

TOWN SPORTS INTERNATIONAL HOLDINGS INC  
Form 10-K  
February 28, 2019

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

Annual Report pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2018

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

Commission file number: 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.)  
1001 US North Highway 1, Suite 201, Jupiter, Florida 33477  
(Address and zip code of Registrant’s principal executive office)  
399 Executive Boulevard, Elmsford, New York 10523  
(Mailing address)  
(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

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

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  No

Indicate by check mark whether the registrant has submitted electronically, 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  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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2018 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$211.9 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 February 22, 2019, there were 27,923,569 shares of Common Stock of the Registrant outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for the 2019 Annual Meeting of Stockholders, to be filed not later than April 30, 2019 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.  
PART I

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (this “Annual Report”) contains “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995, 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 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,” “predicts,” “intends,” “plans,” “estimates,” “anticipates,” “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 made 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.

Item 1. Business

In this Annual Report, unless otherwise stated or the context otherwise indicates, references to “the Company,” “we,” “our,” “TSI Holdings” and similar references refer to Town Sports International Holdings, Inc. and its subsidiaries. References to “TSI LLC” refer to Town Sports International, LLC, and “TSI Group” refer to Town Sports Group, LLC, both of which are wholly-owned operating subsidiaries of the Company. The Company is a diversified holding company that owns subsidiaries engaged in a number of business and investment activities. The Company’s largest operating subsidiary, TSI LLC, has been involved in the fitness industry since 1973 and has grown to become one of the largest owners and operators of fitness clubs in the Northeast region of the United States (“U.S.”). TSI Group was formed in 2017 to invest in public and private equities and real estate. TSI Holdings’ corporate structure provides flexibility to make investments across a broad spectrum of industries in order to create long-term value for stockholders.

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## 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 and one of the largest fitness club owners and operators in the United States. Our 185 fitness clubs (“clubs”) collectively served approximately 627,000 members as of December 31, 2018. Our clubs operate under the various brand names below and are primarily located in the United States of America.

Brand	Count
New York Sports Clubs	98
Boston Sports Clubs	33
Washington Sports Clubs	10
Philadelphia Sports Clubs	5
Lucille Roberts	16
TMPL	2
Total Woman Gym and Spa	12
Palm Beach Sports Clubs	3
Christi’s Fitness	1
LIV Fitness	2
New York Sports Clubs - Switzerland	3
	185

We develop clusters of clubs to serve densely populated 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 main regions, 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.

In 2018, we acquired 25 clubs and constructed and opened one club. In 2017, we acquired 18 clubs and constructed and opened two clubs.

Over our 45-year history, since incorporating in 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 18,000 square feet, while our multi-recreational clubs average approximately 40,000 square feet. The aggregate average size of our clubs is approximately 25,000 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.

## Industry Overview

According to the most recent information released by the International Health, Racquet and Sports Club Association (“IHRSA”), the U.S. health club industry posted growth in revenue, memberships, and number of club locations. Revenue grew to \$30.0 billion in 2017 from \$27.6 billion in 2016, while membership increased to 60.9 million in 2017 from 57.2 million in 2016. The U.S. club count rose to 38,477 sites in 2017 from 36,540 sites in 2016. Research shows that more than one out of five Americans belonged to at least one U.S. health club or studio. Since 2008, membership has grown by 33.6%, while the total number of club-goers has increased by 31.5%. The total number of health club visits has also increased, amounting to 5.9 billion visits in 2017, up from 4.3 billion in 2008.

According to the Centers for Disease Control and Prevention, state prevalence of obesity continued to remain high across the country in 2017, with no state with a prevalence of obesity less than 20%. In 2017, 48 states had a prevalence of obesity of 25% or more and 29 of these states had a prevalence of obesity 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

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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 largest owners and operators of fitness clubs in the Northeast and Mid-Atlantic regions of the U.S. Our strong real estate presence in the New York, Boston, Washington, D.C., and Philadelphia 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 multiple clubs in our network, 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 37% of our members currently have memberships that allow them to use multiple clubs, 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, 2018, approximately 25% of all club usage was by members visiting clubs other than their home clubs. **A leveraged operating model designed for operational efficiencies.** We are one of the leading owners and operators of fitness clubs in the United States. As of December 31, 2018, we owned and operated 185 fitness clubs under various brand names, primarily located in the United States of America. Our portfolio of distinct brands across these regions, combined with our size and scale which allows for strategic and advantageous partnerships with our third-party vendors and suppliers throughout the organization, gives us a competitive advantage in the fitness market. We believe that our model enables us to scale more rapidly than our competitors. We have greater financial and other resources, which allows us to react to changes in pricing, marketing, and trends in the industry more quickly or effectively than other smaller size companies. We may secure better terms from vendors and devote more resources to technology infrastructure, fulfillment and marketing. We also focus our growth in areas we believe allow us to continue to gain efficiencies through leveraging our fixed costs. We believe we can improve financial performance by continuing to reduce expenses through operational efficiencies, leveraging technology and improving labor planning.

