TOWN SPORTS INTERNATIONAL HOLDINGS INC
Form 10-K
March 05, 2009

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

FORM 10-K

þ Annual Report pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2008

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

Commission file number: 000-52013
Town Sports International Holdings, Inc.
(Exact name of Registrant as specified in its charter)

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

(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 o No þ

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

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

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. þ

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

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

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2008 (the last business day of the registrant s most recently completed second fiscal quarter) was approximately $115.1 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 26, 2009, there were 22,585,966 shares of Common Stock of the Registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for the 2009 Annual Meeting of Stockholders, to be filed not later than April 30, 2009, are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding future financial results and performance, potential sales revenue, legal contingencies and tax benefits, and the existence of adverse litigation and other risks, uncertainties and factors set forth under Item 1A., entitled Risk Factors , of this Annual Report on Form 10-K and in our reports and documents filed with the Securities and Exchange Commission (SEC). These statements are subject to various risks, and uncertainties, many of which are outside our control, including the level of market demand for our services, competitive pressure, the ability to achieve reductions in operating costs and to continue to integrate acquisitions, environmental matters, the application of Federal and state tax laws and regulations, and other specific factors discussed herein and in other SEC filings by us. We believe that all forward-looking statements are based on reasonable assumptions when made; however, we caution that it is impossible to predict actual results or outcomes or the effects of risks, uncertainties or other factors on anticipated results or outcomes and that, accordingly, one should not place undue reliance on these statements. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update these statements in light of subsequent events or developments. Actual results may differ materially from anticipated results or outcomes discussed in any forward-looking statement.

PART I

Item 1. *Business*

In this Form 10-K, unless otherwise stated or the context otherwise indicates, references to TSI Holdings, Town Sports, TSI, the Company, we, our and similar references refer to Town Sports International Holdings, Inc. and it subsidiaries and references to TSI, LLC and TSI, Inc. refer to Town Sports International, LLC (formerly known as Town Sports International, Inc.), our wholly-owned operating subsidiary.

General

Based on the number of clubs, we are the second largest owner and operator of fitness clubs in the Northeast and Mid-Atlantic regions of the United States and the fourth largest fitness club owner and operator in the United States. As of December 31, 2008, the Company, through its subsidiaries, operated 166 fitness clubs under our four key brand names; New York Sports Clubs, Boston Sports Clubs, Philadelphia Sports Clubs and Washington Sports Clubs . Th clubs collectively served approximately 510,000 members, excluding pre-sold, short-term and seasonal memberships, as of December 31, 2008. We are the largest fitness club owner and operator in Manhattan with 40 locations (more than twice as many as our nearest competitor) and owned and operated a total of 112 clubs under the New York Sports Clubs brand name within a 120-mile radius of New York City as of December 31, 2008. We owned and operated 25 clubs in the Boston region under our Boston Sports Clubs brand name, 19 clubs (two of which are partly-owned) in the Washington, D.C. region under our Washington Sports Clubs brand name and seven clubs in the Philadelphia region under our Philadelphia Sports Clubs brand name as of December 31, 2008. In addition, we owned and operated three clubs in Switzerland as of December 31, 2008. We employ localized brand names for our clubs to create an image and atmosphere consistent with the local community and to foster recognition as a local network of quality fitness clubs rather than a national chain.

We have developed and refined our fitness club model through our clustering strategy, offering fitness clubs close to our members workplaces and homes. Our club model targets the upper value market segment, comprising individuals aged between 21 and 60 with income levels between $50,000 and $150,000 per year. We believe that the upper value segment is not only the broadest segment of the market, but also the segment with the greatest growth opportunities. Our goal is to be the most recognized health club network in each of the four major metropolitan regions we serve. We believe that our strategy of clustering clubs provides significant benefits to our members and allows us to achieve strategic operating advantages. In each of our markets, we have developed clusters by initially opening or acquiring clubs located in the more central urban markets of the region and then branching out from these urban centers to suburbs and neighboring communities.

We currently offer three types of memberships in our clubs, Passport , Regional Passport and Gold . The Regional Passport Membership was added in the fourth quarter of 2008 and allows a member access to all of our

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clubs within a single region, while the Passport Membership allows access to all clubs in all four regions. As of December 31, 2008, approximately 38% of our members participated in our Passport or Regional Passport Memberships and 62% of our members participate in a Gold Membership, which allows unlimited access to a designated or home club at all times and access to all of our other clubs during off-peak hours. Members can elect to commit to a predetermined minimum contract period of one or two years in order to benefit from reduced dues and joining fees. Alternatively, our memberships are available on a month-to-month basis.

Over our 35-year history, we have developed and refined our club formats that allow us to cost-effectively construct and efficiently operate our fitness clubs in the different real estate environments in which we operate. Our fitness-only clubs average approximately 20,000 square feet, while our multi-recreational clubs average 40,000 square feet. The aggregate average size of all of our clubs is approximately 26,000 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 the quality exercise experience that we strive to make available to our members. When developing clubs, we carefully examine the potential membership base and the likely demand for supplemental offerings such as 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

Total U.S. fitness club industry revenues increased at a compound annual growth rate of 7.7% from $9.6 billion in 1998 to $18.7 billion in 2007, according to the International Health, Racquet and Sportsclub Association, or IHRSA. Total U.S. fitness club memberships increased at a compound annual growth rate of 3.9% from 29.5 million in 1998 to 41.5 million in 2007, according to IHRSA.

Demographic trends have helped drive the growth experienced by the fitness industry over the past decade. The industry has benefited from the aging of the baby boomer generation and the coming of age of their offspring, the so-called echo boomers (the generation born between 1982 and 1994). With 66% of American adults and 32% of American children considered overweight or obese and healthcare entering a period of severe economic crisis, fitness may be a remedy for many physical and psychological difficulties. Government-sponsored reports, such as the Surgeon General s Report on Physical Activity & Health (1996) and the Call to Action to Prevent and Decrease Overweight and Obesity (2001), have helped to increase the general awareness of the benefits of physical exercise to these demographic segments over those of prior generations.

Membership penetration (defined as club members as a percentage of the total U.S. population over the age of six) has increased significantly from 12.1% in 1998 to 15.6% in 2007 according to the IHRSA/American Sports Data Health Club Trend Report. The industry continues to attract new members and keep them, with 48% of members indicating that they were first-time members in 2007 and 52% having a membership life of three years or more, according to the IHRSA/American Sports Data Health Club Trend Report.

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

Competitive Strengths

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

Strong market position with leading brands. Based on the number of clubs, we are the fourth largest fitness club owner and operator in the United States and the second largest fitness club owner and operator in the Northeast and Mid-Atlantic regions of the United States. We are the largest fitness club owner and operator in the New York and Boston regions, the second largest owner and operator in the Washington, D.C. region and the third largest owner and operator in the Philadelphia region. We attribute our leadership 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 providing significant benefits to members. By operating a network of clubs in a concentrated geographic area, the value of our memberships is enhanced by our ability to offer members access to any of our clubs through our Passport or Regional Passport Memberships, which provide the convenience of having fitness clubs near a member s workplace and home. Approximately 38% of our members have a Regional Passport or Passport Membership, and because these memberships offer enhanced privileges and greater convenience, they generate higher monthly dues than single club memberships. Regional clustering also allows us to provide special facilities within a local area, such as swimming pools and squash, tennis and basketball courts, without offering them at every location.

Regional clustering strategy designed to maximize revenues and achieve economies of scale. We believe our regional clustering strategy allows us to maximize revenue and earnings growth by providing high-quality, conveniently located fitness facilities on a cost-effective basis, which new entrants into the market will have difficulty achieving. Regional clustering is attractive to corporations seeking to promote a healthy lifestyle by providing group memberships to their employees at a discount. We also partner with many groups that serve our communities; including the New York City Police and Fire Departments in our New York Sports Clubs region, the Southeastern Pennsylvania Transportation Authority (SEPTA) transportation company in our Philadelphia Sports Clubs region and the District of Columbia Government, including all city agencies in our Washington Sports Clubs region. 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. We believe that this would be difficult given the relative scarcity of suitable sites in our urban markets. Our clustering strategy also enables us to achieve economies of scale with regard to sales, marketing, purchasing, general operations and corporate administrative expenses and to reduce our capital spending needs. Regional clustering also provides the opportunity for members who relocate to remain members of our clubs, thus aiding in member retention.

