit of $14.4 million during the year ended December 31, 2015, which included a decrease of $17.3 million (net of the elimination of federal effect of state deferred taxes) to the full valuation allowance against the U.S. net deferred tax assets. For year ended December 31, 2014, we had recorded a tax provision of $52.6 million. Our 2015 and 2014 effective tax rates were (211)% and (321)% in the years ended December 31, 2015 and 2014, respectively. Separate from the impact of valuation allowance, our 2015 and 2014 effective tax rate were 38% and 48%, respectively. Our effective tax rates for 2015 and 2014 were favorably impacted by tax benefits derived from the captive insurance arrangement by approximately 14% and 7%, respectively. Additionally, our effective rate was adversely impacted to 369% in connection with recording a valuation allowance against U.S. deferred tax assets during the year ended December 31, 2014 and by 249% for the change in valuation allowance against U.S. deferred tax assets during the year ended December 31, 2015.

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As of December 31, 2015, we have a net deferred tax liability of $61,000 as there is a full valuation allowance recorded against the U.S. net deferred tax assets. The state net deferred tax liability balance as of December 31, 2015 is $17,000. For the year ended December 31, 2014 we had a net deferred tax liability of $11.6 million as there was a full valuation allowance recorded against the U.S. net deferred tax assets. The state net deferred tax liability balance at December 31, 2014 was $3.3 million. The decrease in deferred tax liabilities was due to the impairment of goodwill and purchase of debt during 2015.

In assessing the realizability of deferred tax assets, we evaluate whether it is more likely than not (more than 50%) that some portion or all of the deferred tax assets will be realized. A valuation allowance, if needed reduces the deferred tax assets to the amount expected to be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in those periods in which temporary differences become deductible and/or net operating loss carry forwards can be utilized. We assess all positive and negative evidence when determining the amount of the net deferred tax assets that are more likely than not to be realized. This evidence includes, but is not limited to, prior earnings history, scheduled reversal of taxable temporary differences, tax planning strategies and projected future taxable income. Significant weight is given to positive and negative evidence that is objectively verifiable.

As required by the authoritative guidance on accounting for income taxes, we evaluate the realizability of deferred tax assets on a jurisdictional basis at each reporting date. Accounting for income taxes requires that a valuation allowance be established when it is more likely than not that all or a portion of the deferred tax assets will not be realized. In circumstances where there is sufficient negative evidence indicating that the deferred tax assets are not more likely than not realizable, we establish a valuation allowance. We have recorded valuation allowances in the amounts of $43.7 million and $60.4 million at December 31, 2015 and 2014, respectively.

In recording the valuation allowance, deferred tax liabilities associated with indefinite lived intangible assets generally cannot be used as a source of income to realize deferred tax assets with a definitive loss carry forward period. We do not amortize goodwill for book purposes but have amortized goodwill with tax basis for tax purposes. The deferred tax liabilities recorded at December 31, 2015 and 2014 relate to the tax effect of differences between the book and tax basis of goodwill that is not expected to reverse until some indefinite future period. The deferred tax liability recorded at December 31, 2014 related to the tax effect of differences between the book and tax basis of goodwill was reversed in 2015 due to the impairment of goodwill associated with the NYSC and BSC regions.

We are currently under examination in New York State (2006 through 2012). In September 2015, we consented to extend the assessment period for tax years 2006 - 2011 through March 31, 2016 and tax year 2011 through September 14, 2016. Related to this examination, on January 13, 2016, we received a revised assessment from the State of New York related to tax years 2006-2009 for $4.1 million, inclusive of $1.6 million of interest. We continue to evaluate the merits of the proposed assessment as new information becomes available during continued discussions with the State of New York. We have not recorded a tax reserve related to the proposed assessment. It is difficult to predict the final outcome or timing of resolution of any particular matter regarding these examinations. An estimate of the reasonably possible change to unrecognized tax benefits within the next 12 months cannot be made. Additionally, we are also under examination in New York City (2006 through 2012), which we have consented to extend the assessment period through December 31, 2016.

Year ended December 31, 2014 compared to year ended December 31, 2013

Revenue

Revenue (in thousands) was comprised of the following for the periods indicated:

	Year Ended December 31,				
	2014		2013		
	Revenue	% Revenue	Revenue	% Revenue	% Variance
Membership dues	$343,185	75.6 %	$358,761	76.3 %	(4.3)%
Initiation and processing fees	12,044	2.7 %	14,392	3.0 %	(16.3)%
Membership revenue	355,229	78.3 %			