**Expertise in site selection.** We believe that our expertise in site selection for potential acquisitions and new clubs 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 process involving 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 that there are barriers to entry, particularly, 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. 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. These barriers of entry are significant in our metropolitan regions; however, they are not as challenging in our surrounding suburban locations.

### Business Strategy

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

**Growth through acquisitions.** We plan to continue to expand our club base through selective acquisitions. This is an important element of our corporate strategy as it strengthens our competitive position and expands and enhances the

services that we can offer to members. In 2018, we acquired 25 clubs and constructed and opened one new club. We expect to continue to acquire selective clubs to continue our expansion of club offerings, including clubs outside of our current regions. In the event we build and acquire additional new clubs, the club expansion is expected to be funded with cash on hand or through

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internally generated cash flows. We may also consider certain acquisitions other than health clubs to diversify the business while enhancing shareholder value.

Grow membership revenues. We seek to grow our membership revenues in existing clubs through driving membership growth and optimizing dues and member retention. We believe our offerings are compelling because we include group exercise classes, top of the line equipment, pools and courts in the price of certain memberships, when available. We will 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. We offer a multi-session personal training membership product and fee-based Small Group Training classes to generate additional revenue in most of our clubs. In addition, we offer Sports Clubs for Kids programs and spa services at select clubs.

Optimization of our clubs. We remain committed to optimizing our existing club base, including club closures when appropriate. We expect these profit margin initiatives will enable us to improve in club level economics across our portfolio, and to offset the competitive pressure in the geographic regions in which we compete.

Retain members by focusing on the member experience. Our Company's mission is "Bring the best out of every body." By building and nurturing a strong consumer centric culture, we are able to provide a clear road map for how we serve our members and deliver a superior 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 programs, Sports Clubs for Kids programs and spa services. We offer a variety of different sports facilities in our 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; continually increasing our attention to individual member needs; and investing in our digital ecosystem, 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 social media to help analyze the areas we can improve upon as well as the areas in which the members are satisfied overall.

Provide fitness experiences 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 an 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, we have a functional training zone within most of our clubs that feature an array of innovative equipment designed to maximize the member's workout. The functional training zones include a variety of functional training equipment, such as Total Body Resistance Exercise ("TRX" brand) suspension training frame, Kettle Bells, Battle Ropes and Power Sleds. Our functional training zones are open to members for free self-guided workouts, personal training sessions and fee-based programs.

### Marketing

Our in-house marketing team is responsible for brand positioning, brand strategy, lead generation, sales support and product innovation for the Company and all of its subsidiaries. The primary objective is to ensure that our brands seize market share and opportunities through well-defined and coordinated go-to-market strategies. We are organized to enable close collaboration between our marketing, sales 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 both existing members and future members. In order to have credible and authentic connections to create such desirability with our audience, we utilize a market segmentation strategy. A marketing segmentation strategy divides our target market into subgroups, whereby consumers in each of these subgroups share one or more characteristics. Using this knowledge, we develop specific plans, including personalized and mass marketing, to reach these targeted customers effectively. We seek to identify and understand consumers' individual motivations and goals in an effort to create meaningful products, services and experiences that build a lasting impression and brand loyalty.

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## Sales

We sell our memberships primarily through three channels: direct sales at the club level; through corporate and group sales; and through our websites. Through our corporate and group sales approach we concentrate on building long-term relationships with local and regional companies, organizations and other large groups.

We also sell individual memberships online for our standard membership types and the websites enable us to sell memberships for pre-established corporate and group programs. The websites also allow our members to give us direct feedback about our service levels and enables prospective members to sign up for a free one-day pass, free class trial or purchase a variety of short term guest passes. 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 websites also provide information about the respective club locations, program offerings, exercise class schedules and sales promotions. Job seekers can also begin the employment application process through the respective websites and investors can access financial information and resources.

## Memberships

We offer various types of memberships, including single club access and variations of multiple club access. At certain locations, we also offer memberships that include both gym access and spa services.

The membership prices are dependent on club location and whether the member joins under a “month-to-month” or “commit” contract. Under the commit contract, new members commit to a one-year membership, generally at a lower monthly rate than a month-to-month membership. A member may cancel a commit membership at any time for a fee. When the commit contract period is over, they retain membership as a month-to-month member until they choose to cancel. As of December 31, 2018, approximately 87% 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”) including a one-time initiation fee and the first annual fee. The annual fee is also charged on each anniversary of the enrollment date, however not considered a joining fee after the first payment. As of December 31, 2018, approximately 99% of our members pay their membership dues through monthly electronic fund transfers (“EFT”), with EFT membership revenue constituting approximately 75% of total consolidated revenue for the year ended December 31, 2018.