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

Business Strategy

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

Enhance the quality of the member experience. Our company s mission is Improving Lives Through Exercise. We have commenced a program which we expect to inspire members to embrace regular exercise and achieve their fitness goals by securing their loyalty through customer service and providing state-of-the-art facilities, programs and services. We tailor the hours of each club to the needs of the specific member demographic utilizing each club; offer a variety of ancillary services, including group classes, small group training, personal training, Sports Clubs for Kids programs, and the XpressLine program (a supervised, high-intensity, efficient workout program); offer a variety of different sports facilities in each regional cluster of clubs; offer modern, varied and well-maintained exercise and fitness equipment; and offer an assortment of additional amenities including access to babysitting, sports massage and pro shops. Through hiring, developing and training a qualified and diverse team that is passionate about fitness and health and maintaining and expanding our programs and services, we expect to demonstrate our commitment to increase the quality of the member experience, and thereby increase net membership.

Drive comparable club revenue and profitability growth by implementing our business strategy. Our future financial performance will depend, in part, on growth of revenue at clubs that we have operated for more than 12 months. Comparable club revenue growth is defined as revenues for the thirteenth month at a specified club and thereafter as compared to the same period at that club during the prior year. Historically, comparable club revenue growth has been a significant factor in our revenue growth, with comparable club revenue growth for each of the five years from 2004 to 2008, ranging between 2.2% to 7.9%. However, in part as a result of the current economic environment, we experienced higher member attrition and lower average revenue per member in 2008 than in 2007. As a result, for the year ended December 31, 2008, our comparable club revenue growth was 2.2%, a decrease compared to 5.2% for the year ended December 31, 2007. We experienced a comparable club revenue decrease of 1.4% in the fourth quarter of 2008, and we expect comparable club revenue to continue to decrease throughout 2009. Comparable club revenue growth is dependent upon the implementation of our strategic initiatives, including our commit membership plan and our focus on ancillary revenues. Our commit membership model encourages new members to commit to a one- or two-year membership at a discount to our month-to-month plan, which encourages member retention and loyalty. We are also focusing on ancillary services, which enhance the member experience and provide us with a means for increasing comparable club revenues without a similar increase in fixed costs. Despite current challenges, we continue to work to differentiate our brand through having expertise in fitness, group exercise and small group training, and an emphasis on operational excellence. We will continue to focus on reducing member attrition and increasing ancillary revenues by making improvements to our membership experience and expect to return to positive comparable revenue growth in the future.

Increase number of clubs by expanding within regional clusters. We have increased the total clubs under operation from 129 as of January 1, 2004 to 166 as of December 31, 2008. Our plan for 2009 is to open four new clubs and close between four and seven clubs. We expect real estate and construction costs to decrease during 2009 and will monitor such trends before returning to an expansion mode. We intend to strengthen our market position and to increase revenues and earnings in our existing markets principally through the opening of new clubs any opportunistic acquisitions of existing clubs currently run by other operators that fill a market need for us. Our expertise in the site selection and development process combined with our established club-level economic model enables us to generate attractive returns from the opening of new clubs. We have currently identified over 173 fitness-only and multi-recreational locations in our existing and secondary markets that we believe possess the criteria for a model club.

Grow ancillary and other non-membership revenues. We intend to grow our ancillary and other non-membership revenues through a continued focus on increasing the additional value-added services that we provide to our members as well as capitalizing on the opportunities for other non-membership revenues such as in-club advertising and retail sales. Non-membership revenues have increased from $57.9 million, or 16.4% of revenues for the year ended December 31, 2004, to $92.1 million, or 18.2% of revenues for the year ended December 31, 2008. We intend to continue to expand the current range of value-added services and programs that we offer to our members, such as personal training and Sports Clubs for Kids . These sources of ancillary and other non-membership revenues generate incremental profits with minimal capital investment and assist in attracting and retaining members.

Realize benefits from maturation of recently opened clubs. From January 1, 2007 to December 31, 2008, we opened or acquired 24 clubs. Based on our experience, a new club tends to achieve significant increases in revenues during its first three years of operation as the number of members grows. Because there is relatively little incremental cost associated with such increasing revenues, there is a greater proportionate increase in profitability. We believe that the revenues and profitability of this group of 24 clubs will improve as the clubs reach maturity.

Marketing

Our marketing strategy primarily focuses on growing our membership base, increasing profitability on a per customer basis and building and sustaining brand equity. In pursuit of these objectives, we have the combined advantages, relative to many of our competitors, of existing high levels of brand awareness and preference, leading market positions and the ability to derive economies of scale from a regional multi-club platform and a centralized marketing function. We are organized to enable close collaboration between our marketing, sales and operations staff, all under the direction of our chief operating officer. This helps align efforts around operational objectives and ensures a primary focus on customer experience.

Brand awareness and preference is aided by a number of factors, including the visibility of multiple retail locations and associated signage across each region, a membership base of 510,000 as of December 31, 2008, who generate word-of-mouth and referrals, a thirty-five year operating history and continual advertising investment. All of these factors provide a strong foundation for our ongoing marketing and advertising efforts.

Our regional concentration and clustering strategy create economies of scale in our marketing and advertising investments which increase their overall efficiency and effectiveness. Clustering enables broader reach and higher frequency for regional advertising campaigns that typically include a mix of traditional media including radio, newspapers, magazines, out-of-home (especially transit-based) and some television and geo-targeted and behaviorally targeted digital media, such as paid search, email blasts, online banners and video, as well as other emerging new media vehicles. These broader market efforts are bolstered by local marketing plans and tactics, which include direct mail, local sponsorships and co-promotions, community relations and outreach and street-level lead generation activities. Optimization of marketing mix through measurement and modeling of the effectiveness of various media investments and formats continues to be a priority.

We are positioned in the upper-value segment of the health club market and our advertising and marketing communications support and reinforce this positioning by consistently conveying high quality, market-leading convenience and a relevant and differentiated product offering. In contrast to most health club advertising, we generally forego depicting images of hard bodies, facilities and gym equipment. Instead, we favor messaging focused on the widely accepted and numerous benefits of exercise. In January 2009, we launched a new ad campaign, known as Fit Facts, that supports this positioning. We believe this approach has a universal appeal and makes our product more approachable for consumers who have little or no health club experience.

Promotional marketing campaigns will typically feature opportunities to participate in value-added services such as personal training. From time to time, we also offer reduced initiation fees to encourage enrollment. Additionally, we frequently sponsor member referral incentive programs and other types of member appreciation activities and internal promotions to enhance loyalty and ancillary services.

We also engage in public relations, sponsorships and special events to promote our brand image regionally and in our local communities. As an example, we are a four-time sponsor of the JPMorgan Chase Corporate Challenge Series running event in both the New York and Boston metorpolitan regions. In 2008, this popular annual event attracted nearly 40,000 participants in New York and 14,000 in Boston. Boston Sports Clubs is also a two-time sponsor of the Tufts 10K for Women, an event that attracted 7,000 competitors in 2008. New York Sports Clubs sponsorship of the annual Commerce Bank Five Boro Bike Tour helps turn out a team of nearly 500 members and employees all riding in New York Sports Clubs logo jerseys who complete the 42-mile ride along with 30,000 other cyclists.

Our association with professional sports teams also enhances our brands and their status in the communities in which we operate. Boston Sports Clubs is the official health club of the Boston Red Sox and Washington Sports Clubs has the same designation with the Washington Nationals baseball team, as well as an association with the Washington Redskins Cheerleaders. The baseball sponsorships include interactive in-stadium promotions which energize the fans during home games.

Our philosophy of giving back to our communities includes sponsoring company-wide and local charitable efforts. Saints and Spinners, our 24-hour spin-a-thon and fundraiser for HealthCorps, an organization focused on stemming the crisis of childhood obesity, raised $250,000 in early 2008 to fund school-based programs to educate children about eating smart and exercising. Our club management teams and staff are also encouraged to organize and engage in charitable activities. Some recent events benefited organizations such as the American Cancer Society, the Muscular Dystrophy Association, Susan G. Komen Race for the Cure, Avon Walk for Breast Cancer, NYCares, Toys for Tots, as well as many smaller local charities.

We are committed to enhancing our online brand image and developing our online sales and service capability in 2009. Our principal web site, www.mysportsclubs.com, currently provides information about club locations, program offerings, exercise class schedules and sales promotions. The site also allows our members to give us direct feedback about our service levels and enables prospective members to sign-up for a paid two-week trial membership in our clubs. Prospective members can also initiate their membership enrollment process using our web site. In addition, job seekers can begin the employment application process through the site and investors can access financial information and resources.

