

TOWN SPORTS INTERNATIONAL HOLDINGS INC

Form S-1/A

May 15, 2006

Table of Contents

As filed with the Securities and Exchange Commission on May 15, 2006

Registration No. 333-126428

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

**AMENDMENT NO. 2 TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

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

Delaware

(State or other jurisdiction of
incorporation or organization)

7997

(Primary standard industrial
classification code number)

20-0640002

(I.R.S. employer
identification number)

**888 Seventh Avenue (25th Floor)
New York, New York 10106
(212) 246-6700**

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal
Executive Offices)

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

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(3)
Common Stock, par value \$0.001 per share	11,500,000	\$18.00	\$207,000,000	\$23,994.75

(1) Includes 2,352,941 shares for the account of selling stockholders. Also includes 1,500,000 shares which may be sold for the account of selling stockholders pursuant to the underwriters' over-allotment option.

(2) Estimated solely for the purpose of the registration fee for this offering in accordance with Rule 457(a) of the Securities Act.

(3) \$22,764.25 has been paid previously.

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

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 15, 2006

10,000,000 Shares

Common Stock

We are selling 7,647,059 shares of common stock and the selling stockholders are selling 2,352,941 shares of common stock. Prior to this offering, there has been no public market for our common stock. The initial public offering price of the common stock is expected to be between \$16.00 and \$18.00 per share. We have applied to list our common stock on The NASDAQ National Market under the symbol CLUB.

The underwriters have an option to purchase a maximum of 1,500,000 additional shares from the selling stockholders to cover over-allotments of shares.

We will not receive any of the proceeds from the shares of common stock sold by the selling stockholders.

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

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Town Sports (before expenses)	Proceeds to Selling Stockholders (before expenses)
Per share	\$	\$	\$	\$
Total	\$	\$	\$	\$

Delivery of the shares of common stock will be made on or about _____, 2006.

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

Credit Suisse

Deutsche Bank Securities

William Blair & Company

Piper Jaffray

RBC Capital Markets

The date of this prospectus is _____, 2006

Table of Contents

Table of Contents

Table of Contents

TABLE OF CONTENTS

	Page
<u>Prospectus Summary</u>	1
<u>Risk Factors</u>	11
<u>Forward-Looking Statements</u>	20
<u>Industry and Market Data</u>	20
<u>Use of Proceeds</u>	21
<u>Dividend Policy</u>	22
<u>Capitalization</u>	23
<u>Dilution</u>	24
<u>Selected Consolidated Financial and Other Data</u>	25
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
<u>Business</u>	50
<u>Management</u>	66
<u>Related Party Transactions</u>	74
<u>Principal and Selling Stockholders</u>	77
<u>Description of Capital Stock</u>	79
<u>Shares Eligible for Future Sale</u>	81
<u>Material United States Federal Income and Estate Tax Consequences to Non-U.S. Holders</u>	83
<u>Underwriting</u>	86
<u>Legal Matters</u>	90
<u>Experts</u>	90
<u>Where You Can Find Additional Information</u>	90
<u>Index to Consolidated Financial Statements</u>	F-1
<u>EX-23.1: CONSENT OF PRICEWATERHOUSECOOPERS LLP</u>	
<u>EX-23.2: CONSENT OF SQUIRE, LEMKIN + O'BRIEN LLP</u>	

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

Table of Contents

PROSPECTUS SUMMARY

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

Our Company

We are one of the two leading owners and operators of fitness clubs in the Northeast and Mid-Atlantic regions of the United States and the third largest fitness club operator in the United States, in each case as measured by number of clubs. As of March 31, 2006, we owned and operated 143 fitness clubs and partly owned and operated two fitness clubs. These 145 clubs collectively served approximately 438,000 members. We have developed and refined our fitness club model through our clustering strategy, offering fitness clubs close to our members work and home. Our club model targets the upper value market segment, comprising individuals aged between 21 and 50 with income levels between \$50,000 and \$150,000 per year. We believe that the upper value segment is not only the broadest segment of the market, but also the segment with the greatest growth opportunities.

Our revenues, operating income, net income and EBITDA for the twelve months ended March 31, 2006 were \$398.7 million, \$41.1 million, \$1.5 million and \$83.0 million, respectively. Our revenues, operating income, net income and EBITDA for the year ended December 31, 2005 were \$388.6 million, \$40.3 million, \$1.8 million and \$81.6 million, respectively. Our revenues, operating income, net loss and EBITDA for the three months ended March 31, 2006 were \$104.0 million, \$10.4 million, (\$0.1) million and \$21.2 million, respectively.

Our goal is to be the most recognized health club network in each of the four major metropolitan regions we serve. We believe that our strategy of clustering clubs provides significant benefits to our members and allows us to achieve strategic operating advantages. In each of our markets, we have developed clusters by initially opening or acquiring clubs located in the more central urban markets of the region and then branching out from these urban centers to suburbs and neighboring communities. Capitalizing on this clustering of clubs, as of March 31, 2006, approximately 43% of our members participated in our Passport Membership plan that allows unlimited access to all of our clubs in our clusters for a higher monthly membership fee.

We have executed our clustering strategy successfully in the New York region through the network of fitness clubs we operate under our New York Sports Clubs brand name. We are the largest fitness club operator in Manhattan with 37 locations (more than twice as many as our nearest competitor) and operate a total of 97 clubs under the New York Sports Clubs brand name within a 75 mile radius of New York City. We operate 20 clubs in the Boston region under our Boston Sports Clubs brand name, 19 clubs in the Washington, D.C. region under our Washington Sports Clubs brand name and we are establishing a similar cluster in the Philadelphia region with six clubs under our Philadelphia Sports Clubs brand name. In addition, we operate three clubs in Switzerland. We employ localized brand names for our clubs to create an image and atmosphere consistent with the local community and to foster recognition as a local network of quality fitness clubs rather than a national chain.