## Usage

Our total club usage, based on the number of member visits, was approximately 30 million member visits during a year. In the year ended December 31, 2018, approximately 25% 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 to elect to pay a per visit fee to use clubs that are not defined in their membership plan.

## Non-Membership Revenue

The table below presents non-membership revenue (in thousands) components as a percentage of total revenue for the years ended December 31, 2016 through 2018.

	For the Years Ended December 31,					
	2018	%	2017	%	2016	%
Total revenue	\$443,094	100.0%	\$403,042	100.0%	\$396,921	100.0%
Non-Membership Revenue:						
Personal training revenue	73,458	16.5 %	69,735	17.3 %	66,487	16.8 %
Other ancillary club revenue <sup>(1)</sup>	23,293	5.3 %	17,197	4.3 %	19,642	4.9 %
Fees and Other revenue <sup>(2)</sup>	5,737	1.3 %	5,876	1.4 %	6,361	1.6 %
Total non-membership revenue	\$102,488	23.1 %	\$92,808	23.0 %	\$92,490	23.3 %

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

(2) Fees and other revenue primarily consists of rental income, marketing revenue, management fees and laundry service fees.

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 regions, 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 68% of our existing clubs are fitness-only and 32% are multi-recreational. Our fitness-only clubs generally range in size from 15,000 to 25,000 square feet and average approximately 18,000 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 40,000 square feet.

Our existing club base consists of clubs which we have developed and constructed as well as clubs we have acquired. Over the past three years from January 1, 2016 to December 31, 2018, we constructed six new clubs, acquired 43 clubs, closed or relocated 16 clubs, and transitioned one club to a licensed location. Currently, 89 of our clubs, or approximately 48% of our existing club base, were from acquisitions of privately owned single and multi-club businesses. In the year ended December 31, 2018, we acquired 25 clubs, opened one new club, closed six clubs, and transitioned one club to a licensed location, ending the year with 185 total clubs under operation. This compares to the acquisition of 18 clubs, construction and opening of two clubs, and five club closures during the year ended December 31, 2017. In both 2018 and 2017, we also upgraded certain existing clubs and plan to continue to do so in 2019.

Our facilities include a mix of both leased and owned cardiovascular and strength equipment from some of the best manufacturers. At many locations, additional amenities are also offered, including swimming pools, racquet and basketball courts, functional training zones and babysitting services. Personal training services are offered 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 the following:

**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 session with a fitness manager or a personal trainer who helps to develop a customized routine that supports the member's fitness goals. This initial assessment session includes a 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. 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 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, and Pilates classes. Instructors report through local club management and are further supported by regional managers responsible for ensuring

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consistency in class content, scheduling, training and instruction. We also provide Small Group Training offerings, which are fee-based programs that have smaller groups, and provide more focused, and typically more advanced 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, 2018, Sports Clubs for Kids was being offered in certain club locations throughout our 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.

### 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 monitor, replace or upgrade key technology services and infrastructure.

All of our clubs use a third-party hosted management system to process memberships, bill members, process point of sales transactions, and track member usage of the clubs. In addition, the management system tracks and analyzes key operating measurements such as membership statistics, cancellations, cross-club utilization, member tenure, and demographics profiles.

We continue to create a more customizable and efficient experience for members through updated digital tools, which included an enhanced website and mobile application. These digital tools enable feature membership sign up, club location search, class schedules and booking, training information, custom profiles for group fitness instructors and trainers. In addition, members are able to customize their group fitness experience based on fitness goals and preferences through a personalized search feature. We continue to enhance the digital tools accessibility to increase our online presence and member engagement.

Our back-office computer systems are comprised of a variety of technologies designed to assist in the management and analysis of our revenues, costs and key operational metrics, as well as support the daily operations of our clubs and corporate offices. These systems include an on premise financial system, a third-party hosted data warehouse, a third-party hosted telephone system and call center software to manage and track member service experiences.

We regularly implement cost effective technology solutions to accommodate growth, provide network redundancy, secure operating practices, better manage telecommunications and data costs, increase efficiencies in operations and improve management of all components of our technical architecture, including business continuity and 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, LUCILLE ROBERTS, TMPL, SPORTS CLUBS FOR KIDS, COMPANIESGETFIT.COM, MASTER CLASS, LATITUDE SPORTS CLUBS, TOTAL WOMEN GYM AND SPA, CHRISTI’S FITNESS, LIV FITNESS CLUBS, WESTBORO TENNIS & SWIM CLUB and PALM BEACH SPORTS CLUBS. 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. In each of the regions 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;
- private studios, and other boutique fitness offerings;
- 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;
- the home-use fitness equipment industry; and
- online fitness coaching.