Sales

Sales of new memberships are generally handled either at the club level or through our corporate and group sales division. We employ approximately 420 in-club membership consultants who are responsible for new membership sales. Each club generally has between two and four consultants. These consultants report directly to the club general manager, who in turn reports to a district manager. We provide additional incentive-based compensation in the form of bonuses contingent upon individual, club and company-wide enrollment goals. Membership consultants must successfully complete a two-month, in-house training program through which they learn our sales strategy. In making a sales presentation, membership consultants attempt to match the needs to each prospective member by emphasizing:

- the proximity of our clubs to concentrated commercial and residential areas convenient to where prospective members live and work;
- the variety and selection of equipment and exercise classes;
- the obligation on the part of the enrollee;
- the price/value relationship of a Town Sports membership; and
- access to value-added services.

Our corporate and group sales division consists of approximately 20 full-time employees located throughout our markets, who concentrate on building long-term relationships with local and regional companies and large groups. Corporate and group members account for approximately 11% of our total membership base as of December 31, 2008. We offer numerous programs to meet our corporate and group client s needs including an online enrollment program as well as a fully operational call center for enrollment. We believe this focus on relationship building, providing the customer with options for enrollment and our clustering strategy will continue to lead to new group participation in the future.

In mid-December 2008, we launched the selling of individual memberships online for our standard membership types. This new sales channel links directly to our principal site and an existing web site, which is tailored to selling memberships for pre-established corporate and group programs. 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 consultant to make their decision. In addition, selling online significantly reduces our cost of sale. Early indications are that the newly implemented online sales will continue to grow and offer leverage for our marketing investments.

We believe that clustering clubs allows us to sell memberships based upon the opportunity for members to utilize multiple club locations near their workplace and their home. As of December 31, 2008, our existing members were enrolled under three principal types of memberships:

- The Passport Membership, currently selling at prices ranging from $96 to $106 per month based on the market area of enrollment, is our higher priced membership and entitles members to use any of our clubs in any region at any time. This membership was held by approximately 36% of our members as of December 31, 2008. In addition, we have a Passport Premium Membership at two select clubs, which includes a greater array of member services and facilities, at prices ranging from $105 to $116 per month.
- The Regional Passport Membership, currently selling at prices ranging from $72 to $96 per month based on the market area of enrollment, is our mid-priced membership and entitles members to use any of our clubs within one region at any time. We began selling the Regional Passport Membership in the fourth quarter of 2008 and it was held by approximately 2% of our members as of December 31, 2008. This percentage is expected to increase as it continues to gain acceptance in 2009.
- The Gold Membership, currently selling at prices ranging from $39 to $89 per month based on club specific facilities and services, the market area of enrollment and length of the membership contract, enables members to use a specific club at any time and any of our clubs during off-peak times. This membership was held by approximately 62% of our members as of December 31, 2008. During the third quarter of 2008, senior

management performed an extensive club-by-club pricing review of its Gold Membership. In general, pricing at our suburban clubs were reduced while pricing at our urban clubs remained consistent or were increased.

By operating a network of clubs in a concentrated geographic area, the value of our memberships is enhanced by our ability to offer members access to any of our clubs in a specific geographic area through the Regional Passport Membership or access to our clubs in all geographic regions through a Passport Membership. These membership plans provide the convenience of having fitness clubs near a member s workplace and home. Approximately 38% of our members have the Regional Passport or Passport Membership and because these memberships offer broader privileges and greater convenience, they generate higher monthly dues than single club memberships. Regional clustering also allows us to provide special facilities within a local area, such as swimming, basketball, children s programs, tennis and squash, without offering them at each location.

We sell both month-to-month and commit membership payment plans. Month-to-month memberships are cancellable by our members at any time with 30 days notice. The commit model encourages new members to commit to a one or two year membership, because these memberships are priced at a moderate discount to the month-to-month membership. During 2008, 97% of our newly enrolled members opted for a commit membership. As of December 31, 2008, approximately 14% of our members originated under a month-to-month non-commit membership and 86% originated under a commit membership. When a members commit period is over, they retain their membership as a month-to-month member until they choose to cancel. As of December 31, 2008, approximately 57% of our total members are month to month. We believe members prefer to have the flexibility to choose between committing for one or two years or to join under the month-to-month non-commit membership.

In joining a club, a new member signs a membership agreement that obligates the member to pay a one-time initiation fee, if applicable, and monthly dues on an ongoing basis. Monthly electronic funds transfer, or EFT, of individual membership dues on a per-member basis averaged approximately $70 per month for the year ended December 31, 2008. Together, initiation fees and processing fees collected for new EFT members averaged approximately $50 for the year ended December 31, 2008 compared to $72 for the year ended December 31, 2007. In the third quarter of 2008, we combined the one-time processing and initiation fees and have promoted new memberships by discounting these fees. We expect to continue to discount these fees in 2009 and that the average amount collected per member in 2009 will be less than in 2008. We collect approximately 95.0% of all monthly membership dues through EFT and EFT membership revenue constituted approximately 74.9% of consolidated revenue for the year ended December 31, 2008. Substantially all other membership dues are paid in full in advance. Our membership agreements call for monthly dues to be collected by EFT based on credit card or bank account debit authorization contained in the agreement. During the first week of each month, we receive the EFT dues for that month after the payments are initiated by a third-party EFT processor. Discrepancies and insufficient funds incidents are researched and resolved by our in-house account services department. We typically increase our existing member dues annually by between 1% and 3% on average in line with increases in the cost of living.

Usage

Our suburban clubs are generally open 5:00 AM to 11:00 PM on weekdays and 7:00 AM to 8:00 PM on weekends while our urban clubs are generally open 5:00 AM to 11:00 PM on weekdays and 8:00 AM to 9:00 PM on weekends. Where membership demand is high, certain clubs are open 24 hours. We generally consider our peak usage times to be between 6:00 AM and 8:30 AM and 4:00 PM and 8:30 PM on weekdays. Our hours of business are based on usage at each individual club. Our total club usage was 28.0 million and 24.7 million member visits for the years ended December 31, 2008 and 2007, respectively. Total club usage increased 15.8% from the fourth quarter of 2007 to the fourth quarter of 2008. Usage per member has increased approximately 9.5% from the fourth quarter of 2007 to the fourth quarter of 2008 and 5.7% in the year ended December 31, 2008 compared to 2007. In the year-ended December 31, 2008, approximately 38% of total usage or club visits was to members non-home clubs.

Non-Membership Revenue

Over the past five years, we have expanded the level of ancillary club services provided to our members. Non-membership club revenue has increased by $34.2 million from $57.9 million in 2004 to $92.1 million in 2008. Increases in personal training revenue in particular have contributed $26.9 million of the increase in ancillary revenue during this period. In addition, we have added Sports Clubs for Kids and Small Group Training (both additional fee for service programs) at selected clubs. Non-membership club revenue as a percentage of total revenue has increased from 16.4% for the year ended December 31, 2004 to 18.2% for the year ended December 31, 2008. Personal training revenue as a percentage of total revenue increased from 9.9% of revenue in 2004 to 12.2% of total revenue in 2008. The growth of our non-membership revenue has slowed during 2008. Total non-membership revenue as a percent of total revenue was 18.2% for both years ended December 31, 2008 and 2007. Consumer confidence and consumer spending deteriorated in the second half of 2008 and as this trend is expected to continue in 2009, our non-membership revenue is expected to be under pressure and decreases in demand for these services is likely.

	For the Year Ended December 31, (in $000s)								
	2008	%	2007	%	2006	%	2005	%	2004
	$ 506,709	100.0%	$ 472,915	100.0%	$ 433,080	100.0%	$ 388,556	100.0%	$ 353,031
rship Revenue:									
ing revenue	61,752	12.2%	56,106	11.9%	49,511	11.4%	42,277	10.9%	34,821
y club revenue	24,329	4.8%	24,247	5.1%	22,863	5.3%	20,139	5.2%	18,199
er revenue	6,031	1.2%	5,616	1.2%	4,942	1.2%	4,413	1.1%	4,856
mbership	$ 92,112	18.2%	$ 85,969	18.2%	$ 77,316	17.9%	$ 66,829	17.2%	$ 57,876

Club Format and Locations

Our clubs are typically 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 generally have high visibility and are easily accessible. In the New York metropolitan, Boston, Washington, D.C. and Philadelphia markets, we have created clusters of clubs in urban areas and their commuter suburbs 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 70% of the clubs we operate are fitness-only clubs and the remaining clubs are multi-recreational. Our fitness-only clubs generally range in size from 15,000 to 25,000 square feet and average approximately 20,000 square feet. Our multi-recreational clubs generally range in size from 25,000 square feet to 65,000 square feet, with one club being 200,000 square feet. The average multi-recreational club size is approximately 40,000 square feet. Membership for each club generally ranges from 2,000 to 4,500 members at maturity. Although club members represent a cross-section of the population in a given geographic market, our target member is between the ages of 21 and 60 and has an annual income of between $50,000 and $150,000.

