TOWN SPORTS INTERNATIONAL HOLDINGS INC
Form 424B4
June 02, 2006

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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-126428

8,950,000 Shares
Common Stock

We are selling 7,650,000 shares of common stock and certain selling stockholders are selling 1,300,000 shares of common stock to the purchasers named herein. Prior to this offering, there has been no public market for our common stock. Our common stock has been approved for listing on The NASDAQ National Market under the symbol CLUB.

The underwriters have an option to purchase a maximum of 1,147,500 additional shares from certain other selling stockholders to cover over-allotments of shares.

We will not receive any of the proceeds from the shares of common stock sold by any of 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	$ 13.00	$ 0.91	$ 12.09	$ 12.09
Total	$ 99,450,000	$ 6,961,500	$ 92,488,500	$ 15,717,000

Delivery of the shares of common stock will be made on or about June 7, 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 June 1, 2006

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

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

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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.

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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.

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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 15.5% of our common stock before this offering, and will own 11.0% of our common stock after this offering (10.3% 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 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 up to 35% of our outstanding senior discount notes.

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

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

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

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

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The Offering

Common stock offered by Town Sports	7,650,000 shares
Common stock offered by certain selling stockholders to the purchasers named herein	1,300,000 shares
Common stock to be outstanding after this offering	25,976,602 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 up to 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 $282.8 million. We will not receive any proceeds from the sale of shares by any of the selling stockholders.
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 existing stock option 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.

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

We present our summary consolidated financial data in the following table to aid you in your analysis of a potential investment in our common stock. The summary consolidated statement of operations data for the years ended December 31, 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 7,650,000 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 7,650,000 shares of our common stock in this offering at a public offering price of $13.00 per share, 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 March 31,		Twelve Months Ended March 31,	Pro Forma Twelve Months Ended March 31,
	2003	2004	2005	2005	2006	2006	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	7,627
Net income (loss) attributable to common stockholders(1)	$ (3,555)	$ (4,689)	$ 1,769	$ 179	$ (135)	$ 1,455	$ 7,627

Earnings (loss) per share:							
Basic	$ (2.85)	$ (3.61)	$ 1.35	$ 0.14	$ (0.10)	$ 1.11	$ 0.29
Diluted(2)	$ (2.85)	$ (3.61)	$ 1.35	$ 0.14	$ (0.10)	$ 1.11	$ 0.29
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	25,977,722
Diluted(2)	1,247,674	1,299,332	1,312,473	1,314,562	1,309,123	1,313,072	26,033,008

	As of March 31, 2006	
	Actual	**Pro Forma**
Balance Sheet Data:		
Cash and cash equivalents	$ 69,724	$ 15,337
Working capital (deficit)	(63,426)	(57,087)
Total assets	445,998	388,807
Long-term debt, including current installments	414,977	282,816
Total stockholders deficit	(115,768)	(34,459)

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	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)	3.3%	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	25,977,722
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	26,033,008

(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

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

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

	Year Ended December 31,			Three Months Ended March 31,		Twelve Months Ended March 31, 2006	Pro Forma Twelve Months Ended March 31, 2006
	2003	2004	2005	2005	2006		
Net income (loss)	$ 7,429	$ (3,905)	$ 1,769	$ 179	$ (135)	$ 1,455	$ 7,627
Interest expense, net of interest income	23,226	38,600	39,208	9,750	9,962	39,420	28,500
Provision for corporate income taxes	5,537	1,090	1,020	126	1,019	1,913	6,661
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.

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RISK FACTORS

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

Risks Related to Our Business

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

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

Our geographic concentration heightens our exposure to adverse regional developments.

As of March 31, 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 estate is more likely to be available, could also compete effectively against our suburban fitness-only formats.

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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 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.

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

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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 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 60.4% 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 $282.8 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.

After giving effect to this offering and our application of the net proceeds therefrom, servicing our debt will require, in aggregate, approximately $488.4 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

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net proceeds therefrom, our consolidated debt as of March 31, 2006 would have been approximately $282.8 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;

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.

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 25,976,602 shares of our common stock. Of these shares, the 8,950,000 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 17,026,602 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. The 1,300,000 shares being sold by certain selling stockholders to the purchasers named herein will not be subject to the lock-up and will be immediately registrable under the Securities Act upon consummation of this offering. See the Related Party Transactions and Underwriting sections of this prospectus.

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 17,026,602 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.