Over our 32-year history, we have developed and refined club formats that allow us to cost-effectively construct and efficiently operate our fitness clubs. Our formats are flexible enough to adapt to the difficult real estate environments in our markets. They are designed to accommodate fitness-only and multi-recreational clubs ranging in size from 15,000 to 55,000 square feet. The average size of our clubs is approximately 24,000 square feet. Clubs typically have an open fitness area to accommodate cardiovascular and strength-training equipment, as well as special purpose rooms for group fitness classes and other exercise programs. Locker rooms generally include saunas and steam and massage rooms, as well as daily and rental lockers. We seek to provide a broad array of high-quality exercise programs and equipment that are popular and effective, promoting the quality exercise experience that we strive to make available to our

Table of Contents

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 suburban club in a family market may include Sports Clubs for Kids programs, which can include swim lessons and sports camps.

Industry Overview

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

**U.S. Fitness Club Industry Revenues
(\$ in billions)**

IHRSA Profiles of Success 2004; IHRSA Global Report 2005.

**U.S. Fitness Club Memberships
(in millions)**

IHRSA/ American Sports Data Health Club Trend Report.

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

Notwithstanding these longstanding growth trends, the fitness club industry continues to be highly fragmented. Less than 10.0% of clubs in the United States are owned and operated by companies that own more than 25 clubs, and the two largest fitness club operators each generate less than 8.0% of total United States fitness club revenues, according to management estimates.

Table of Contents

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

Competitive Strengths

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

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

Regional clustering strategy providing significant benefits to members. By operating a network of clubs in a concentrated geographic area, the value of our memberships is enhanced by our ability to offer members access to any of our clubs through our Passport Membership, which provides the convenience of having fitness clubs near a member's work and home. Approximately 43% of our members have a Passport Membership plan, and because these memberships offer enhanced privileges and greater convenience, they generate higher monthly dues than single club memberships. Regional clustering also allows us to provide special facilities within a local area, such as swimming pools and squash, tennis and basketball courts, without offering them at every location. In addition, our regional clustering strategy is attractive to corporations seeking group memberships.

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

Expertise in site selection and development process. We believe that our expertise in site selection and development provides a significant advantage over our competitors given the complexity of the 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, competitive and zoning analysis, financial modeling, site selection and negotiation of lease and acquisition terms to ensure that a location meets our criteria for a model club. We believe our flexible club formats are well suited to the challenging real estate environments in our markets.

Proven and predictable club-level economic model. We have established a track record of consistent growth in revenue and profitability across our club base. We opened or acquired 105 clubs from the inception of our business through December 31, 2000. Of these, our 95 wholly owned clubs that have been in operation from January 1, 2001 through December 31, 2005 generated revenues and operating income (after corporate expenses allocated on a revenue basis) of \$282.7 million and \$43.7 million, respectively, during the year ended December 31, 2005, as compared to \$259.8 million and \$35.4 million, respectively, during the year ended December 31, 2001. We believe that the track record of our mature clubs provides a reasonable basis for expected improved performance in our recently opened clubs and continued investment in new clubs. In addition, for the year ended December 31, 2005 and the three months ended March 31, 2006 revenues from clubs that have been open for more than 24 months grew at 5.8% and 5.9%, respectively. Further, we have demonstrated our ability to deliver similar club-level returns in varying club formats and sizes.

Table of Contents

Experienced management team. We believe that our management team is one of the most experienced management teams in the industry. Our three most senior executives have over 60 years of combined experience in the fitness club industry and have been working together at Town Sports since 1990. We believe that our management has the depth, experience and motivation to manage our growth. In the aggregate, our entire management team owns approximately 18.9% of our common stock before this offering, and will own 13.6% of our common stock after this offering (10.2% if the underwriters exercise their over-allotment option in full), in each case on a fully diluted basis.

Business Strategy

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

Drive comparable club revenue and profitability growth. For the year ended December 31, 2005 and the three months ended March 31, 2006, comparable club revenue growth was 6.9% and 7.6%, respectively. We define comparable club revenues as revenues at those clubs that were operated by us for over 12 months and comparable club revenue growth as revenues for the thirteenth month and thereafter as compared to the same period during the prior year. Our comparable club revenues increased as a result of our strategic initiatives, including our commit membership plan and focus on growing ancillary revenues. The commit membership model that we implemented in 2003 encourages new members to commit to a one- or two-year membership at a moderate discount to our month-to-month plan. Since the implementation of the new membership model, attrition rates have declined dramatically and comparable club revenues have increased. We intend to capitalize on this momentum to drive revenue and profitability growth by increasing our membership base as well as the amount of revenue that we generate from each member. Our margins will also continue to improve as the positive comparable club revenue growth allows us to leverage our fixed-cost base.

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

Grow ancillary and other non-membership revenues. We intend to grow our ancillary and other non-membership revenues through a continued focus on increasing the additional value-added services that we provide to our members as well as capitalizing on the opportunities for other non-membership revenues such as in-club advertising and retail sales. Non-membership revenues have increased from \$42.0 million, or 15.0% of revenues for the year ended December 31, 2001, to \$66.8 million, or 17.2% of revenues for the year ended December 31, 2005. We intend to continue to expand the current range of value-added services and programs that we offer to our members, such as personal training, massage, Sports Clubs for Kids and Group Exclusives. These sources of ancillary and other non-membership revenues generate incremental profits with minimal capital investment and assist in attracting and retaining members.

Realize benefits from maturation of recently opened clubs. From January 1, 2004 to December 31, 2005, we opened or acquired 15 clubs. We believe that our recent financial performance does not fully reflect the benefit of these clubs. Based on our experience, a new club tends to achieve significant increases in revenues during its first three years of operation as the number of members 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 these 15 clubs will significantly improve as the clubs reach maturity.

Execute new business initiatives. We continually undertake initiatives to improve our business. For example, we have undertaken a significant study of various pricing and membership structure initiatives across our portfolio of clubs to seek to influence attrition and average length of membership. We have also

Table of Contents

improved the process surrounding the opening of newly constructed clubs to yield higher membership revenue in the first month of operation. In addition, we undertook a statistical multi-variable testing study and found a number of initiatives that could be undertaken to improve our business. Of those, we tested 25 and have implemented seven initiatives in a combination that we believe will increase our membership and ancillary revenues and reduce attrition. Separately, we have a corporate sales division that targets or focuses on companies with more than 100 workers. In addition, we established an on-line corporate sales program to support the division in the first quarter of 2005, which led to an increase in corporate sales. We believe these changes will lead to an increase in new corporate memberships in the future. From December 31, 2003 through March 31, 2006, we increased the member count of our corporate sales division by 280% from approximately 5,000 members to approximately 19,000 members, respectively.