We have experienced significant growth over the past five years primarily through developing and opening new club locations that we have constructed. In addition, we have acquired existing, privately owned single and multi-club businesses. From January 1, 2004 to December 31, 2008, we acquired seven existing clubs, constructed 43 new clubs and closed 13 clubs to increase our total clubs under operation from 129 to 166. For the year ended December 31, 2008, we opened nine new clubs and closed four clubs, to increase our total clubs under operation from 161 to 166.

We engage in detailed site analyses and selection processes based upon information provided by our development software to identify potential target areas for additional clubs based upon population demographics, psychographics, traffic and commuting patterns, availability of sites and competitive market information. Since December 31, 2008, we have opened three clubs. In addition, we currently have four lease commitments and have identified approximately 173 target areas in which we may add clubs under our New York Sports Clubs, Boston Sports Clubs, Washington Sports Clubs or Philadelphia Sports Clubs brand names. In addition, we have identified further growth opportunities in secondary markets located near our existing markets. In the future, we may explore expansion opportunities in other markets in the United States that share similar demographic characteristics to those in which we currently operate.

Our facilities include a mix of state-of-the-art cardiovascular equipment, including upright and recumbent bikes, steppers, treadmills and elliptical motion machines; strength equipment and free weights, including Cybex, Nautilus, TechnoGym, Strive, Precor, Star Trac and Hammer Strength equipment; group exercise and cycling studios; the

Sportsclub Network entertainment system; locker rooms, including shower facilities, towel service and other amenities, such as saunas; babysitting; and a pro-shop. Each of our clubs is equipped with automated external defibrillators. Personal training services are offered at all locations for an additional charge. At certain locations, additional facilities are also offered, including swimming pools and racquet and basketball courts. Also, we have fee-based programming at many of our clubs, including programs targeted at children, members and non-member adult customers.

We also offer our Xpressline strength workout at all of our clubs. Xpressline is an eight-station total-body circuit workout designed to be used in 22 minutes and to accommodate all fitness levels. This service is provided for free to our members.

We have over 7,600 Sportsclub Network personal entertainment units installed in our clubs. The units are typically mounted on 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. The Sportsclub Network also broadcasts our own personalized music video channel that provides us with a direct means of advertising products and services to our membership base.

Club Services and Operations

We emphasize consistency and quality in all of our club operations, including:

Management. We believe that our success is largely dependent on the selection and training of our staff and management. Our management structure is designed, therefore, to support the professional development of highly motivated managers who will execute our directives and support growth.

Our business is divided into regional operating lines with each reporting to a regional vice president. Reporting to these officers are regional functional departments as well as district managers. Reporting to these district managers are the individual club general managers. General managers are responsible for the day-to-day management of each club. At each level of responsibility, compensation is structured to align our goals for profitability with those of each region, district or club.

Corporate functional departments have been established to complement each specific area of our clubs services, such as sales, training, group exercise programs, fitness equipment, programming, personal training, facility and equipment maintenance, procurement and laundry. We have established a Learning and Development department to assume the management of existing sales and fitness training programs and to build training programs to support training in leadership, operations management, information technology and customer service. This centralization allows local general managers at each club to focus on sales, customer service, club staffing and providing a high-quality exercise experience.

Our club support group acts as the coordinator for all departments and ensures consistency of policies and procedures across the entire organization.

Personal Training. All of our fitness clubs offer one-on-one personal training, which is sold by the single session or in multi-session packages. We have implemented a comprehensive staff education curriculum, which progresses from basic knowledge and practical skills to advanced concepts and training techniques. Our education program provides professional standards to ensure that our personal trainers provide superior service and fitness expertise to our members. We believe the qualifications of the personal training staff helps 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 and a significant source of incremental revenue for us. There are four levels of professional competency for which different levels of compensation are paid, with mandatory requirements trainers must meet in order to achieve and maintain such status. In 2007, we implemented a revenue split pay structure for personal trainers, providing a compensation package based on a percentage of revenue earned from their sessions. We also offer introductory personal training sessions at discounted prices. We believe that members who participate in personal training programs typically have a longer membership life.

Group Fitness. Our commitment to providing a quality workout experience to our members extends to the employment of program instructors, who teach many classes including: aerobics, cycling, strength conditioning, boxing, yoga, Pilates and step aerobics classes, among others. All program instructors report directly into club management and are further supported by regional directors of group exercise who are responsible for ensuring class content, scheduling, high quality training techniques and instruction. We also provide small group training offerings to our members, which are fee-based programs that have smaller groups and provide more focused and typically more advanced classes. Some examples of these offerings include Pilates, boxing camps and cycling camps.

Sports Clubs for Kids. We offer programs for children under the Sports Clubs for Kids brand. As of December 31, 2008, Sports Clubs for Kids was being offered in 30 locations throughout our New York Sports Clubs, Boston Sports Clubs and Philadelphia Sports Clubs regions. In addition to extending fitness offerings to a demographic group not previously served by us, we expect that Sports Clubs for Kids programming will help position our multi-recreational clubs as family clubs, which we believe will provide 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 sports performance-based programming such as our Ignite Program, which specializes in training young athletes ages eight to 17 years of age to improve their athletic skills and increase their speed, agility and strength and non-competitive learn-to-play sports programs.

Employee Compensation and Benefits

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

Centralized Information Systems

We use an integrated information system to sell memberships, bill our members, 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, which enables us to develop targeted direct marketing programs and to modify our broadcast and print advertising to improve consumer response. This system also assists us in evaluating staffing needs and program offerings. In addition, we rely on certain data gathered through our information systems to assist in the identification of new markets for clubs and site selection within those markets.

Information System Developments

We recognize the value of enhancing and extending the uses of information technology in virtually every area of our business. After developing an information technology strategy to support our business strategy, we developed a comprehensive multi-year plan to replace or upgrade key systems and to improve upon them.

We currently utilize a club management system that incorporates functionality for member services, contract management, electronic billing, point of sale, scheduling resources and reservations. This club management system extends support for new business functionalities and new club models and integrates with other applications. During 2005, we developed a related application utilizing business intelligence tools and data warehousing capabilities to enable enhanced managerial and analytical reporting of sales and operations. Currently, we are developing a global information management system (GIMS) that we expect will be ready for pilot testing the second half of 2009 with a deployment to our clubs in the first half of 2010. We expect this system to incorporate sufficient functionality to support all club sales and operations, customer relationship management, document management, work flow management and additional executive information management capabilities. This system is intended to consolidate various internal legacy systems and internet systems to provide enhanced capabilities for managing the business, improving productivity and expanding and enriching the member experience and increasing revenues. The total estimated cost of this project is between $12.0 million and $15.0 million.

In 2007, we implemented a human resources management system that provides enhanced capabilities for talent management, including recruiting, employee and manager self-service and evaluations and financial planning for staffing. The system was merged with the existing timekeeping system and integrated with payroll and relevant financial applications for comprehensive automation of compensation processing and management for all employees.

In 2005, we re-launched our web site utilizing new architecture to allow for flexibility in product offerings, online corporate and group sales, promotion and contest presentations, member self-service, surveying and

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enhanced member options. The internet capabilities were expanded to include more member-focused features and sales of trial memberships. In 2008, we launched additional web capabilities for selling our suite of memberships for all clubs. We have built an intranet to provide a portal for the various browser-based applications that we utilize internally. Our intranet features support for corporate communications, human resources programs and training.

We have implemented numerous infrastructure changes 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. In 2005, we brought our disaster recovery site online. The disaster recovery facility utilizes replication tools to provide fail-over capabilities for supporting our club operations and company communications. During 2007, we deployed several advanced tools for enhanced management and monitoring of our infrastructure for compliance and improved security.

During 2007, we enhanced both internal and external reporting capabilities with the implementation of the Oracle suite of accounting programs throughout the organization. We replaced legacy general ledger and accounts payable and fixed asset accounting systems with Oracle systems that include a fully integrated suite of accounting applications as well as lease management and cash management capabilities. Migration of our current construction accounting system to the Oracle systems and expanded on-line procurement was completed in 2008.

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, COMPANIESGETFIT.COM, SPORTS CLUBS FOR KIDS, _____ BETTER. ,** and **TOWN SPORTS INTERNATIONAL.** We continue to register other trademarks and service marks. We believe that our rights to these properties are adequately protected.