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 $16.27 per share, based on an initial public offering price of $13.00 per share, because the price that you pay will be substantially greater than the net tangible book value per share of the common stock that you acquire. This dilution is due in large part to the fact that our earlier investors paid substantially less than the initial public offering price when they purchased their shares of our capital stock. You will experience additional dilution upon the exercise of options to purchase common stock under our equity incentive plans or if we issue restricted stock to our employees under these plans.

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FORWARD-LOOKING STATEMENTS

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

INDUSTRY AND MARKET DATA

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

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USE OF PROCEEDS

We estimate that we will receive net proceeds from the sale of the shares of our common stock in this offering of approximately $90.1 million, based on an initial public offering price of $13.00 per share 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 any of 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 up to 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 $282.8 million.

The indenture governing our senior discount notes permits us to use the net cash proceeds from this offering to redeem up to 35% of the original principal amount of our senior discount notes. Also, under TSI, Inc. s credit facility, we are required to maintain a minimum amount of unrestricted cash on hand. The pro forma information that we present in this prospectus assumes that we will redeem 30.0% of the original principal amount of our senior discount notes. This represents the largest amount of the original principal amount of our senior discount notes that could be redeemed as of March 31, 2006 with the remaining net cash proceeds from this offering after using a portion of our cash on hand as of March 31, 2006 and a portion of our net proceeds from this offering to consummate the tender offer for TSI, Inc. s senior notes and paying related fees and expenses. To the extent we can consummate the tender offer using additional cash on hand as of the date of consummation in lieu of the net proceeds from this offering, we will then use such net proceeds toward the redemption of our senior discount notes up to the 35% maximum redeemable percentage.

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

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DIVIDEND POLICY

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

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

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

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of March 31, 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 7,650,000 shares of our common stock in this offering at a public offering price of $13.00 per share, after deducting the estimated underwriting discounts and commissions and our estimated offering expenses, and our application of the estimated net proceeds as described in the Use of Proceeds section of this prospectus, 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	$ 15,337
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	110,042
Long-term debt (other), including current installments	2,774	2,774
Total long-term debt, including current installments	414,977	282,816
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, 25,977,722 shares issued and outstanding, pro forma	1	27
Additional paid-in capital	(114,053)	(22,889)
Accumulated other comprehensive income (currency translation adjustment)	392	392
Accumulated deficit	(2,108)	(11,989)
Total stockholders deficit	(115,768)	(34,459)
Total capitalization	$ 299,209	$ 248,357

(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 existing stock option 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.

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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 7,650,000 shares offered by us hereby at an initial public offering price of $13.00 per share and after deducting estimated underwriting discounts and commissions and estimated offering expenses and the application of the estimated net proceeds therefrom, our pro forma net tangible book value as of March 31, 2006 would have been $(85.0) million, or $(3.27) per share. This represents an immediate increase in pro forma net tangible book value of $5.80 per share to existing stockholders and an immediate dilution in pro forma net tangible book value of $16.27 per share to new investors. The following table illustrates this per share dilution:

Initial public offering price per share		$ 13.00
Unaudited net tangible book value per share as of March 31, 2006	$ (9.07)	
Increase per share attributable to new investors	5.80	
Pro forma net tangible book value per share after this offering		(3.27)
Dilution per share to new investors		$ 16.27

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, based on an initial public offering price of $13.00 per share:

	Shares Purchased		Total Consideration		
	Number	Percent	Amount	Percent	Average Price Per Share
Existing stockholders	18,327,722	70.6%	$ 1,606,000	1.6%	$ 0.09
New investors	7,650,000	29.4	99,450,000	98.4	$ 13.00
Total	25,977,722	100.0%	$ 101,056,000	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 existing stock option 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.

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

The selected consolidated balance sheet data as of December 31, 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)					

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	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 March 31,
	2001	**2002**	**2003**	**2004**	**2005**	**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)

	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%	3.3%	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%
Revenue per weighted average club(14)	$ 2,592	$ 2,581	$ 2,680	$ 2,680	$ 2,816	$ 685	$ 733
	937	964	987	960	968	240	242

Average revenue per member(15)	

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

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

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

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

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

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

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

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

(6) The diluted weighted average number of shares used in calculating earnings (loss) per share is the weighted average number of shares of common stock plus the weighted average conversion of any dilutive common stock equivalents, such as the assumed weighted average exercise of dilutive stock options using the treasury stock method. For the years ended December 31, 2001, 2003 and 2004, these common stock equivalents were antidilutive and have been excluded from the diluted weighted average number of shares. For the years ended December 31, 2002 and 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 60,812, 52,807 and 15,481 for the years ended December 31, 2001, 2003 and 2004, respectively, and 16,542 shares for the three months ended March 31, 2006.