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

We consider our traditional service offerings to be 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 regions 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.

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. Additionally, we face competition from the rising popularity and demand for private studios offering niche boutique experiences.

There can be no assurance that we will be able to compete effectively in the future in the regions in which we operate. Competitors, who may include companies that are larger and have greater resources than us, may enter these regions 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 regions. However, such a competitor could enter these regions 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.

### Seasonality of Business

Seasonal trends have a limited effect on our overall business. Generally, we experience greater membership through increased sales 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.



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### 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 EFT 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, 2018, we had approximately 7,700 employees, of whom approximately 1,800 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 a culture of openness, innovation and inclusiveness that creates a high level of work accountability. We have good relations with our employees and are proud to offer them a great work environment with opportunities for growth and development.

### Available Information

We make available through our web site at <https://www.townsportsinternational.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 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 <https://www.townsportsinternational.com>. In addition, you may automatically receive email alerts

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and other information about the Company by enrolling through the “Email Alerts” section at <https://www.townsportsinternational.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. 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

We are dependent on our Chief Executive Officer. In addition, the loss of key personnel and/or failure to attract and retain highly qualified personnel could make it more difficult for us to develop our business and enhance our financial performance.

We are dependent on the continued services of our senior management team, including our Chief Executive Officer, Patrick Walsh. We believe the loss of Mr. Walsh could have a material adverse effect on us and our financial performance. Currently, we do not have any long-term employment agreements with our executive officers, and we may not be able to attract and retain sufficient qualified personnel to meet our business needs.

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 age and condition of our clubs and equipment, 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. 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 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.

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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 regions 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 might not be able to compete effectively in the future in the regions in which we operate. Competitors include companies that are larger and have greater resources than us and also may enter these regions 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 regions. 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 regions in which we operate to open a chain of clubs in these regions through one, or a series of, acquisitions.

The success of our business depends on our ability to retain the value of our brands.

Our ability to maintain our brand image and reputation is integral to our business. Maintaining, promoting and growing our brands will depend largely on the success of our marketing efforts and our ability to provide a consistent, high-quality member experience. Our reputation could be jeopardized if we fail to maintain high standards for member experiences, fail to maintain high ethical, social, and environmental standards for all of our operations and activities, or we fail to appropriately respond to concerns associated with any of the foregoing or any other concerns from our members. We could be adversely impacted if we fail to achieve any of these objectives or if the reputation or image of any of our brands is tarnished or receives negative publicity. In addition, adverse publicity about regulatory or legal action against us, or by us, could damage our reputation and brand image. Damage to our reputation or loss of consumer confidence for any of these reasons may result in fewer memberships sold or renewed, which in turn could materially and adversely affect our results of operations and financial condition.

We continue to experience revenue pressure, which may adversely affect 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 continue to experience revenue pressure as the fitness industry continues to be highly competitive in the geographic regions in which we compete. We continue to strategize on improving our financial results and focus on increasing membership in existing clubs to increase revenue. We may consider additional actions within our control, including certain acquisitions, licensing arrangements, the closure of unprofitable clubs upon lease expiration and the sale of certain assets. Our ability to continue to meet our obligations is dependent on our ability to generate positive cash flow from a combination of initiatives, including those mentioned above. Failure to continue 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, additional reductions in working capital, debt restructurings and the deferral of

capital expenditures. There can be no assurance that such alternatives would be available to us or that we would be successful in their implementation.



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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 years ended December 31, 2018 and 2017, we closed six and five clubs, respectively. In the year ended December 31, 2018 and 2017, we recognized fixed asset impairment charges of \$2.1 million and \$6.5 million, respectively, at underperforming clubs. 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, 2018, we owned and operated 185 clubs under various brand names, primarily located in the United States of America. 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 our markets, 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.

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 clubs, 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 clubs and open new clubs on time or at all and thereby generate revenue. If we lose such suppliers or our suppliers

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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 clubs, 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 clubs, 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 clubs.

We also use social medial platforms as marketing tools. For example, we maintain Facebook, Instagram 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 fail to comply with applicable privacy, security, and data laws, regulations and standards, our business could be materially and adversely affected.