Competition

The fitness club industry is highly competitive and continues to become more competitive. The number of health clubs in the U.S. has increased from 14,001 in 1998 to 29,636 in January 2008. In each of the markets in which we operate, we compete with other fitness clubs, physical fitness and recreational facilities.

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

- health club operators, including Bally Total Fitness Holding Corporation, LA Fitness International, LLC, Equinox Holdings, Inc., Lifetime Fitness, Inc. and 24 Hour Fitness Worldwide, Inc.;
- the YMCA and similar non-profit organizations;
- physical fitness and recreational facilities established by local governments, hospitals and businesses;
- local salons, cafes and businesses offering similar ancillary services;
- exercise and small fitness clubs and studios;
- racquet, tennis and other athletic clubs;
- amenity gyms in apartments and condominiums;

weight-reducing salons;

country clubs; and

the home-use fitness equipment industry.

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

We consider our service offerings to be in the mid-range of the value/service proposition and designed to appeal to a large portion of the population who attend fitness facilities. Competitors offering lower pricing and a lower level of service could attract members away from us.

We also face competition from club operators offering comparable or higher pricing with higher levels of service. The trend to larger outer-suburban family fitness centers, in areas where suitable real estate is more likely to be available, could also compete effectively against our suburban fitness-only formats.

Competitive Position Measured by Number of Clubs

Market	Number of Clubs	Position
Boston metropolitan	25	Leading owner and operator
New York metropolitan	112	Leading owner and operator
Philadelphia metropolitan	7	# 3 owner and operator, leader in urban center
Washington, D.C. metropolitan	19	# 2 owner and operator, leader in urban center
Switzerland	3	Local owner and operator only

We also compete with other entertainment and retail businesses for the discretionary income in our target demographics. There can be no assurance that we will be able to compete effectively in the future in the markets in which we operate. Competitors, who may include companies that are larger and have greater resources than us, may enter these markets to our detriment. These competitive conditions may 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 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 significant barriers to entry in our metropolitan areas, including restrictive zoning laws, lengthy permit processes and a shortage of appropriate real estate, which could discourage any large competitor from attempting to open a chain of clubs in these markets. However, such a competitor could enter these markets more easily through one, or a series of, acquisitions.

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: (1) general rules and regulations of the Federal Trade Commission, state and local consumer protection agencies and state statutes that prescribe certain forms and provisions of membership contracts and that govern the advertising, sale, financing and collection of such memberships and (2) 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 Most recently, several states have proposed legislation that would prohibit the automatic rollover of membership once a member s commitment period expires. In addition, we are subject to numerous other types of federal and state regulations governing the sale of memberships. These laws and regulations are subject to varying interpretations by a number of state and federal enforcement agencies and courts. We maintain internal review procedures in order to comply with these requirements and believe that our activities are in substantial compliance with all applicable statutes, rules and decisions.

The tax treatment of membership dues varies by state. In recent years, some states in which we operate (e.g., Connecticut and New Jersey) have passed legislation to require sales tax to be collected on membership dues and, in some cases on personal training sessions (e.g., Connecticut). In January 2009, New York State proposed legislation that would require members to pay sales tax on membership dues and personal training sessions. 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

At December 31, 2008, we had approximately 9,300 employees, of whom approximately 2,600 were employed full-time. Approximately 430 employees were non-club personnel. We are not a party to any collective bargaining agreement with our employees. We have never experienced any significant labor shortages or had any difficulty in obtaining adequate replacements for departing employees. We consider our relations with our employees to be good.

Available Information

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

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

Item 1A. *Risk Factors*

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

Risks Related to Our Business

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

The performance of our clubs is dependent on our ability to attract and retain members and we may not be successful in these efforts. Many of our members can cancel their club membership at any time under certain circumstances. In addition, there are numerous factors that have in the past and could in the future lead to a decline in membership levels at established clubs or that could prevent us from increasing our membership at newer clubs, including a decline in our ability to deliver quality service at a competitive cost, the presence of direct and indirect competition in the areas in which the clubs are located, the public s interest in sports and fitness clubs and general economic conditions.

The current volatility and disruption to the capital and credit markets have reached unprecedented levels and have significantly adversely impacted global economic conditions, resulting in additional significant recessionary pressures and further declines in consumer confidence and economic growth. These conditions have and could further lead to reduced consumer spending in the foreseeable future. In the current depressed economic 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 the Company s services and products and such decline in demand may continue as the current recessionary period continues 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. The current downturn and uncertain outlook in the global economy may materially adversely affect our business and our revenues and profits. 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 can not 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 or cash flows.

Our geographic concentration heightens our exposure to adverse regional developments.

As of December 31, 2008, we operated 112 fitness clubs in the New York metropolitan market, 25 fitness clubs in the Boston market, 19 fitness clubs in the Washington, D.C. market, seven fitness clubs in the Philadelphia market and three fitness clubs in Switzerland. Our geographic concentration in the Northeast and Mid-Atlantic regions and, in particular, the New York area, heightens our exposure to adverse developments related to competition, as well as economic and demographic changes in these regions. Our geographic concentration might result in a material adverse effect on our business, financial condition, cash flows or results of operations in the future.

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

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

Competitors offering lower pricing and a lower level of service compete against our facilities. 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. The trend to 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.

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

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

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

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

We have opened a total of 24 new club locations that we have constructed in the 24-month period ended December 31, 2008. Upon opening a club, we typically experience an initial period of club operating losses. Enrollment from pre-sold memberships typically generates insufficient revenue for the club to initially generate positive cash flow. As a result, a new club typically generates an operating loss in its first full year of operations and substantially lower margins in its second full year of operations than a club opened for more than 24 months (mature club). These operating losses and lower margins will negatively impact our future results of operations. This negative impact will be increased by the initial expensing of pre-opening costs, which include legal and other costs associated with lease negotiations and permitting and zoning requirements, as well as depreciation and amortization expenses, which will further negatively impact net income. We may, at our discretion, accelerate or expand our plans to open new clubs, which may temporarily adversely affect results from operations.

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

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

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

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 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. 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 to protect customer data. Any compromise of our security could harm our reputation or 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, could, among other effects, misappropriate proprietary information, cause interruptions in our operations or expose customers to computer viruses or other disruptions. Actual or perceived vulnerabilities may lead to claims against us. To the extent the measures we have taken 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.

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, particularly Alexander A. Alimanestianu, our Chief Executive Officer. We believe the loss of Mr. Alimanestianu could have a material adverse effect on us and our financial performance. Currently, we do not have any long-term employment agreements with any of our executive officers and we may not be able to attract and retain sufficient qualified personnel to meet our business needs.

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

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

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

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

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

We use a fully-integrated information system to sell memberships, bill our members, 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. Correcting any disruptions or failures that affected our proprietary system could be difficult, time-consuming and expensive because we would need to use contracted consultants familiar with our system.

In 2008, we commenced the development of GIMS, which we expect to roll out to our clubs in the first half of 2010. We estimate that the total cost of creating and implementing GIMS to be approximately between $12.0 million and $15.0 million. Any failure of this new system to be operational in the expected time frame or to function as expected could adversely affect our business and results of operations.

We have implemented numerous infrastructure changes 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. In 2005, we brought our disaster recovery site online. The disaster recovery facility utilizes replication tools to provide failover capabilities for supporting our club operations and company communications. Fire, floods, earthquakes, power loss, telecommunications failures, break-ins, acts of terrorism and similar events could damage either our primary or back-up systems. In addition, computer viruses, electronic break-ins or other similar disruptive problems could also adversely affect our online sites. Any system disruption or failure, security breach or other damage that interrupts or delays our operations could cause us to lose members and adversely affect our business and results of operations.

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

We currently operate clubs throughout the Northeast and Mid-Atlantic regions of the United States. We opened nine clubs in 2008 and three clubs since December 31, 2008. In addition, we currently have four clubs for which we have signed lease commitments in existing markets. With respect to existing markets, it has been our experience that opening new clubs may attract some memberships away from other clubs already operated by us in those markets and diminish their revenues. In addition, as a result of new club openings in existing markets and because older clubs will represent an increasing proportion of our club base over time, our mature club revenue increases may be lower in future periods than in the past.

Another result of opening new clubs is that our club operating margins may be lower than they have been historically while the clubs build 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.

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

Over the past five years, we have experienced significant growth in our business activities and operations, including an increase in the number of our clubs. Future expansion will place increased demands on our administrative, operational, financial and other resources. Any failure to manage growth effectively could seriously harm our business. To be successful, we will need to continue to improve management information systems and our operating, administrative, financial and accounting systems and controls. We will also need to train new employees and maintain close coordination among our executive, accounting, finance, marketing, sales and operations functions. These processes are time-consuming and expensive, increase management responsibilities and divert management attention.