Company History

We were founded in 1973. Since our three most senior executives began working together for us in 1990, through the end of 2005:

we grew our number of clubs from nine to 141;

we grew our revenues at a compound annual growth rate of 25.8%, from \$10.8 million to \$388.6 million;

we improved our annual operating income from \$0.1 million to \$40.3 million;

we moved from an annual net loss of \$0.6 million to net income of \$1.8 million; and

we grew our EBITDA at a compound annual growth rate of 34.3%, from \$0.8 million to \$81.6 million.

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

Recent Events

On May 4, 2006, TSI, Inc. commenced a tender offer for up to \$85.0 million aggregate principal amount of its senior notes. The tender offer expires on June 1, 2006, unless extended or earlier terminated by TSI, Inc. TSI, Inc. expects to pay the tender offer consideration and the related costs and expenses with a portion of the net proceeds of this offering that we are to contribute to TSI, Inc., and with TSI, Inc.'s available cash. Assuming \$85.0 million aggregate principal amount of senior notes are purchased on June 2, 2006 for the total consideration provided for in the tender offer, the total amount of funds required to complete the tender offer and to pay all costs and expenses and accrued interest on the senior notes is estimated to be approximately \$93.1 million.

In connection with the tender offer, TSI, Inc. obtained consents from the requisite number of holders to amend certain covenants contained in the indenture governing the senior notes regarding reports to holders and the ability of TSI, Inc. to convert from a corporation to a limited liability company, and a related waiver. The amendments became effective by a supplemental indenture, dated as of May 12, 2006.

In connection with this offering, we intend to exercise our right to redeem 35% of our outstanding senior discount notes.

See the Use of Proceeds section of this prospectus for more information about these subsequent events.

Table of Contents

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

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

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

Table of Contents

The Offering

Common stock offered by Town Sports 7,647,059 shares

Common stock offered by the selling stockholders 2,352,941 shares

Common stock to be outstanding after this offering 25,973,661 shares

Use of proceeds We intend to use the net proceeds to us from this offering, together with cash on hand, to:

- consummate the tender offer for up to \$85.0 million aggregate principal amount of TSI, Inc.'s senior notes;
- redeem 35% of our senior discount notes; and
- pay related fees, premiums and expenses.

On a pro forma basis after giving effect to this offering and our application of the net proceeds therefrom, our consolidated debt as of March 31, 2006 would have been approximately \$275.0 million.

We will not receive any proceeds from the sale of shares by the selling stockholders.

Proposed NASDAQ National Market symbol CLUB

The number of shares of our common stock to be outstanding after this offering is based on 18,326,602 shares of common stock outstanding as of May 1, 2006. Except as otherwise stated, the common stock information we present in this prospectus:

- excludes 1,230,964 shares of common stock issuable upon exercise of options outstanding as of May 1, 2006 at a weighted average exercise price of \$6.20 per share;
- excludes an additional 58,478 shares of common stock reserved for issuance under our stock incentive plan and an additional 1,300,000 shares of common stock reserved for issuance under the stock incentive plan that we will adopt in connection with this offering;
- assumes no exercise of stock options after May 1, 2006;
- assumes no exercise of the underwriters' over-allotment option; and
- has been adjusted for the 14-for-one stock split of our common stock and the reclassification of our presently designated Class A common stock into undesignated common stock that we will effect prior to the closing of this offering.

All club data that we present in this prospectus is as of March 31, 2006, except as otherwise stated.

Table of Contents

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

We present our summary consolidated financial data in the following table to aid you in your analysis of a potential investment in our common stock. The summary consolidated statement of operations data for the years ended December 31, 2003, 2004 and 2005 have been derived from our audited consolidated financial statements included elsewhere herein. The summary consolidated balance sheet data as of March 31, 2006 and the summary consolidated statement of operations data for the three months ended March 31, 2005 and 2006 have been derived from our unaudited condensed consolidated financial statements included elsewhere herein. In the opinion of management, the unaudited financial information has been prepared substantially on the same basis as our audited consolidated financial statements appearing elsewhere herein and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited condensed consolidated quarterly results of operations and unaudited condensed consolidated balance sheet data. The summary consolidated statement of operations data for the 12 months ended March 31, 2006 have been derived from our audited and unaudited financial statements. Other data and club and membership data for all periods presented have been derived from our unaudited books and records. Our historical results are not necessarily indicative of results for any future period and interim results are not necessarily indicative of results for any future interim period or for a full year. You should read this data in conjunction with the Selected Consolidated Financial and Other Data and Management's Discussion and Analysis of Financial Condition and Results of Operations sections of this prospectus and our consolidated financial statements and the related notes appearing at the end of this prospectus. The historical share and per share information presented below does not give effect to the 14-for-1 stock split of our common stock that we will effect prior to the closing of this offering. The pro forma statement of operations data gives effect to the issuance of 7,647,059 shares of our common stock in this offering, as if it had occurred at the beginning of the periods presented, and gives effect to the 14-for-1 stock split. The pro forma balance sheet data reflects our sale of 7,647,059 shares of our common stock in this offering at an assumed public offering price of \$17.00 per share (the mid-point of the range set forth on the cover page of this prospectus), after deducting the estimated underwriting discounts and commissions and our estimated offering expenses and the application of the net proceeds therefrom as described in the Use of Proceeds section of this prospectus.