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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,	
	2001	2002	2003	2004	2005	2005	2006
Weighted average number of shares outstanding basic	1,244,775	1,247,674	1,247,674	1,299,332	1,309,616	1,312,289	1,309,123
Effect of dilutive stock options		59,554			2,857	2,273	
Weighted average number of shares outstanding diluted	1,244,775	1,307,228	1,247,674	1,299,332	1,312,473	1,314,562	1,309,123

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

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

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

	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005	2005	2006
Net income (loss)	$ 7,046	$ 10,507	$ 7,429	$ (3,905)	$ 1,769	$ 179	$ (135)
Interest expense, net of interest income	14,527	16,421	23,226	38,600	39,208	9,750	9,962
Provision for corporate income taxes	6,853	9,709	5,537	1,090	1,020	126	1,019
Cumulative effect of change in accounting principle		689					
Loss from discontinued operations	530	767					
Equity in the earnings of investees and rental income	(1,251)	(1,372)	(1,369)	(1,493)	(1,744)	(470)	(433)
Loss on extinguishment of debt			7,773				
Operating income	27,705	36,721	42,596	34,292	40,253	9,585	10,413
Loss from discontinued operations	(530)	(767)					
Equity in the earnings of investees and rental income	1,251	1,372	1,369	1,493	1,744	470	433
Cumulative effect of change in accounting principle		(689)					
Loss on extinguishment of debt			(7,773)				
Depreciation and amortization	32,185	31,748	34,927	36,869	39,582	9,739	10,386
EBITDA	$ 60,611	$ 68,385	$ 71,119	$ 72,654	$ 81,579	$ 19,794	$ 21,232

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

(10) 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.

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

(12) 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.

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

(14) 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.

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

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

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

Overview

We are one of the two leading owners and operators of fitness clubs in the Northeast and Mid-Atlantic regions of the United States and the third largest fitness club operator in the United States, in each case as measured by number of clubs. As of March 31, 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.

We consider that we have two principal sources of revenues:

Our largest sources of revenue are membership revenues consisting of dues and initiation fees paid by our members. This comprises 82.8% and 81.7% of our total revenue for the year ended

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December 31, 2005 and the three months ended March 31, 2006, respectively. We recognize revenue from membership dues in the month when the services are rendered. Approximately 93% of our members pay their monthly dues by electronic funds transfer, or EFT, while the remaining 7% of our members pay annually in advance. We recognize revenue from initiation fees over the expected average life of the membership. It is important therefore to operate facilities that are convenient, offer good price/value relationship and have a wide variety of fitness service offerings in order to attract and retain members at each facility.

We generated 16.1% and 17.2% of our revenue for the year ended December 31, 2005 and the three months ended March 31, 2006, respectively, from ancillary club revenue. Ancillary club revenue consists of personal training, programming for children, group fitness training and other member activities, as well as sales of miscellaneous sports products. This total ancillary club revenue stream has increased as a percentage of total revenue more recently as we have focused on increasing revenue per member from our maturing club base.

The balance of our revenue (approximately 1.1% in 2005) principally relates to rental of space in our facilities to operators who offer wellness-related offerings such as physical therapy. In addition, we generate management fees from certain club facilities that we do not wholly own and sell in-club advertising and sponsorships. We refer to this as Fees and Other revenue. Settlements from our business interruption insurance claim associated with the terrorist attacks of September 11, 2001, which we refer to as the September 11 events, are separately disclosed. These settlements occurred in 2002 and 2003 and totaled $1.0 million and $2.8 million for the years ended December 31, 2002 and 2003, respectively.