Our cash and cash equivalents are concentrated in one bank.

Our cash and cash equivalents are held, primarily, in a single commercial bank. These deposits are not collateralized. In the event the bank becomes insolvent, we would be unable to recover most of our cash and cash equivalents deposited at the bank. Cash and cash equivalents held in a single commercial bank as of December 31, 2008 were $6.9 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 shareholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise funds on acceptable terms, we may not be able to execute on 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. Over the longer term, we believe that we can offset cost increases by increasing our membership dues and other fees and improving profitability through cost efficiencies; however, higher costs in certain regions where we are opening new clubs during any period of time may be difficult to offset in the short-term.

Risks Related to Our Leverage and Our Indebtedness

We may be negatively affected by the economic crisis in the United States 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. If our current resources do not satisfy our liquidity requirements, we may have to seek additional financing. The principal sources of our liquidity are funds generated from operating activities, available cash and cash equivalents and borrowings under our $260.0 million senior secured credit facility (the 2007 Senior Credit Facility).

The capital and credit markets have been experiencing extreme volatility and disruption during the past year. As a result, one or more of our current lenders could experience financial difficulty, and as a result fail to provide the required lending amounts under our 2007 Credit Agreement. If this should occur, we may need to seek additional financing from other sources. The availability of financing will depend on a variety of factors, such as economic and market conditions, the availability of credit and our credit ratings, as well as the possibility that lenders could develop a negative perception of the prospects of our company or the fitness industry in general. We may not be able to successfully obtain any necessary additional financing on favorable terms, or financing altogether.

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, 2008, our total consolidated debt was $338.0 million. Our substantial debt could have important consequences, including:

- making it more difficult for us to satisfy our obligations with respect to our outstanding indebtedness;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions of clubs and other general corporate requirements;
- requiring a substantial portion of our cash flow from operations for the payment of interest on our debt, which is variable on our 2007 Senior Credit Facility and our Revolving Loan Facility, and reducing our ability to use our cash flow to fund working capital, capital expenditures and acquisitions of new clubs and general corporate requirements; and
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

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

The indenture governing our 11% Senior Discount Notes due in 2014 (Senior Discount Notes) will permit us and our subsidiaries to incur substantial additional debt, subject to compliance with provisions of the Indenture. In addition, as of December 31, 2008, we had $42.8 million of unutilized borrowings under our senior secured revolving credit facility. If new debt is added to our and our subsidiaries current debt levels, the related risks that we and they currently face could intensify.

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

Our operations are conducted through our subsidiaries and our ability to make payments on our outstanding Senior Discount Notes is dependent on the earnings and the distribution of funds from our subsidiaries. However, none of our subsidiaries are obligated to make funds available to us for payment on our outstanding Senior Discount Notes. In addition, the terms of the Credit Agreement dated as of February 27, 2007 (the 2007 Credit Agreement) governing the 2007 Senior Credit Facility, significantly restrict TSI, LLC and its subsidiaries from paying dividends and otherwise transferring assets to us. Furthermore, our subsidiaries are permitted under the terms of the 2007 Credit Agreement and other indebtedness (including under the Senior Discount Notes indenture) to incur additional indebtedness that may severely restrict or prohibit the making of distributions, the payment of dividends or the making of loans by such subsidiaries to us.

We cannot assure that the agreements governing the current and future indebtedness of our subsidiaries will permit our subsidiaries to provide TSI, LLC with sufficient dividends, distributions or loans to fund scheduled interest and principal payments on the 2007 Credit Agreement when due.

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

The indenture governing our Senior Discount Notes, 2007 Credit Agreement and certain of our other agreements regarding our indebtedness contain, among other things, covenants that may restrict our ability to finance future operations or capital needs or to engage in other business activities. The indenture governing our Senior Discount Notes, the 2007 Credit Agreement and certain of our other agreements regarding our indebtedness restrict, among other things, may impact our ability and the ability of our restricted subsidiaries to:

borrow money;

pay dividends or make distributions;

purchase or redeem stock;

make investments and extend credit;

engage in transactions with affiliates;

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- engage in sale-leaseback transactions;
- consummate certain asset sales;
- effect a consolidation or merger or sell, transfer, lease or otherwise dispose of all or substantially all of our assets; and
- create liens on our assets.

In addition, the 2007 Credit Agreement requires the Company, on a consolidated basis, to maintain a specified financial ratio and satisfy certain financial condition tests that may require us to take action to reduce our debt or to act in a manner contrary to our business objectives. The 2007 Credit Agreement requires the Company, on a consolidated basis, to maintain a maximum total leverage ratio not greater than 4.25:1.00 of consolidated indebtedness to consolidated EBITDA, as defined in the 2007 Credit Agreement. As of December 31, 2008, we were in compliance with such ratio test, with a ratio of 2.35:1.00. In the year ended December 31, 2008, we recorded a goodwill impairment charge of $17.6 million primary related to our Boston Sports Clubs region. As of December 31, 2008, we had $32.6 million of goodwill remaining on our consolidated balance sheet. If we were to experience material additional goodwill impairment charges it would increase our total leverage ratio and depending upon the amount of goodwill impairment charges recorded, such an impairment could result in a failure to maintain the required minimum total leverage ratio of 4.25 to 1.00 and would result in a breach of our covenant under the 2007 Credit Agreement. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources 2007 Senior Credit Facility for further discussion of our covenants under our 2007 Senior Credit Facility.

Events beyond our control, including changes in general economic and business conditions, may affect our ability to meet certain financial ratios and financial condition tests. We may be unable to meet those tests and the lenders may decide not to waive any failure to meet those tests. A breach of any of these covenants would result in a default under the indenture governing our Senior Discount Notes and the 2007 Credit Agreement. If an event of default under the 2007 Credit Agreement occurs, the lenders could elect to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable. In the event of default under the indenture governing our Senior Discount Notes, the note holders could elect to declare due all amounts outstanding thereunder, together with accrued interest. If any such event should occur, we might not have sufficient assets to pay our indebtedness.

Item 1B. *Unresolved Staff Comments*

None

Item 2. *Properties*

We own the 151 East 86th Street location, which houses a fitness club and a retail tenant that generated $1.7 million of rental income for us for the year ended December 31, 2008. We lease the remainder of our fitness clubs pursuant to long-term leases (generally 15 to 25 years, including options). In the next five years, or the period from January 1, 2009 through December 31, 2013, we have leases for six club locations that are due to expire without any renewal options and leases for 38 club locations which expire during this period but have renewal options. In each case, we will endeavor to extend the lease or relocate the club or its membership base if appropriate.

We lease approximately 47,000 square feet of office space in New York City and have smaller regional offices in Fairfax, VA and Boston, MA, for administrative and general corporate purposes. We also lease warehouse and commercial space in Brooklyn, NY and Queens, NY for storage purposes and for the operation of a centralized laundry facility for certain of our clubs in the New York metropolitan area.

Beginning January 1, 2009, we lease approximately 82,000 square feet in Elmsford, NY for the operation of a centralized laundry facility for New York Sports Clubs offering towel service and for construction and equipment storage. This space will replace the laundry facility of 14,000 square feet currently in Queens, NY. The space will also serve as corporate office space and will replace approximately 10,800 square feet of corporate office space in Manhattan.

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The following table provides information regarding our club locations:

Location	Address	Date Opened or Management Assumed
New York Sports Clubs:		
Manhattan	151 East 86th Street	January 1977
Manhattan	61 West 62nd Street	July 1983
Manhattan	614 Second Avenue	July 1986
Manhattan	151 Reade Street	January 1990
Manhattan	1601 Broadway	September 1991
Manhattan	50 West 34th Street	August 1992
Manhattan	349 East 76th Street	April 1994
Manhattan	248 West 80th Street	May 1994
Manhattan	502 Park Avenue	February 1995
Manhattan	117 Seventh Avenue South	March 1995
Manhattan	303 Park Avenue South	December 1995
Manhattan	30 Wall Street	May 1996
Manhattan	1635 Third Avenue	October 1996
Manhattan	575 Lexington Avenue	November 1996
Manhattan	278 Eighth Avenue	December 1996
Manhattan	200 Madison Avenue	February 1997
Manhattan	2162 Broadway	November 1997
Manhattan	633 Third Avenue	April 1998
Manhattan	1657 Broadway	July 1998
Manhattan	217 Broadway	March 1999
Manhattan	23 West 73rd Street	April 1999
Manhattan	34 West 14th Street	July 1999
Manhattan	503-511 Broadway	July 1999
Manhattan	1372 Broadway	October 1999
Manhattan	300 West 125th Street	May 2000
Manhattan	102 North End Avenue	May 2000
Manhattan	19 West 44th Street	August 2000
Manhattan	128 Eighth Avenue	December 2000
Manhattan	2527 Broadway	August 2001
Manhattan	3 Park Avenue	August 2001
Manhattan	10 Irving Place	November 2001
Manhattan	160 Water Street	November 2001
Manhattan	230 West 41st Street	November 2001
Manhattan	1221 Avenue of the Americas	January 2002
Manhattan	200 Park Avenue	December 2002
Manhattan	232 Mercer Street	September 2004
Manhattan	225 Varick Street	August 2006
Manhattan	885 Second Avenue	February 2007
Manhattan	301 West 145th Street	October 2007
Manhattan	1400 5th Avenue	December 2007
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