	Year Ended December 31,			Three Months Ended		Twelve Months Ended March 31, 2006	Pro Forma Twelve Months Ended March 31, 2006
	2003	2004	2005	March 31, 2005	March 31, 2006		
Statement of Operations Data:							
Revenues	\$ 341,172	\$ 353,031	\$ 388,556	\$ 93,846	\$ 104,027	\$ 398,737	\$ 398,737
Total operating expenses	298,576	318,739	348,303	84,261	93,614	357,656	357,656
Operating income	42,596	34,292	40,253	9,585	10,413	41,081	41,081
Net income (loss)	7,429	(3,905)	1,769	179	(135)	1,455	8,505
Net income (loss) attributable to common	\$ (3,555)	\$ (4,689)	\$ 1,769	\$ 179	\$ (135)	\$ 1,455	\$ 8,505

stockholders(1)

Earnings (loss)														
per share:														
Basic	\$	(2.85)	\$	(3.61)	\$	1.35	\$	0.14	\$	(0.10)	\$	1.11	\$	0.33
Diluted(2)	\$	(2.85)	\$	(3.61)	\$	1.35	\$	0.14	\$	(0.10)	\$	1.11	\$	0.33

Weighted
average number
of shares used in
calculating
earnings (loss)
per share:

Basic	1,247,674	1,299,332	1,309,616	1,312,289	1,309,123	1,309,123	25,974,781
Diluted(2)	1,247,674	1,299,332	1,312,473	1,314,562	1,309,123	1,313,072	26,030,067

As of March 31, 2006

Actual Pro Forma

Balance Sheet Data:

Cash and cash equivalents	\$	69,724	\$	32,067
Working capital (deficit)		(63,426)		(56,434)
Total assets		445,998		405,423
Long-term debt, including current installments		414,977		274,956
Total stockholders deficit		(115,768)		(9,330)

Table of Contents

	Year Ended December 31,			Three Months Ended March 31,		Twelve Months Ended March 31,
	2003	2004	2005	2005	2006	2006
	Other Data:					
EBITDA(3)	\$ 71,119	\$ 72,654	\$ 81,579	\$ 19,794	\$ 21,232	\$ 83,017
EBITDA margin(4)	20.8%	20.6%	21.0%	21.1%	20.4%	20.8%
Rent expense	\$ 59,575	\$ 64,742	\$ 71,035	\$ 17,282	\$ 19,722	\$ 73,475

	Year Ended December 31,			Three Months Ended March 31,		Twelve Months Ended March 31,
	2003	2004	2005	2005	2006	2006
	Club and Membership Data:					
New clubs opened	3	5	5	3	5	7
Clubs acquired		3	2			2
Clubs closed, relocated or sold	(3)		(3)		(1)	(4)
Wholly owned clubs operated at end of period	127	135	139	138	143	143
Total clubs operated at end of period(5)	129	137	141	140	145	145
Members at end of period(6)	342,000	383,000	409,000	398,000	438,000	438,000
Comparable club revenue increase(7)	3.5%	2.5%	6.9%	6.0%	7.6%	7.3%
Mature club revenue increase(8)	1.6%	2.1%	5.8%	4.8%	5.9%	6.4%
Revenue per weighted average club(9)	\$ 2,680	\$ 2,680	\$ 2,816	\$ 685	\$ 733	\$ 2,869
Average revenue per member(10)	987	960	968	240	242	971

(1) After adding accreted dividends on preferred stock for the years ended December 31, 2003 and 2004.

(2) The diluted weighted average number of shares used in calculating earnings (loss) per share is the weighted average number of shares of common stock plus the weighted average conversion of any dilutive common stock equivalents, such as the assumed weighted average exercise of dilutive stock options using the treasury stock method. For the years ended December 31, 2003 and 2004, these common stock equivalents were antidilutive and have been excluded from the diluted weighted average number of shares. For the year ended December 31, 2005, the shares issuable upon the exercise of stock options were dilutive. The number of shares excluded from the computation of diluted earnings per share was 52,807 and 15,481 for the years ended December 31, 2003

and 2004, respectively, and 16,542 for the three months ended March 31, 2006. The following table summarizes the weighted average number of shares of common stock outstanding for basic and diluted earnings per share computations:

	Year Ended December 31,			Three Months Ended March 31,		Twelve Months Ended March 31,	Pro Forma Twelve Months Ended March 31,
	2003	2004	2005	2005	2006	2006	2006
	Weighted average number of shares outstanding basic	1,247,674	1,299,332	1,309,616	1,312,289	1,309,123	1,309,123
Effect of dilutive stock options			2,857	2,273		3,949	55,286
Weighted average number of shares outstanding diluted	1,247,674	1,299,332	1,312,473	1,314,562	1,309,123	1,313,072	26,030,067

- (3) EBITDA consists of net income (loss) plus interest expense, net of interest income, provision for corporate income taxes and depreciation and amortization. This term, as we define it, may not be comparable to a similarly titled measure used by other companies and is not a measure of performance presented in accordance with generally accepted accounting principles (GAAP). We use EBITDA as a measure of operating performance. EBITDA should not be considered as a substitute for net income, operating income, cash flows provided by operating activities or other income or cash flow data prepared in accordance with GAAP. The funds depicted by EBITDA are not necessarily available for discretionary use if they are reserved for particular capital purposes, to

Table of Contents

maintain compliance with debt covenants, to service debt or to pay taxes. Additional details related to EBITDA are provided in Management's Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures.

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

	Three Months						
	Year Ended December 31,			Ended		Twelve Months Ended	Pro Forma Twelve Months Ended
	2003	2004	2005	March 31, 2005	2006		
Net income (loss)	\$ 7,429	\$ (3,905)	\$ 1,769	\$ 179	\$ (135)	\$ 1,455	\$ 8,505
Interest expense, net of interest income	23,226	38,600	39,208	9,750	9,962	39,420	26,933
Provision for corporate income taxes	5,537	1,090	1,020	126	1,019	1,913	7,350
Equity in the earnings of investees and rental income	(1,369)	(1,493)	(1,744)	(470)	(433)	(1,707)	(1,707)
Loss on extinguishment of debt	7,773						
Operating income	42,596	34,292	40,253	9,585	10,413	41,081	41,081
Equity in the earnings of investees and rental income	1,369	1,493	1,744	470	433	1,707	1,707
Loss on extinguishment of debt	(7,773)						
Depreciation and amortization	34,927	36,869	39,582	9,739	10,386	40,229	40,229
EBITDA	\$ 71,119	\$ 72,654	\$ 81,579	\$ 19,794	\$ 21,232	\$ 83,017	\$ 83,017

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

(5) Includes wholly owned and partly owned clubs. In addition, as of December 31, 2005 and March 31, 2006, we managed five university fitness clubs in which we did not have an equity interest.

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

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

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

- (9) Revenue per weighted average club is calculated as total revenue divided by the product of the total number of clubs and their weighted average months in operation as a percentage of the period.
- (10) Average revenue per member is total revenue for the period divided by the average number of memberships for the period, where average number of memberships for the period is derived by dividing the sum of the total memberships at the end of each month during the period by the total number of months in the period.