We use electronic mail ("email"), text messages and phone calls to market our services to potential members and as a means of communicating with our existing members. The laws and regulations governing the use of telephonic communication, including but not limited to emails, text messages and phone calls, for commercial purposes continue to evolve. Because messaging and phone calls are important to our business, if we are unable to successfully deliver messages or make phone calls to existing members and potential members, if there are legal restrictions on delivering these messages to consumers, or if consumers do not or cannot receive our messages or phone calls, our revenues and profitability could be adversely affected. If new laws or regulations are adopted, or existing laws and regulations are interpreted, to impose additional restrictions on our ability to call or send email or text messages to our members or potential members, we may not be able to communicate with them in a cost-effective manner and it may limit our ability to utilize such forms of communication. In addition to legal restrictions on the use of emails, text messages and phone calls for commercial purposes, service providers and others attempt to block the transmission of unsolicited messages, commonly known as "spam." Many service providers have relationships with organizations whose purpose it is to detect and notify the service providers of entities that the organization believes is sending unsolicited messages. If a service provider identifies messaging from us as "spam" as a result of reports from these organizations or otherwise, we could be placed on a restricted list that will block our messages to members or potential members. If we are restricted or unable to communicate through emails, text messages or phone calls with our members and potential members as a result of legislation, regulation, blockage or otherwise, our business, operating results and financial

condition could be adversely effected.

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 at acceptable costs 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 region. We face competition from

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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 a new club.

Acquisitions could result in operating difficulties, dilution, and other consequences that may adversely impact our business and results of operations.

Part of our key strategy is to grow through acquisitions. We expect to continue to evaluate and enter into discussions regarding a wide array of potential strategic transactions. There can be no assurance that we will continue to be able to successfully integrate these acquisitions into our existing business without substantial costs, delays or other operational or financial difficulties. The areas where we face risks include:

- diversion of management time and focus from operating our business to acquisition integration challenges;
- difficulties in the transition of acquired members onto our systems timely;
- difficulties in accounting for acquired companies that remain under management contracts relating to accounting for operating results and vendor and payroll information;
- challenges related to the compliance with local laws when acquiring into new jurisdictions;
- the acquired businesses failing to provide, or delays in realizing, the benefits originally anticipated;
- integration of the acquired company's accounting, human resource, and other administrative systems, and coordination of sales and marketing functions;
- challenges related to the lack of experience in operating in the geographical regions of the acquired business;
- unanticipated contract or regulatory issues and the assumption of, and exposure to, unknown or contingent liabilities of the acquired businesses.

We anticipate that any future acquisitions we pursue as part of our business strategy may be financed through a combination of cash on hand, operating cash flow and availability under our existing credit facility. If new debt is added to current debt levels, or if we incur other liabilities, including contingent liabilities, in connection with an acquisition, the debt or liabilities could impose additional constraints and requirements on our business and financial performance, which could materially adversely affect our financial condition and operations.

If an acquisition is not successfully completed or integrated into our existing operations or does not result in the benefits we expect, as a result of the factors mentioned above or otherwise, our business, financial condition or results of operations may be adversely affected. In addition, failure to integrate successfully or realize the anticipated business opportunities and growth prospects from our acquisitions, could result in unanticipated expenses and losses and may require significant financial resources that would otherwise be available for the ongoing development or expansion of our existing operations. Accordingly, in connection with any acquisition, there can be no assurance as to whether or when any benefits or cost synergies we hope to achieve will occur, or the extent to which they actually will be achieved.

We have, and will continue to have, significant lease obligations. We are subject to risks associated with leasing substantial amounts of space, including future increases in occupancy costs and the need to generate significant cash flow to meet our lease obligations.

We have, and will continue to have, significant lease obligations. We lease substantially all of our fitness club locations pursuant to long-term leases (generally 15 to 20 years, plus option periods). During the next five years, or the period from January 1, 2019 through December 31, 2023, we have leases for 27 club locations that are due to expire without any renewal options, six of which expire in 2019, and 69 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.

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In addition to future minimum lease payments, some of our club leases provide for additional rental payments based on a percentage of net sales, or “percentage rent,” if sales at the respective clubs exceed specified levels, as well as the payment of common area maintenance charges, real property insurance, and real estate taxes. Many of our lease agreements have defined escalating rent provisions over the initial term and any extensions.

We depend on cash flow from operations to pay our lease expenses. If our business does not generate sufficient cash flow from operating activities to fund these expenses, we may not be able to service our lease expenses, which could materially harm our business. Furthermore, the significant cash flow required to satisfy our obligations under the leases increases our vulnerability to adverse changes in general economic, industry, and competitive conditions, and could limit our ability to fund working capital, incur indebtedness, and make capital expenditures or other investments in our business.

If an existing or future club is not profitable, and we decide to close it, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. Moreover, even if a lease has an early cancellation clause, we may not satisfy the contractual requirements for early cancellation under that lease. Our inability to enter into new leases or renew existing leases on terms acceptable to us or be released from our obligations under leases for clubs that we close could materially adversely affect us.