Revenue consists of:

	Year Ended December 31,			Three Months Ended March 31,	
	2003	2004	2005	2005	2006
	(In thousands)				
Membership dues	$ 273,334	$ 282,716	$ 309,811	$ 74,577	$ 83,139
Initiation fees	13,892	12,439	11,916	3,078	1,932
Membership revenue	287,226	295,155	321,727	77,655	85,071
Personal training revenue	31,170	34,821	42,277	10,380	12,267
Other ancillary club revenue	17,269	18,199	20,139	4,795	5,585
Ancillary club revenue	48,439	53,020	62,416	15,175	17,852
Total club revenue	335,665	348,175	384,143	92,830	102,923
Fees and Other revenue	2,707	4,856	4,413	1,016	1,104
Business interruption insurance proceeds	2,800				
Total revenue	$ 341,172	$ 353,031	$ 388,556	$ 93,846	$ 104,027

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

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

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

During the last several years, we have increased revenues, operating income, cash flows provided by operating activities and EBITDA by expanding our club base in New York, Boston, Washington, D.C. and Philadelphia. As a result of expanding our club base and the relatively fixed nature of our operating costs, our operating income has increased from $27.7 million for the year ended December 31, 2001 to $40.2 million for the year ended December 31, 2005. Cash flows provided by operating activities increased from $45.1 million in 2001 to $63.3 million in 2005. EBITDA increased from $60.6 million in 2001 to $81.6 million in 2005. Net income was $7.0 million in 2001 and $1.8 million in 2005. Net income decreased from 2001 to 2005 principally due to the additional interest expense recorded in connection with our February 2004 senior discount note offering.

	Year Ended December 31,					Three Months Ended March 31,	
	2001	**2002**	**2003**	**2004**	**2005**	**2005**	**2006**
	(In thousands)						
Operating income	$ 27,705	$ 36,721	$ 42,596	$ 34,292	$ 40,253	$ 9,585	$ 10,413
Increase (decrease) over prior period	24.3%	32.5%	16.0%	(19.5)%	17.4%	107.2%	8.6%
Net income (loss)	$ 7,046	$ 10,507	$ 7,429	$ (3,905)	$ 1,769	$ 179	$ (135)
Increase (decrease) over prior period	45.8%	49.1%	(29.3)%	(152.6)%	145.3%	108.7%	(175.4)%
Cash flows provided by operating activities	$ 45,073	$ 54,338	$ 58,870	$ 57,125	$ 63,256	$ 24,851	$ 34,740
Increase (decrease) over prior period	5.8%	20.6%	8.3%	(3.0)%	10.7%	26.2%	39.8%
EBITDA	$ 60,611	$ 68,385	$ 71,119	$ 72,654	$ 81,579	$ 19,794	$ 21,232
Increase over prior period	23.1%	12.8%	4.0%	2.2%	12.3%	40.6%	7.3%

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

As of March 31, 2006, 143 of the existing fitness clubs were wholly owned by us and our consolidated financial statements include the operating results of all such clubs. Two locations in Washington, D.C. were managed and partly owned by us, with our profit sharing percentages approximating 20% (after priority distributions) and 45%, respectively, and are treated as unconsolidated affiliates. In addition, we provide management services at five university fitness clubs in which we have no equity interest.

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Historical Club Growth

	Year Ended December 31,					Three Months Ended March 31,
	2001	2002	2003	2004	2005	2006
Wholly owned clubs operated at beginning of period	103	117	127	127	135	139
New clubs opened	12	8	3	5	5	5
Clubs acquired	2	4		3	2	
Clubs closed, relocated or sold(1)		(2)	(3)		(3)	(1)
Wholly owned clubs operated at end of period	117	127	127	135	139	143
Total clubs operated at end of period(2)	119	129	129	137	141	145

(1) In 2005, we temporarily closed a club for a renovation and expansion. This club reopened in February 2006.

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

Existing Club Revenue

We define comparable club revenue as revenue at those clubs that were operated by us for over 12 months and comparable club revenue growth as revenue for the 13th month and thereafter as applicable as compared to the same period during the prior year. Our comparable club revenue increased 14.5%, 5.8%, 3.5%, 2.5% and 6.9% for the years ended December 31, 2001, 2002, 2003, 2004 and 2005, respectively. We define mature club revenue as revenue at those clubs that were operated by us for the entire period presented and that same entire period of the preceding year. Under this definition, mature clubs for periods shown are those clubs that were operated for more than 24 months. Our mature club revenue increased 12.3%, 4.1%, 1.6%, 2.1% and 5.8% for the years ended December 31, 2001, 2002, 2003, 2004 and 2005, respectively.

The following table depicts our comparable club and mature club revenue growth for each of the quarters and years beginning January 1, 2003 forward.