Table of Contents

RISK FACTORS

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

Risks Related to Our Business

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

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

Our geographic concentration heightens our exposure to adverse regional developments.

As of March 31, 2006, we operated 97 fitness clubs in the New York metropolitan market, 20 fitness clubs in the Boston market, 19 fitness clubs in the Washington, D.C. market, six fitness clubs in the Philadelphia market and three fitness clubs in Switzerland. Our geographic concentration in the Northeast and Mid-Atlantic regions and, in particular, the New York area, heightens our exposure to adverse developments related to competition, as well as economic and demographic changes in these regions. Our geographic concentration might have a material adverse effect on our business, financial condition or results of operations in the future.

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

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

Competitors offering lower pricing and a lower level of service could compete effectively against our facilities if such operators are willing to accept operating margins that are lower than ours. Furthermore, smaller and less expensive weight loss facilities present a competitive alternative for the de-conditioned market. We also face competition from competitors offering comparable or higher pricing with higher levels of service. The trend to larger outer-suburban family fitness centers, in areas where suitable real

Table of Contents

estate is more likely to be available, could also compete effectively against our suburban fitness-only formats.

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

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

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

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

We have opened a total of 11 new club locations that we have constructed in the 24-month period ended March 31, 2006. Upon opening a club, we typically experience an initial period of club operating losses. Enrollment from pre-sold memberships typically generates insufficient revenue for the club to generate positive cash flow. As a result, a new club typically generates an operating loss in its first full year of operations and substantially lower margins in its second full year of operations than a mature club. These operating losses and lower margins will negatively impact our future results of operations. This negative impact will be increased by the initial expensing of pre-opening costs, which include legal and other costs associated with lease negotiations and permitting and zoning requirements, as well as increased depreciation and amortization expenses. We may, at our discretion, accelerate or expand our plans to open new clubs, which may adversely affect results from operations temporarily.

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

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

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

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

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

Our operations and business practices are subject to federal, state and local government regulation in the various jurisdictions in which our clubs are located, including: (1) general rules and regulations of the Federal Trade Commission, state and local consumer protection agencies and state statutes that prescribe certain forms and provisions of membership contracts and that govern the advertising, sale, financing and

Table of Contents

collection of such memberships, (2) state and local health regulations, (3) federal regulation of health and nutritional supplements and (4) regulation of rehabilitation service providers.

Statutes and regulations affecting the fitness industry have been enacted in jurisdictions in which we conduct business; many others into which we may expand have adopted or likely will adopt similar legislation. Typically, these statutes and regulations prescribe certain forms and provisions of membership contracts, afford members the right to cancel the contract within a specified time period after signing, require an escrow of funds received from pre-opening sales or the posting of a bond or proof of financial responsibility, and may establish maximum prices for membership contracts and limitations on the term of contracts. In addition, we are subject to numerous other types of federal and state regulations governing the sale of memberships. These laws and regulations are subject to varying interpretations by a number of state and federal enforcement agencies and courts. We maintain internal review procedures in order to comply with these requirements, and believe that our activities are in substantial compliance with all applicable statutes, rules and decisions.

Under so-called state cooling-off statutes, a new member has the right to cancel his or her membership for a short period after joining, set by the applicable law in the relevant jurisdiction and, in such event, is entitled to a refund of any initiation fee and dues paid. In addition, our membership contracts provide that a member may cancel his or her membership at any time for medical reasons or relocation a certain distance from the nearest club. The specific procedures and reasons for cancellation vary due to differing laws in the respective jurisdictions. In each instance, the canceling member is entitled to a refund of unused prepaid amounts only. Furthermore, where permitted by law, a fee is due upon cancellation and we may offset such amount against any refunds owed.

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

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

Terrorist attacks, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, and other acts of violence or war may affect the markets in which we operate, our operating results or the market on which our common stock will trade. Our geographic concentration in the major cities in the Northeast and Mid-Atlantic regions and, in particular, the New York and Washington, D.C. areas, heightens our exposure to any such future terrorist attacks, which may adversely affect our clubs and result in a decrease in our revenues. The potential near-term and long-term effect these attacks may have for our members, the markets for our services and the market for our common stock are uncertain; however, their occurrence can be expected to further negatively affect the United States economy generally, and specifically the regional markets in which we operate. The consequences of any terrorist attacks or any armed conflicts are unpredictable; and we may not be able to foresee events that could have an adverse effect on our business.

Disruptions and failures involving our 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 or expensive because we would need to use experts familiar with our system.

Table of Contents

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 in Pennsylvania online. The disaster recovery facility utilizes replication tools to provide fail over 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 three clubs in January 2006, two in February 2006 and we have 13 additional sites for which we have entered into lease commitments for clubs that we expect to open over the next three years. Each of these 13 openings will be in existing markets. With respect to existing markets, it has been our experience that opening new clubs may attract some memberships away from other clubs already operated by us in those markets and diminish their revenues. In addition, as a result of new club openings in existing markets, and because older clubs will represent an increasing proportion of our club base over time, our mature club revenue increases may be lower in future periods than in the past.

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

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

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

Our cash and cash equivalents are concentrated in one bank.

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

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

As a company with listed public equity, we will be subject to additional reporting requirements of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, and the Sarbanes-Oxley Act of 2002, and we will become subject to NASDAQ National Market rules promulgated in response to the Sarbanes-Oxley Act. These requirements, such as Section 404 of the Sarbanes-Oxley Act, may place a strain on our systems and resources. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal controls over financial reporting, significant resources and management oversight will be required. As a

Table of Contents

result, our management's attention may be diverted from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. NASDAQ National Market rules require that a majority of our board of directors be comprised of independent directors and certain committees of our board of directors be comprised solely of independent directors. We cannot assure you that our board and committees will satisfy these requirements in a timely manner. In addition, resignations or other changes in the composition of our board could make it difficult for us to continue to comply with these rules in a timely manner, which could result in the delisting of our common stock from The NASDAQ National Market.