We may experience prolonged periods of losses in our recently opened clubs and when we open new clubs in existing regions 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. The sale of 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 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, Mid-Atlantic, Florida, California, and Puerto Rico regions of the United States. In the case of existing regions, our experience has been that opening new clubs may attract some memberships away from other clubs already operated by us in those regions and diminish their revenues. In addition, as a result of new club openings in existing regions 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.





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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 Annual Report. 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 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 EFT from members’ bank accounts and, therefore, we are subject to federal, state and provincial legislation and certification requirements governing 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

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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.

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 would have reached the end of its life cycle. Correcting any disruptions or failures that affect our proprietary system 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 or changes in the industry could place strains on our management, employees, information systems and internal controls, which may adversely impact our business.

Future expansion or changes in the industry will place increased demands on our administrative, operational, financial and other resources. Any failure to manage such growth or changes effectively could seriously harm our business. To be

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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 one commercial bank as of December 31, 2018 totaled \$24.6 million. During 2018, in any one month, the amount held in one commercial bank has been as high as approximately \$45.9 million.

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 stockholders 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 (except in California and Florida) and are not refundable or redeemable by the member for cash. We had collected approximately \$12.4 million and \$12.5 million for unused and expired personal training sessions that had not been recognized as revenue and was recorded as deferred revenue as of December 31, 2018 and 2017, respectively. For six of the jurisdictions in which we operate, we have concluded, based on opinions from outside counsel, that monies paid to the company for unused and expired personal training sessions were not escheatable. For the remaining jurisdictions in which we operate, we have likewise concluded that the monies paid to the company for unused personal training sessions were not escheatable, regardless of whether they expire. However, we have not yet obtained opinions from outside counsel for these jurisdictions. It is possible however, 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. The State of New York has informed us that it is considering whether we are required to remit the amount received by the Company for unused, expired personal training sessions to the State of New York as unclaimed property.

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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, 2018, certain of our state and local tax returns from years 2006 through 2014 were 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, we disagree with the proposed assessment dated December 12, 2016 from the State of New York and attended a conciliation conference with the New York State Department of Taxation and Finance Audit section on June 7, 2017. No settlement was reached at the conference and the proposed assessment was sustained. As such, in a revised letter dated November 30, 2017, we received from the State of New York a revised assessment related to tax years 2006-2009 for approximately \$5.1 million, inclusive of approximately \$2.4 million of interest. The Company has appealed the assessment with the New York State Division of Tax Appeals. On November 17, 2017, we were notified that the State of New York proposed an adjustment in the amount of approximately \$3.9 million for the years 2010 to 2014, inclusive of approximately \$757,000 in interest. In November 2018, we met with the Department officials for the assessment related to 2010 to 2014. The meeting ended with the company disagreeing with the proposed assessment for the years in audit. Subsequently, in a letter dated February 4, 2019, the interest amount is revised to \$1.2 million.

The Company is also under examination in New York City (2006 through 2014). New York City Department of Finance has proposed an audit change notice to the Company dated May 2, 2018, for the tax years ended December 31, 2006 through December 31, 2009 for proposed general corporation tax liability in the amount of \$4.8 million plus \$4.1 million in interest. In a letter dated January 18, 2019, NYC Department of finance has issued a proposed general tax liability of \$5.6 million, inclusive of \$1.6 million in interest for audit periods 2010 to 2014.

We currently are in the process of appealing the assessment with the New York State Division of Tax Appeals. We have not recorded a tax reserve related to the proposed assessments. 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.

### 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”). On November 8, 2018, the 2013 Senior Credit Facility was amended, which modified the revolving loan facility amount to \$15.0 million from \$45.0 million. The 2013 Term Loan Facility matures on November 15, 2020, and the amended 2013 Revolving Loan Facility matures on August 14, 2020.

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, 2018, the principal amount of debt outstanding under our 2013 Term Loan Facility was \$197.8 million. The 2013 Term Loan Facility expires on November 15, 2020. In addition, as of December 31, 2018, under the 2013 Revolving Loan Facility there were no outstanding borrowings and outstanding letters of credit issued associated with this revolving loan facility totaled \$2.2 million, which if still outstanding, will likely need to be funded by our cash upon the expiration of the 2013 Revolving Loan Facility on

August 14, 2020. The Company also had \$2.0 million in outstanding letters of credit issued that were not associated with the 2013 Revolving Credit Facility to secure certain lease related obligations. The unutilized portion of the 2013 Revolving Loan Facility as of December 31, 2018 was \$12.8 million, with borrowings under such facility subject to the conditions applicable to borrowings under our 2013 Senior Credit Facility, which conditions we may or may not be able to satisfy at the time of borrowing. Our substantial debt could have important consequences, including:

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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 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 at variable interest rates;  
limiting our ability to refinance our existing indebtedness on favorable terms before the expiration of the current 2013 Term Loan Facility, 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. 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.