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Location	Address	Date Opened or Management Assumed
Brooklyn, NY	7118 Third Avenue	May 2004
Brooklyn, NY	439 86th Street	April 2008
Queens, NY	69-33 Austin Street	April 1997
Queens, NY	153-67 A Cross Island Parkway	June 1998
Queens, NY	2856-2861 Steinway Street	February 2004
Queens, NY	8000 Cooper Avenue	March 2007
Queens, NY	99-01 Queens Boulevard	June 2007
Queens, NY	39-01 Queens Blvd.	December 2007
Queens, NY	175-61 Hillside Avenue	Future Opening
Staten Island, NY	300 West Service Road	June 1998
Scarsdale, NY	696 White Plains Road	October 1995
Mamaroneck, NY	124 Palmer Avenue	January 1997
Croton-on-Hudson, NY	420 South Riverside Drive	January 1998
Larchmont, NY	15 Madison Avenue	December 1998
Nanuet, NY	58 Demarest Mill Road	May 1998
Great Neck, NY	15 Barstow Road	July 1989
East Meadow, NY	625 Merrick Avenue	January 1999
Commack, NY	6136 Jericho Turnpike	January 1999
Oceanside, NY	2909 Lincoln Avenue	May 1999
Long Beach, NY	265 East Park Avenue	July 1999
Garden City, NY	833 Franklin Avenue	May 2000
Huntington, NY	350 New York Avenue	February 2001
Syosset, NY	49 Ira Road	March 2001
West Nyack, NY	3656 Palisades Center Drive	February 2002
Woodmere, NY	158 Irving Street	March 2002
Hartsdale, NY	208 E. Hartsdale Avenue	September 2004
Somers, NY	Somers Commons, 80 Route 6	February 2005
Port Jefferson Station, NY	200 Wilson Street	July 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	Future Opening
Stamford, CT	6 Landmark Square	December 1997
Stamford, CT	106 Commerce Road	Reopened February 2006
Danbury, CT	38 Mill Plain Road	January 1998
Stamford, CT	1063 Hope Street	November 1998
Norwalk, CT	250 Westport Avenue	March 1999
Greenwich, CT	6 Liberty Way	May 1999
Westport, CT	427 Post Road, East	January 2002

Greenwich, CT	1 Fawcett Place	February 2004
West Hartford, CT	65 Memorial Road	November 2007
East Brunswick, NJ	8 Cornwall Court	January 1990
Princeton, NJ	301 North Harrison Street	May 1997

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Location	Address	Date Opened or Management Assumed
Freehold, NJ	200 Daniels Way	April 1998
Matawan, NJ	450 Route 34	April 1998
Marlboro, NJ	34 Route 9 North	April 1998
Ramsey, NJ	1100 Route 17 North	June 1998
Mahwah, NJ	7 Leighton Place	June 1998
Parsippany, NJ	2651 Route 10	August 1998
Springfield, NJ	215 Morris Avenue	August 1998
Colonia, NJ	1250 Route 27	August 1998
Somerset, NJ	120 Cedar Grove Lane	August 1998
Hoboken, NJ	221 Washington Street	October 1998
West Caldwell, NJ	913 Bloomfield Avenue	April 1999
Jersey City, NJ	147 Two Harborside Financial Center	June 2002
Newark, NJ	1 Gateway Center	October 2002
Ridgewood, NJ	129 S. Broad Street	June 2003
Westwood, NJ	35 Jefferson Avenue	June 2004
Livingston, NJ	39 W. North Field Rd.	February 2005
Princeton, NJ	4250 Route 1 North	April 2005
Hoboken, NJ	210 14th Street	December 2006
Englewood, NJ	34-36 South Dean Street	December 2006
Clifton, NJ	202 Main Avenue	March 2007
Montclair, NJ	56 Church Street	January 2008
Butler, NJ	1481 Route 23	January 2009
East Brunswick, NJ	300 State Route 18	March 2009
Bayonne, NJ	550 Route 440 North	Future Opening
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
Allston, MA	15 Gorham Street	July 1997
Natick, MA	Sherwood Plaza, 124 Worcester Rd	September 1998
Weymouth, MA	553 Washington Street	May 1999
Wellesley, MA	140 Great Plain Avenue	July 2000
Andover, MA	307 Lowell Street	July 2000
Lynnfield, MA	425 Walnut Street	July 2000
Lexington, MA	475 Bedford Avenue	July 2000
Franklin, MA	750 Union Street	July 2000
Cambridge, MA	625 Massachusetts Avenue	January 2001
West Newton, MA	1359 Washington Street	November 2001
Waltham, MA	840 Winter Street	November 2002
Watertown, MA	311 Arsenal Street	January 2006

Newton, MA	135 Wells Avenue	August 2006
Somerville, MA	1 Davis Square	December 2007
Medford, MA	70 Station Landing	December 2007
Westborough, MA	1500 Union Street	September 2008

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Location	Address	Date Opened or Management Assumed
Woburn, MA	300 Presidential Way	December 2008
Providence, RI	131 Pittman Street	December 2008
Providence, RI	10 Dorrance Street	January 2009
Washington Sports Clubs:		
Washington, D.C.	214 D Street, S.E.	January 1980
Washington, D.C.	1835 Connecticut Avenue, N.W .	January 1990
Washington, D.C.	2251 Wisconsin Avenue, N.W.	May 1994
Washington, D.C.	1211 Connecticut Avenue, N.W.	July 2000
Washington, D.C.	1345 F Street, N.W.	August 2002
Washington, D.C.	5345 Wisconsin Ave., N.W.	February 2002
Washington, D.C.	1990 K Street, N.W.	February 2004
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
Germantown, MD	12623 Wisteria Drive	July 1998
Silver Spring, MD	8506 Fenton Street	November 2005
Bethesda, MD	6800 Wisconsin Avenue	November 2007
Alexandria, VA	3654 King Street	June 1999
Sterling, VA	21800 Town Center Plaza	October 1999
Fairfax, VA	11001 Lee Highway	October 1999
West Springfield, VA	8430 Old Keene Mill	September 2000
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
Cherry Hill, NJ	Route 70 and Kings Highway	April 2000
Philadelphia, PA	1735 Market Street	October 2000
Ardmore, PA	34 W. Lancaster Avenue	March 2002
Radnor, PA	555 East Lancaster Avenue	December 2006
Swiss Sports Clubs:		
Basel, Switzerland	St. Johanns-Vorstadt 41	August 1987
Zurich, Switzerland	Glarnischstrasse 35	August 1987
Basel, Switzerland	Gellerstrasse 235	August 2001

Item 3. *Legal Proceedings*

On or about March 1, 2005, in an action styled *Sarah Cruz, et al v. Town Sports International, dba New York Sports Club*, plaintiffs commenced a purported class action against the Company in the Supreme Court, New York County, seeking unpaid wages and alleging that TSI, LLC violated various overtime provisions of the New York State Labor Law with respect to the payment of wages to certain trainers and assistant fitness managers. On or about November 2, 2005, the complaint and the lawsuit were stayed upon agreement of the parties pending mediation. On or about November 28, 2006, the plaintiffs gave notice that they wished to lift the stay. On or about June 18, 2007, the same plaintiffs commenced a second purported class action against the Company in the Supreme Court, New York County, seeking unpaid wages and alleging that TSI, LLC violated various wage payment and overtime provisions of the New York State Labor Law with respect to the payment of wages to all New York purported hourly employees. While we are unable at this time to estimate the likelihood of an unfavorable outcome or the potential loss to the Company in the event of such an outcome, we intend to contest this case vigorously. Depending upon the

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ultimate outcome, this matter may have a material adverse effect on the Company s consolidated financial position, results of operations, or cash flows.