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

Our stockholders who each own greater than five percent of the outstanding common stock and their affiliates, and our executive officers and directors, in the aggregate, will beneficially own approximately 54.5% of the outstanding shares of our common stock after this offering on a fully diluted basis. As a result, these stockholders, if acting together, would be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

Risks Related to Our Leverage

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

We currently have a substantial amount of debt. As of March 31, 2006, our total consolidated debt was \$415.0 million. On a pro forma basis after giving effect to this offering and our application of the net proceeds therefrom, our consolidated debt as of March 31, 2006 would have been approximately \$275.0 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 and reducing our ability to use our cash flow to fund working capital, capital expenditures, acquisitions of new clubs and general corporate requirements; and

limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

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

Subject to specified limitations, the indentures governing our senior discount notes and TSI, Inc.'s senior notes will permit us and our subsidiaries to incur substantial additional debt. In addition, as of March 31, 2006, we had \$42.1 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 now face could intensify.

Table of Contents

After giving effect to this offering and our application of the net proceeds therefrom, servicing our debt will require, in aggregate, approximately \$471.8 million (comprised of principal and interest) of cash, and our ability to generate sufficient cash flows depends upon many factors, some of which are beyond our control.

Our ability to make payments on and refinance our debt and to fund planned capital expenditures depends on our ability to generate cash flows in the future. As of March 31, 2006, our total consolidated debt was \$415.0 million. On a pro forma basis after giving effect to this offering and our application of the net proceeds therefrom, our consolidated debt as of March 31, 2006 would have been approximately \$275.0 million. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual and Commitments Summary for a description of our aggregate long-term debt and operating lease obligations as of March 31, 2006. To some extent, our ability to generate cash flows in the future is subject to general economic, financial, competitive, legislative and regulatory factors and other factors that are beyond our control. We may be unable to continue to generate cash flow from operations at current levels. If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may have to refinance all or a portion of our existing debt or obtain additional financing. We cannot assure you that any refinancing of this kind would be possible or that any additional financing could be obtained. The inability to obtain additional financing could have a material adverse effect on our financial condition and on our ability to meet our obligations under our debt.

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

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

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

In addition, because we are a holding company, your claims as stockholders will be structurally subordinated to all existing and future liabilities and obligations (whether or not for borrowed money) of our subsidiaries. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of our subsidiaries will be able to satisfy the claims of our stockholders only after all of our and our subsidiaries' liabilities and obligations have been paid in full.

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

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

borrow money;

pay dividends or make distributions;

purchase or redeem stock;

make investments and extend credit;

Table of Contents

engage in transactions with affiliates;

engage in sale-leaseback transactions;

consummate certain asset sales;

effect a consolidation or merger or sell, transfer, lease or otherwise dispose of all or substantially all of our assets; and

create liens on our assets.

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

a ratio not less than ranging from 2.25:1.00 to 3.50:1.00, depending on the period, of EBITDA, as that term is defined in the credit agreement governing our senior secured revolving credit facility, to interest expense;

a ratio not greater than ranging from 4.00:1.00 to 2.75:1.00, depending on the period, of indebtedness to EBITDA; and

a ratio not greater than 1.00:1.00 of senior secured indebtedness to EBITDA.

As of March 31, 2006, we are required to maintain an EBITDA to interest expense ratio of no less than 3.00:1.00, an indebtedness to EBITDA ratio of not greater than 3.50:1.00 and a senior secured indebtedness to EBITDA ratio of not greater than 1.00:1.00. As of March 31, 2006, we were in compliance with such ratios and our position relative to such ratios was 3.63:1.00, 2.99:1.00 and 0.12:1.00, respectively.

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

Risks Related to This Offering

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

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

Table of Contents

The price of our common stock may be volatile.

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

price and volume fluctuations in the overall stock market from time to time;

significant volatility in the market price and trading volume of health and fitness companies;

actual or anticipated changes in our earnings or fluctuations in our operating results;

actual or anticipated changes in the expectations of securities analysts;

general economic conditions and trends;

the seasonality of our business;

the opening of new clubs;

major catastrophic events;

loss of external funding sources;

sales of large blocks of our stock or sales by insiders; or

departures of key personnel.

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

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

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

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

After this offering, we will have outstanding 25,973,661 shares of our common stock. Of these shares, the 10,000,000 shares sold in this offering will be freely tradable except for any shares purchased by our affiliates as that term is used in Rule 144 under the Securities Act of 1933, as amended, which we refer to as the Securities Act. At various times after the date of this prospectus, the remaining 15,973,661 shares will become available for resale in the public market, in compliance with the requirements of the federal securities laws and in accordance with lock-up agreements that certain of the holders of these shares have with the underwriters. However, the underwriters can waive these restrictions and allow these stockholders to sell their shares at any time without prior notice.

In addition, 1,230,964 shares of our common stock reserved for issuance pursuant to outstanding options will become eligible for sale in the public market once permitted by provisions of the lock-up agreements, or Rule 144 or Rule 701 under the Securities Act, as applicable.

If the 15,973,661 shares or the 1,230,964 shares described above are sold, or if it is perceived that they will be sold in the public market, the trading price of our common stock could drop significantly.

Table of Contents

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

If you purchase shares of our common stock in this offering, you will experience immediate dilution of \$19.31 per share, assuming an initial public offering price of \$17.00 per share (the mid-point of the range set forth on the cover page of this prospectus), because the price that you pay will be substantially greater than the net tangible book value per share of the common stock that you acquire. This dilution is due in large part to the fact that our earlier investors paid substantially less than the initial public offering price when they purchased their shares of our capital stock. You will experience additional dilution upon the exercise of options to purchase common stock under our equity incentive plans or if we issue restricted stock to our employees under these plans.

Table of Contents

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve risks and uncertainties. These forward-looking statements, which are usually accompanied by words such as may, might, will, should, could, intends, estimates, predicts, potential, continue, believes, anticipates, plans, expects and similar expressions, relate to, without limitation, statements about our market opportunities, our strategy, our competition, our projected revenues and expense levels and the adequacy of our available cash resources. You should not place undue reliance on any of the forward-looking statements contained in this prospectus. Our actual results could differ materially from those expressed or implied by these forward-looking statements as a result of various factors, including the various risks described in Risk Factors and elsewhere in this prospectus. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

INDUSTRY AND MARKET DATA

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

Table of Contents

USE OF PROCEEDS

We estimate that we will receive net proceeds from the sale of the shares of our common stock in this offering of approximately \$115.6 million, assuming an initial public offering price of \$17.00 per share (the mid-point of the range set forth on the cover page of this prospectus) and after deducting estimated underwriting discounts and commissions and estimated offering expenses. See the Underwriting section of this prospectus. We will not receive any proceeds from the sale of shares by the selling stockholders.