	Comparable Club Revenue		Mature Club Revenue	
	Quarter	Full Year	Quarter	Full Year
2003				
Q1	6.2%		1.8%	
Q2	3.6%		(0.2)%	
Q3	2.2%		(0.5)%	
Q4	1.1%	3.3%	(0.8)%	1.6%
2004				
Q1	(0.1)%		(0.5)%	

Q2	1.6%		1.3%	
Q3	4.1%		2.8%	
Q4	4.6%	2.5%	3.8%	2.1%
2005				
Q1	6.0%		4.8%	
Q2	7.0%		5.7%	
Q3	6.1%		5.1%	
Q4	8.5%	6.9%	7.1%	5.8%
2006				
Q1	7.6%		5.9%	

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Key determinants of comparable club revenue growth are new memberships, member retention rates, pricing and ancillary revenue growth. 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 the month-to-month plan and with a discounted initiation fee. Since the implementation of the new membership model, attrition rates have declined and comparable club revenues have increased.

Non-GAAP Financial Measures

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

We use EBITDA and EBITDA margin as measures of operating performance. EBITDA should not be considered as a substitute for net income, operating income, cash flows provided by operating activities or other income or cash flow data prepared in accordance with GAAP. The funds depicted by EBITDA are not necessarily available for discretionary use if they are reserved for particular capital purposes, to maintain compliance with debt covenants, to service debt or to pay taxes.

We believe EBITDA is useful to an investor in evaluating our operating performance because:

- it is a widely accepted financial indicator of a company s ability to service its debt and we are required to comply with certain covenants and borrowing limitations that are based on variations of EBITDA in certain of our financing documents;

- it is widely used to measure a company s operating performance without regard to items such as depreciation and amortization, which can vary depending upon accounting methods and the book value of assets, and to present a meaningful measure of corporate performance exclusive of our capital structure and the method by which assets were acquired; and

- it helps investors to more meaningfully evaluate and compare the results of our operations from period to period by removing from our operating results the impact of our capital structure, primarily interest expense from our outstanding debt, and asset base, primarily depreciation and amortization of our properties.

Our management uses EBITDA:

- as a measurement of operating performance because it assists us in comparing our performance on a consistent basis, as it removes from our operating results the impact of our capital structure, which includes interest expense from our outstanding debt, and our asset base, which includes depreciation and amortization of our properties; and

- in presentations to the members of our board of directors to enable our board to have the same consistent measurement basis of operating performance used by management.

We have provided reconciliations of EBITDA to net income (loss), the most directly comparable GAAP measure, in footnote 3 under Summary Consolidated Financial and Other Data and footnote 8 under Selected Consolidated Financial and Other Data.

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Results of Operations

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

	Year Ended December 31,			Three Months Ended March 31,	
	2003	2004	2005	2005	2006
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Operating expenses:					
Payroll and related	38.3	39.2	39.1	38.8	39.3
Club operating	32.6	33.1	33.5	33.5	33.1
General and administrative	6.4	7.0	6.8	7.1	7.6
Depreciation and amortization	10.2	10.4	10.2	10.4	10.0
Goodwill impairment		0.6			
Operating income	12.5	9.7	10.4	10.2	10.0
Loss on extinguishment of debt	2.3				
Interest expense	6.9	11.1	10.7	10.8	10.3
Interest income	(0.1)	(0.2)	(0.6)	(0.4)	(0.7)
Equity in the earnings of investees and rental income	(0.4)	(0.4)	(0.4)	(0.5)	(0.4)
Income (loss) before provision for corporate income taxes	3.8	(0.8)	0.7	0.3	0.8
Provision for corporate income taxes	1.6	0.3	0.3	0.1	0.9
Net income (loss)	2.2	(1.1)	0.4	0.2	(0.1)
Accreted dividends on preferred stock	(3.2)	(0.2)			
Net income (loss) attributable to common stockholders	(1.0)%	(1.3)%	0.4%	0.2%	(0.1)%

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Revenues

Revenues increased $10.2 million, or 10.8%, to $104.0 million during the quarter ended March 31, 2006 from $93.8 million in the quarter ended March 31, 2005. Revenues increased during the quarter by $5.2 million, or 5.9%, at our mature clubs, which are those clubs that were owned and operated for more than 24 months. During the quarter, revenue increased $6.9 million at the 17 clubs opened or acquired subsequent to March 31, 2004. These increases in revenue were offset by a $2.0 million revenue decrease related to the three clubs that were closed and relocated subsequent to March 31, 2005.