Credit market volatility may affect our ability to refinance our existing debt, borrow funds under our existing lines of credit or incur additional debt.

Future disruption and volatility in credit market conditions could have a material adverse impact on our ability to refinance debt when it comes due on terms similar to our current credit facilities, or to draw upon existing lines of credit or incur additional debt if needed as a result of unanticipated downturns in the markets for our products and services, which may require us or our subsidiaries to seek other funding sources to meet our cash requirements. We cannot be certain that alternative sources of financing would be available in the future on terms and conditions that are acceptable.

Our outstanding indebtedness and the inability to renew or refinance our 2013 Senior Credit Facility could materially adversely affect our financial condition and our ability to operate our business.

We will need to refinance our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or that the terms of any refinancing may not be as favorable as the terms of our existing debt or refinance our existing debt at all. Furthermore, if prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, then the interest expense relating to that refinanced indebtedness would increase. In addition, changes by any rating agency to our outlook or credit rating could negatively affect the value of both our debt and equity securities, which could adversely affect our ability to refinance existing debt or raise additional capital. These risks could impair the Company's liquidity and would likely have a material adverse effect on our businesses, financial condition and results of operations.

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;



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purchase or redeem stock;  
make investments and extend credit;  
engage in transactions with affiliates;  
engage in sale-leaseback transactions;  
consummate certain asset sales or club acquisitions;  
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 terms of the 2013 Senior Credit Facility, as amended, provide for a financial covenant in the situation where the total utilization of the revolving loan commitments exceeds 20%, or \$3.0 million, of the aggregate amount of those commitments. In such event, TSI LLC is required to maintain a total leverage ratio, as defined in the 2013 Senior Credit Facility, of no greater than 4.00:1.00. As of December 31, 2018, TSI LLC had outstanding letters of credit of \$2.2 million and a total leverage ratio that was below 4.00:1.00. Other than these outstanding letters of credit, TSI LLC did not have any amounts utilized on the 2013 Revolving Loan Facility.

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 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 stockholders will likely limit your ability to influence corporate matters. As of February 22, 2019, the Company had two stockholders (including Patrick Walsh, the Chief Executive Officer and Chairman of our board of directors) which, together with each such stockholder's affiliates, beneficially owned 11.0% and 30.4% of our outstanding common stock, respectively, based on public filings made by such stockholders. Each of these stockholders may vote their stock with respect to certain matters, including any determinations with respect to mergers or other business 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;

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operating and stock price performance of other companies that investors deem comparable to us;  
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. Investor percentage ownership in us may be diluted by future issuances of capital stock, which could reduce investor 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 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 own our 1000 Sunrise Highway location in Massapequa, New York, which houses one of our clubs and a retail tenant. This property was acquired in November 2017. In Florida, we own both the 1250 Old Dixie Highway location and 4540 Donald Ross Road location, which were acquired in January 2018 and August 2018, respectively. These properties each house one of our clubs.

We lease the remainder of our fitness clubs pursuant to long-term leases (generally 15 to 20 years, plus option periods). In the next five years, or the period from January 1, 2019 through December 31, 2023, we have leases for 27 club locations that are due to expire without any renewal options, six of which are due to expire in 2019, and 69 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 office space in Jupiter, Florida and New York City, both used 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 the New York Sports Clubs offering towel service, and for construction and equipment storage. This space also serves as corporate office



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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.

The following table provides information regarding our club locations:

Location	Address	Date Opened or Management Assumed
New York Sports Clubs:		
Manhattan, NY	61 West 62nd Street	July 1983
Manhattan, NY	1601 Broadway	September 1991
Manhattan, NY	349 East 76th Street	April 1994
Manhattan, NY	248 West 80th Street	May 1994
Manhattan, NY	502 Park Avenue	February 1995
Manhattan, NY	303 Park Avenue South	December 1995
Manhattan, NY	1635 Third Avenue	October 1996
Manhattan, NY	575 Lexington Avenue	November 1996
Manhattan, NY	278 Eighth Avenue	December 1996
Manhattan, NY	200 Madison Avenue	February 1997
Manhattan, NY	633 Third Avenue	April 1998
Manhattan, NY	217 Broadway	March 1999
Manhattan, NY	23 West 73rd Street	April 1999
Manhattan, NY	1372 Broadway	October 1999
Manhattan, NY	300 West 125th Street	May 2000
Manhattan, NY	128 Eighth Avenue	December 2000
Manhattan, NY	2527 Broadway	August 2001
Manhattan, NY	3 Park Avenue	August 2001
Manhattan, NY	10 Irving Place	November 2001
Manhattan, NY	230 West 41st Street	November 2001
Manhattan, NY	1221 Avenue of the Americas	January 2002
Manhattan, NY	200 Park Avenue	December 2002
Manhattan, NY	232 Mercer Street	September 2004
Manhattan, NY	225 Varick Street	August 2006
Manhattan, NY	885 Second Avenue	February 2007
Manhattan, NY	301 West 145th Street	October 2007
Manhattan, NY	1400 5th Avenue	December 2007
Manhattan, NY	75 West End Avenue	April 2013
Manhattan, NY	555 Sixth Avenue	September 2014
Manhattan, NY	28-30 Avenue A	March 2015
Manhattan, NY	30 Broad Street	March 2015
Manhattan, NY	1231 Third Avenue	February 2017
Manhattan, NY	4 Astor Place	May 2017
Manhattan, NY	139 West 32nd Street	September 2018
Manhattan, NY	1915 3rd Avenue	September 2018
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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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