We intend to use the net proceeds to us from this offering, together with cash on hand to:

consummate the tender offer for up to \$85.0 million aggregate principal amount of TSI, Inc.'s senior notes;

redeem 35% of our senior discount notes; and

pay related fees, premiums and expenses.

On a pro forma basis after giving effect to this offering and our application of the net proceeds therefrom, our consolidated debt as of March 31, 2006 would have been approximately \$275.0 million.

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

Table of Contents

DIVIDEND POLICY

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

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

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

Table of Contents**CAPITALIZATION**

The following table sets forth our cash and cash equivalents and capitalization as of March 31, 2006:

on an actual basis, which does not give effect to the 14-for-1 stock split of our common stock that we will effect prior to the closing of this offering; and

on a pro forma basis to give effect to our sale of 7,647,059 shares of our common stock in this offering at an assumed public offering price of \$17.00 per share (the mid-point of the range set forth on the cover page of this prospectus), after deducting the estimated underwriting discounts and commissions and our estimated offering expenses, and our application of the estimated net proceeds as described in the Use of Proceeds section of this prospectus, and adjusted to give effect to the 14-for-1 stock split of our common stock that we will effect prior to the closing of this offering.

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

	As of March 31, 2006	
	Actual	Pro Forma
	(In thousands, except share and per share data)	
Cash and cash equivalents	\$ 69,724	\$ 32,067
Senior secured revolving credit facility(1)	\$	\$
Long-term debt (senior notes), including current installments	255,000	170,000
Long-term debt (senior discount notes), including current installments	157,203	102,182
Long-term debt (other), including current installments	2,774	2,774
Total long-term debt, including current installments	414,977	274,956
Stockholders' deficit:		
Common stock, \$0.001 par value; 2,500,000 shares authorized, 1,309,123 shares issued and outstanding, actual; 100,000,000 shares authorized, 25,974,781 shares issued and outstanding, pro forma	1	27
Additional paid-in capital	(114,053)	3,306
Accumulated other comprehensive income (currency translation adjustment)	392	392
Accumulated deficit	(2,108)	(13,055)
Total stockholders' deficit	(115,768)	(9,330)
Total capitalization	\$ 299,209	\$ 265,626

(1) \$42,114 of available borrowings, net of \$7,886 of outstanding letters of credit.

The number of shares of our common stock outstanding after this offering is based on the number of shares outstanding as of March 31, 2006. This table excludes:

88,366 actual shares and 1,237,124 pro forma shares of common stock issuable upon exercise of options at a weighted average exercise price of \$86.24 and \$6.16 per share, respectively;

an additional 4,177 actual shares and 58,478 pro forma shares of common stock reserved for issuance under our stock incentive plan; and

an additional 1,300,000 pro forma shares of common stock reserved for issuance under the stock incentive plan that we will adopt in connection with this offering.

Table of Contents**DILUTION**

Our unaudited net tangible book value as of March 31, 2006 was approximately \$(166.3) million, or approximately \$(9.07) per share. Unaudited net tangible book value per share is determined by dividing the amount of our tangible net worth, or total tangible assets less total liabilities, by the number of shares of our common stock outstanding (adjusted to give effect to the 14-for-1 stock split of our common stock that we will effect prior to the closing of this offering). Dilution to new investors represents the difference between the amount per share paid by investors in this offering and the net tangible book value per share of our common stock immediately after the completion of this offering. After giving effect to our sale of 7,647,059 shares offered by us hereby at an assumed initial public offering price of \$17.00 per share (the mid-point of the range set forth on the cover page of this prospectus) and after deducting estimated underwriting discounts and commissions and estimated offering expenses and the application of the estimated net proceeds therefrom, our pro forma net tangible book value as of March 31, 2006 would have been \$(59.9) million, or \$(2.31) per share. This represents an immediate increase in pro forma net tangible book value of \$6.76 per share to existing stockholders and an immediate dilution in pro forma net tangible book value of \$14.69 per share to new investors. The following table illustrates this per share dilution:

Assumed initial public offering price per share		\$	17.00
Unaudited net tangible book value per share as of March 31, 2006		\$	(9.07)
Increase per share attributable to new investors			6.76
Pro forma net tangible book value per share after this offering			(2.31)
Dilution per share to new investors		\$	19.31

The following table sets forth, on a pro forma basis as of March 31, 2006, the total number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid to us by existing stockholders and by new investors who purchase shares of common stock in this offering, before deducting the estimated underwriting discounts and commissions and estimated offering expenses, assuming an initial public offering price of \$17.00 per share:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	18,327,722	70.6%	\$ 1,606,000	1.22%	\$ 0.09
New investors	7,647,059	29.4	130,000,000	98.78	\$ 17.00
Total	25,974,781	100.0%	\$ 131,606,000	100.0%	

The foregoing tables and calculations assume no exercise of any stock options outstanding as of March 31, 2006. Specifically, these tables and calculations exclude:

1,237,124 shares of our common stock issuable upon exercise of options outstanding as of March 31, 2006 at a weighted average exercise price of \$6.16 per share;

an additional 58,478 shares of our common stock reserved for issuance under our stock incentive plan; and

an additional 1,300,000 shares of common stock reserved for issuance under the stock incentive plan that we will adopt in connection with this offering.

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

Table of Contents

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, 2004 and 2005 and the selected consolidated statement of operations and cash flow data for the years ended December 31, 2003, 2004 and 2005 have been derived from our audited consolidated financial statements included elsewhere herein. The selected consolidated balance sheet data as of March 31, 2006 and the selected consolidated statement of operations and cash flow data for the three months ended March 31, 2005 and 2006 have been derived from our unaudited condensed consolidated financial statements included elsewhere herein. The selected consolidated balance sheet data as of December 31, 2001, 2002 and 2003 and the selected consolidated statement of operations and cash flow data for the years ended December 31, 2001 and 2002 have been derived from our audited consolidated financial statements not included herein. In the opinion of management, the unaudited financial information has been prepared substantially on the same basis as our audited consolidated financial statements appearing elsewhere herein and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited condensed consolidated quarterly results of operations and unaudited consolidated balance sheet data. Other data and club and membership data for all periods presented have been derived from our unaudited books and records. Our historical results are not necessarily indicative of results for any future period and interim results are not necessarily indicative of results for any future interim period or for a full year. The historical share and per share information presented below does not give effect to the 14-for-1 stock split of our common stock that we will effect prior to the closing of this offering. You should read these selected consolidated financial and other data, together with the accompanying notes, in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus and our consolidated financial statements and the related notes appearing at the end of this prospectus.