Comparable club revenue increased 7.6% during the three months ended March 31, 2006 when compared to the same period of the prior year. This increase in comparable club revenue is due to a 4.9% increase in membership, a 2.0% increase in price and a 1.9% increase in ancillary revenue, offset by a 1.2% decrease in initiation fee revenue recognized. Effective January 1, 2006 the estimated average-life of our memberships increased from 24 months to 30 months. This increase in membership life is due to a favorable trend in membership attrition rates, and it has the effect of decreasing initiation fees revenue recognized because a longer amortization period is being applied. This resulted in a $1.3 million decrease in initiation fee revenue recognized when compared to the same period in the prior year.

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Operating Expenses

Operating expenses increased $9.2 million, or 10.9%, to $93.5 million in the quarter ended March 31, 2006, from $84.3 million in the quarter ended March 31, 2005. The increase was due to the following factors:

Payroll and related. Payroll and related expenses increased by $4.5 million, or 12.4%, to $40.9 million in the quarter ended March 31, 2006, from $36.4 million in the quarter ended March 31, 2005. This increase was attributable to a 3.6% increase in the total months of club operation from 411 to 426 as well as the following:

During the first quarter of 2006 our Chairman and certain executives agreed to severance packages totaling an estimated $1.6 million. The total cost of these severance packages was recorded in the quarter ended March 31, 2006 while no such costs were incurred in the same period of the prior year.

Payroll costs directly related to our personal training, Group Exclusives, and Sports Club for Kids programs increased $1.3 million or 18.5%, due to an increase in demand for these programs.

Offsetting these aforementioned increases in the quarter ended March 31, 2006 was a decrease in amortization of deferred sales related payroll costs. The increase in the estimated average-life of our memberships form 24 months to 30 months resulted in a $1.0 million reduction in amortization of deferred sales related payroll costs in the first quarter of 2006 compared to the first quarter of 2005.

Club operating. Club operating expenses increased by $3.0 million, or 9.6%, to $34.5 million in the quarter ended March 31, 2006, from $31.5 million in the quarter ended March 31, 2005. This increase was principally attributable to the following:

Rent and occupancy expenses increased $2.3 million. Rent and occupancy costs at clubs that have opened since January 1, 2005, or that are currently under construction, increased $1.6 million. Also, during the quarter ended March 31, 2006 we closed a club, and merged the membership base at this club into one of our newly opened clubs that opened nearby. This resulted in a $225,000 lease termination expense. The remaining $378,000 increase in rent and occupancy expenses relates to the clubs that were open prior to January 1, 2005.

Utility costs increased $1.5 million. We saw a $350,000 increase at our clubs that we opened or acquired in 2005 and 2006. The balance of the increase is due to an increase in utility rates throughout the remainder of our club base.

These increases in club operating expenses were partially offset by a $590,000 decrease in marketing and advertising costs. We ran a marketing campaign in the first quarter of 2005 and did not schedule a similar program in this first quarter of 2006.

General and administrative. General and administrative expenses increased $1.2 million or 17.7% to $7.9 million in the quarter ended March 31, 2006 from $6.7 million in the quarter ended March 31, 2005. In the quarter ended March 31, 2006 we incurred $569,000 in costs related to the examination of strategic and financing alternatives while no such costs were recorded in the quarter ended March 31, 2005.

Depreciation and amortization. Depreciation and amortization increased by $647,000, or 6.6%, to $10.4 million in the quarter ended March 31, 2006, from $9.7 million in the quarter ended March 31, 2005 principally due to new and expanded clubs.

Interest Expense

Interest expense increased $568,000 to $10.7 million during the quarter ended March 31, 2006 from $10.1 million in the quarter ended March 31, 2005. This increase is due to the accretion of our senior discount notes issued in February 2004.

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Interest Income

Interest income increased $356,000 to $725,000 in the quarter ended March 31, 2006 from $369,000 in the quarter ended March 31, 2005 due to increases in the rate of interest earned on invested cash.