In addition to the litigation discussed above, we are involved in various other lawsuits, claims and proceedings incidental to the ordinary course of business. The results of litigation are inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources. The results of these other lawsuits, claims and proceedings cannot be predicted with certainty. We believe, however, that the ultimate resolution of these current matters will not have a material adverse effect on our financial statements taken as a whole.

Item 4. ***Submission of Matters to a Vote of Security Holders***

Not applicable

PART II

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

Price Range of Common Stock

Our common stock currently trades on The NASDAQ Global Market, a new market tier created by The NASDAQ Stock Market that became effective on July 1, 2006 under the symbol CLUB. Our common stock commenced trading on The NASDAQ National Market under the symbol CLUB on June 2, 2006, the first trading day of our common stock following our initial public offering (IPO). The following table sets forth, for each quarterly period in the last two fiscal years, the high and low sales prices (in dollars per share) of our common stock as quoted or reported on The NASDAQ Global Market:

	High	Low
Year ended December 31, 2008:		
First Quarter	$ 10.60	$ 6.41
Second Quarter	$ 10.20	$ 6.10
Third Quarter	$ 10.74	$ 5.92
Fourth Quarter	$ 6.47	$ 1.97
Year ended December 31, 2007:		
First Quarter	$ 22.41	$ 16.35
Second Quarter	$ 24.00	$ 18.33
Third Quarter	$ 20.02	$ 14.64
Fourth Quarter	$ 16.21	$ 9.09

Holders

As of February 26, 2009, there were approximately 93 holders of record of our common stock. There are additional holders who are not holders of record but who beneficially own stock through nominee holders such as brokers and benefit plan trustees.

Dividend Policy

We intend to retain future earnings, if any, to finance the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Consequently, stockholders will need to sell shares of our common stock to realize a return on their investment, if any. No dividends were paid by the Company in the fiscal years ended December 31, 2007 and 2008.

The terms of the indenture governing our Senior Discount Notes and the 2007 Senior Credit Facility significantly restrict the payment of dividends by us. Our subsidiaries are permitted under the terms of the 2007 Senior Credit Facility (including under the indenture governing our Senior Discount Notes) to incur additional indebtedness that may severely restrict or prohibit the payment of dividends by such subsidiaries to us. Our

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substantial leverage may impair our financial condition and we may incur significant additional debt (see Item 1A. Risk Factors).

Issuer Purchases of Equity Securities

The Company s share repurchase activity for each of the months during the three month period ended December 31, 2008 were as follows:

	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs(1)	Maximum Dollar Value of Shares that may yet be Purchased under the Programs (1)
October 1, 2008 October 31, 2008		$		$ 25,000,000
November 1, 2008 November 30, 2008	1,011,016	$ 2.34	1,011,016	$ 22,594,278
December 1, 2008 December 31, 2008	837,944	$ 2.63	837,944	$ 20,355,388

(1) On April 29, 2008, the Board of Directors approved a plan to repurchase up to an aggregate of $25.0 million of Common Stock through December 31, 2009. The stock repurchase program may be modified, extended or terminated by the Board of Directors at any time.

Recent Sales of Unregistered Securities

We did not sell any securities during the year ended December 31, 2008 that were not registered under the Securities Act of 1933, as amended.

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Stock Performance Graph

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

COMPARISON OF 31 MONTH CUMULATIVE TOTAL RETURN*
Among Town Sports International Holdings, Inc, The NASDAQ Composite Index
And The Russell 2000 Index

* $100 invested on 6/2/06 in stock & 5/31/06 in index-including reinvestment of dividends.
Fiscal year ending December 31.

		December 31,		
	June 2, 2006	2006	2007	2008
Town Sports International Holdings	$ 100.00	$ 124.38	$ 72.15	$ 24.08
NASDAQ	$ 100.00	$ 112.09	$ 122.39	$ 71.30
Russell 2000	$ 100.00	$ 110.09	$ 108.36	$ 71.75

Notes:

(1) The graph covers the period from June 2, 2006, the first trading day of our common stock following our IPO, to December 31, 2008.

(2) The graph assumes that $100 was invested at the market close on June 2, 2006 in our common stock, in the Russell 2000 and in the NASDAQ composite indexes and that all dividends were reinvested. The Russell 2000 Index has been chosen for comparative purposes because we do not have a readily definable peer group that is publicly traded. No cash dividends have been declared on our common stock in the period covered.

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

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

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information by reference into a previous or future filing, or specifically requests that such information be treated as soliciting material, in each case under those statutes.

Item 6. ***Selected Financial Data***

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

The selected consolidated balance sheet data as of December 31, 2008 and 2007 and the selected consolidated statement of operations and cash flow data for the years ended December 31, 2008, 2007 and 2006 have been derived from our audited consolidated financial statements included elsewhere herein. The selected consolidated balance sheet data as of December 31, 2006, 2005 and 2004 and the selected consolidated statement of operations and cash flow data for the years ended December 31, 2005 and 2004 have been derived from our audited consolidated financial statements not included herein. Other data and club and membership data for all periods presented have been derived from our unaudited books and records. Our historical results are not necessarily indicative of results for any future period. You should read these selected consolidated financial and other data, together with the accompanying notes, in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this annual report and our consolidated financial statements and the related notes appearing at the end of this annual report.

	Year Ended December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
Statement of Operations Data:					
Revenues	$ 506,709	$ 472,915	$ 433,080	$ 388,556	$ 353,031
Operating expenses:					
Payroll and related	193,580	177,357	162,709	151,920	138,302
Club operating	172,409	156,660	146,243	130,219	116,847
General and administrative	33,952	35,092	30,248	26,582	24,719
Depreciation and amortization	52,475	45,964	40,850	39,582	36,869
Impairment of fixed assets	3,867				
Goodwill impairment(1)	17,609				2,002
Operating income	32,817	57,842	53,030	40,253	34,292
Loss on extinguishment of debt(2)		12,521	16,113		
Interest expense, net of interest income	23,583	25,329	33,372	39,208	38,600
Equity in the earnings of investees and rental income	(2,307)	(1,799)	(1,817)	(1,744)	(1,493)
Net income (loss) before provision for corporate income taxes	11,541	21,791	5,362	2,789	(2,815)
Provision for corporate income taxes	9,204	8,145	715	1,020	1,090
Net income (loss)	2,337	13,646	4,647	1,769	(3,905)
Accreted dividends on preferred stock					(784)
	$ 2,337	$ 13,646	$ 4,647	$ 1,769	$ (4,689)

Net income (loss) attributable to common stockholders										
Earnings (loss) per weighted average number of shares:										
Basic	$	0.09	$	0.52	$	0.20	$	0.10	$	(0.26)
Diluted	$	0.09	$	0.51	$	0.20	$	0.10	$	(0.26)

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	As of December 31, 2008	2007	2006	2005	2004
Balance Sheet Data:					
Cash and cash equivalents	$ 10,399	$ 5,463	$ 6,810	$ 51,304	$ 57,506
Working capital (deficit)	(67,211)	(73,480)	(58,366)	(2,262)	7,039
Total assets	511,638	488,763	423,527	433,771	390,956
Long-term debt, including current installments	338,010	316,022	281,129	411,162	396,461
Total stockholders equity (deficit)(3)	772	183	(17,829)	(115,683)	(117,017)

	Year Ended December 31, 2008	2007	2006	2005	2004
Cash Flow Data:					
Cash provided by (used in):					
Operating activities	$ 95,622	$ 82,749	$ 75,120	$ 63,256	$ 57,125
Investing activities	(95,108)	(97,230)	(67,111)	(66,338)	(40,686)
Financing activities	4,196	12,931	(52,598)	(3,120)	265
Other Data:					
Non-cash rental expense, net of non-cash rental income	(411)	508	1,768	1,461	525
Non-cash compensation expense incurred in connection with stock options and common stock grants	1,268	913	1,135	279	64

	Year Ended December 31, 2008	2007	2006	2005	2004
Club and Membership Data:					
New clubs opened	9	14	10	5	5
Clubs acquired		1	1	2	3
Clubs closed, relocated or sold	(4)	(3)	(3)	(3)	
Wholly owned clubs operated at end of period	164	159	147	139	135
Total clubs operated at end of period(4)	166	161	149	141	137
Members at end of period(5)	510,000	486,000	453,000	409,000	383,000
Comparable club revenue increase(6)	2.2%	5.2%	7.9%	6.9%	2.5%
Revenue per weighted average club(7)	$ 3,142	$ 3,155	$ 3,021	$ 2,816	$ 2,680
Average revenue per member(8)	$ 990	$ 1,000	$ 982	$ 968	$ 960
Annual attrition(9)	40.2%	38.2%	36.1%	38.2%	37.3%