	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005	2005	2006
Statement of Operations							
Data:							
Revenues	\$ 280,382	\$ 318,055	\$ 341,172	\$ 353,031	\$ 388,556	\$ 93,846	\$ 104,027
Operating expenses:							
Payroll and related	112,766	129,105	130,585	138,302	151,920	36,396	40,897
Club operating	88,941	99,113	111,069	116,847	130,219	31,449	34,470
General and administrative	18,785	21,368	21,995	24,719	26,582	6,677	7,861
Depreciation and amortization(1)	32,185	31,748	34,927	36,869	39,582	9,739	10,386
Goodwill impairment(2)				2,002			
Operating income	27,705	36,721	42,596	34,292	40,253	9,585	10,413
Loss on extinguishment of debt(3)			7,773				
Interest expense, net of interest income	14,527	16,421	23,226	38,600	39,208	9,750	9,962
Equity in the earnings of investees and rental	(1,251)	(1,372)	(1,369)	(1,493)	(1,744)	(470)	(433)

income

Income (loss) from continuing operations before provision for corporate income taxes	14,429	21,672	12,966	(2,815)	2,789	305	884
Provision for corporate income taxes	6,853	9,709	5,537	1,090	1,020	126	1,019
Income (loss) from continuing operations	7,576	11,963	7,429	(3,905)	1,769	179	(135)
Loss from discontinued operations(4) (including loss on club closure of \$996 in 2002), net of income tax benefit of \$551	(530)	(767)					

Table of Contents

	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005	2005	2006
Cumulative effect of change in accounting principle, net of income tax benefit of \$612(5)		(689)					
Net income (loss)	7,046	10,507	7,429	(3,905)	1,769	179	(135)
Accreted dividends on preferred stock	(10,201)	(11,543)	(10,984)	(784)			
Net income (loss) attributable to common stockholders	\$ (3,155)	\$ (1,036)	\$ (3,555)	\$ (4,689)	\$ 1,769	\$ 179	\$ (135)
Basic earnings (loss) per share:							
Continuing operations	\$ 6.09	\$ 9.59	\$ 5.95	\$ (3.01)	\$ 1.35	\$ 0.14	\$ (0.10)
Discontinued operations	\$ (0.43)	\$ (0.61)	\$	\$	\$	\$	\$
Change in accounting principle	\$	\$ (0.55)	\$	\$	\$	\$	\$
Net income (loss) attributable to common stockholders	\$ (2.53)	\$ (0.83)	\$ (2.85)	\$ (3.61)	\$ 1.35	\$ 0.14	\$ (0.10)
Diluted earnings (loss) per share(6):							
Continuing operations	\$ 6.09	\$ 9.15	\$ 5.95	\$ (3.01)	\$ 1.35	\$ 0.14	\$ (0.10)
Discontinued operations	\$ (0.43)	\$ (0.59)	\$	\$	\$	\$	\$
Change in accounting principle	\$	\$ (0.53)	\$	\$	\$	\$	\$
Net income (loss) attributable to common stockholders	\$ (2.53)	\$ (0.79)	\$ (2.85)	\$ (3.61)	\$ 1.35	\$ 0.14	\$ (0.10)

Weighted average number of shares used in calculating earnings (loss) per share:							
Basic	1,244,775	1,247,674	1,247,674	1,299,332	1,309,616	1,312,289	1,309,123
Diluted(6)	1,244,775	1,307,228	1,247,674	1,299,332	1,312,473	1,314,562	1,309,123

	As of December 31,					As of
	2001	2002	2003	2004	2005	March 31,
						2006
Balance Sheet Data:						
Cash and cash equivalents	\$ 5,458	\$ 5,551	\$ 40,802	\$ 57,506	\$ 51,304	\$ 69,724
Working capital (deficit)	(42,565)	(43,192)	(9,087)	7,039	(2,262)	6,298
Total assets	296,005	314,250	362,199	390,956	433,771	445,998
Long-term debt, including current installments	163,979	160,943	261,877	396,461	411,162	414,977
Redeemable senior preferred stock	54,687	62,125				
Redeemable Series A preferred stock	30,432	34,841	39,890			
Total stockholders deficit(7)	(32,797)	(31,740)	(34,294)	(117,017)	(115,683)	(115,768)

Table of Contents

	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005	2005	2006
Cash Flow Data:							
Cash provided by (used in):							
Operating activities	\$ 45,073	\$ 54,338	\$ 58,870	\$ 57,125	\$ 63,256	\$ 24,851	\$ 34,740
Investing activities	(59,083)	(43,715)	(43,351)	(40,686)	(66,338)	(10,190)	(15,023)
Financing activities	16,103	(10,530)	19,732	265	(3,120)	(389)	(1,297)
Other Data:							
Non-cash rental expense, net of non-cash rental income	4,224	1,670	1,650	525	1,461	190	(19)
Non-cash compensation expense incurred in connection with stock options	1,149	1,207	198	64	279	15	43
EBITDA(8)	60,611	68,385	71,119	72,654	81,579	19,794	21,232
EBITDA margin(9)	21.6%	21.5%	20.8%	20.6%	21.0%	21.1%	20.4%

	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005	2005	2006
Club and Membership Data:							
New clubs opened	12	8	3	5	5	3	5
Clubs acquired	2	4		3	2		
Clubs closed, relocated or sold		(2)	(3)		(3)		(1)
Wholly owned clubs operated at end of period	117	127	127	135	139	138	143
Total clubs operated at end of period(10)	119	129	129	137	141	140	145
Members at end of period(11)	317,000	342,000	342,000	383,000	409,000	398,000	438,000
Comparable club revenue increase(12)	14.5%	5.8%	3.5%	2.5%	6.9%	6.0%	7.6%
Mature club revenue increase(13)	12.3%	4.1%	1.6%	2.1%	5.8%	4.8%	5.9