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Location	Address	Date Opened or Management Assumed
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 Boulevard	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
Great Neck, NY	15 Barstow Road	July 1989
East Meadow, NY	625 Merrick Avenue	January 1999
Commack, NY	6136 Jericho Turnpike	January 1999
Massapequa, NY	1000 Sunrise Highway	November 2017
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
Greenwich, CT	6 Liberty Way	May 1999
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
Springfield, NJ	215 Morris Avenue	August 1998
Hoboken, NJ	59 Newark Street	October 1998
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 Road	February 2005
Hoboken, NJ	210 14th Street	December 2006
Englewood, NJ	34-36 South Dean Street	December 2006



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Clifton, NJ	202 Main Avenue	March 2007
Montclair, NJ	56 Church Street	January 2008
Butler, NJ	1481 Route 23	January 2009

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Location	Address	Date Opened or Management Assumed
East Brunswick, NJ	300 State Route 18	March 2009
Bayonne, NJ	550 Route 440 North	December 2011
Lucille Roberts:		
Manhattan, NY	50 East 42nd Street	September 2017
Manhattan, NY	1387 Nicholas Avenue	September 2017
Bronx, NY	2449 Morris Avenue	September 2017
Brooklyn, NY	430 89th Street	September 2017
Brooklyn, NY	925 Kings Highway	September 2017
Brooklyn, NY	1950 Ralph Avenue	September 2017
Queens, NY	32-62 Steinway Street	September 2017
Queens, NY	135-39 38th Avenue	September 2017
Queens, NY	70-20 Austin Street	September 2017
Commack, NY	6534 Jericho Turnpike	September 2017
Bay Shore, NY	1850 Sunrise Highway	September 2017
Holbrook, NY	5801 Sunrise Highway	September 2017
Rockville Centre, NY	298 Sunrise Highway	September 2017
Valley Stream, NY	225 West Merrick Road	September 2017
Clifton, NJ	1075 Bloomfield Avenue	September 2017
Jersey City, NJ	338 Central Avenue	September 2017
TMPL:		
Manhattan, NY	355 West 49th Street	December 2017
Manhattan, NY	125 Seventh Avenue South	December 2018
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
Boston, MA	699 Boylston Street	June 2015
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

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Westborough, MA	1500 Union Street	September 2008
Westborough, MA	35 Chauncy Street	January 2018
Woburn, MA	300 Presidential Way	December 2008
Wayland, MA	Wayland Town Center	November 2014

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Location	Address	Date Opened or Management Assumed
Providence, RI	131 Pittman Street	December 2008
Haverhill, MA	3 Ferry Street	December 2018
Methuen, MA	116 Pleasant Valley Street	December 2018
Peabody, MA	194 Newbury Street	December 2018
Salisbury, MA	191 Elm Street	December 2018
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.	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
Silver Spring, MD	8506 Fenton Street	November 2005
Bethesda, MD	6800 Wisconsin Avenue	November 2007
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
Total Woman Gym and Spa:		
Alameda, CA	2247 S Shore Center	April 2018
San Jose, CA	950 El Paseo de Saratoga	April 2018
Glendale, CA	601 N Brand Boulevard	April 2018
Irvine, CA	14280 Culver Drive	April 2018
Laguna Hills, CA	23541 Calle De La Louisa	April 2018
Northridge, CA	19456 Nordhoff Street	April 2018
Placentia, CA	860 N Rose Drive	April 2018
Studio City, CA	12050 Ventura Boulevard	April 2018
Canoga Park, CA	6600 Topanga Canyon Boulevard	April 2018
Torrance, CA	2755 E Pacific Coast Highway	April 2018
Valencia, CA	24245 Magic Mountain Parkway	April 2018
Westlake Village, CA	30770 Russell Ranch Road	April 2018
Christi's Fitness:		
Vero Beach, FL	1250 Old Dixie Highway	January 2018
Palm Beach Sports Clubs:		
Jupiter, FL	201 N US Highway 1	