Provision for Income Tax

We have recorded an income tax provision of $1.0 million in the quarter ended March 31, 2006 compared to $126,000 in the quarter ended March 31, 2005. In the quarter ended March 31, 2006, a discrete income tax charge totaling $657,000 was recorded to reflect a reduction in state deferred tax assets that we believe are not more likely than not to be realized upon the completion of our planned initial public offering.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Revenues

Revenues increased $35.5 million, or 10.1%, to $388.6 million during the year ended December 31, 2005 from $353.0 million during the year ended December 31, 2004. Revenues increased during the year by $19.8 million, or 5.8%, at our mature clubs. Revenues increased $8.2 million at the eight clubs opened during 2004 and $9.2 million at the seven clubs opened during 2005. These increases were offset by a decrease in revenue related to the three clubs that were closed or relocated during 2005.

The 5.8% increase in mature club revenue is due to a 3.5% increase in membership, a 1.6% increase in ancillary revenue and a 0.7% increase in membership price.

Operating Expenses

Operating expenses increased $29.6 million, or 9.3%, to $348.3 million in the year ended December 31, 2005, from $318.7 million in the year ended December 31, 2004. The increase was due to the following increases in payroll and related expenses, club operating expenses, general and administrative expenses and depreciation and amortization:

Payroll and related. Payroll and related expenses increased by $13.6 million, or 9.8%, to $151.9 million in the year ended December 31, 2005, from $138.3 million in the year ended December 31, 2004. This increase was principally attributable to a 5.5% increase in the total months of club operations from 1,568 to 1,655, as well as the following:

- Payroll costs directly related to personal training, Group Exclusives and programming for children increased $5.5 million, or 23.6%, due to an increase in demand for these programs.

- An offset to the increases in payroll related to a $1.1 million one-time bonus received by vested option holders in the first quarter of 2004 in connection with a common stock distribution, while no such bonus payment was made in 2005.

Club operating. Club operating expenses increased by $13.4 million, or 11.4%, to $130.2 million in the year ended December 31, 2005, from $116.8 million in the year ended December 31, 2004. This increase was principally attributable to the following:

- A $7.6 million increase in rent expense. Rent expense related to our clubs that have been open less than 24 months increased $5.2 million, and rent expense at our clubs open over 24 months increased $2.4 million, or 3.9%.

- Gas and electric costs increased by $2.6 million, or 19.9%, from $13.0 million in 2004 to $15.6 million in 2005. While overall square footage under management increased by 4.8% during 2005, a significant portion of the increase in our gas and electric costs was due to the increase in natural gas prices, principally in the fourth quarter, which is the underlying natural resource used for electricity generation in the northeastern United States.

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Advertising expense increased $1.3 million. Advertising expense, as a percent of revenue, increased to 2.7% of total revenue for the year ended December 31, 2005 from 2.5% of total revenue during the same period in 2004.

General and administrative. General and administrative expenses increased $1.8 million, or 7.5%, to $26.6 million in the year ended December 31, 2005 from $24.7 million in the same period in 2004. This increase was principally attributable to the following:

Accounting and consulting fees and expenses increased by $468,000 principally due to increases in audit and consulting fees with respect to preparedness for compliance with Section 404 of the Sarbanes-Oxley Act.

Legal and related costs increased $1.0 million due to an increase in costs relating to new club leases, as well as increased litigation for both new and existing matters incurred in the normal course of business.

Costs incurred in connection with the examination of financing alternatives totaled $928,000.

These increases were offset by a $372,000 or 8.2% decrease in liability insurance costs.

Depreciation and amortization. Depreciation and amortization increased by $2.7 million, or 7.4%, to $39.6 million in the year ended December 31, 2005, from $36.9 million in the same period in 2004 principally due to new and expanded clubs.

Interest Expense

Interest expense increased $2.2 million to $41.6 million during the year ended December 31, 2005 from $39.3 million during 2004. This increase is due to the issuance of our discount notes in February 2004.

Interest Income

Interest income increased $1.6 million to $2.3 million during the year ended December 31, 2005 from $743,000 during 2004. This increase is principally due to the increase in the rate of interest earned on invested cash.

Provision for Income Tax

We have recorded an income tax provision of $1.0 million during the year ended December 31, 2005 compared to $1.1 million during 2004.

Accreted Dividends on Preferred Stock

In connection with the February 2004 issuance of our discount notes, all outstanding preferred stock was redeemed. Therefore, we did not accrete dividends in 2005, while in 2004 dividends in an amount of $783,000 were accreted.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Revenues

Revenues increased $11.8 million, or 3.5%, to $353.0 million during 2004, from $341.2 million in 2003. This increase resulted from the three clubs opened or acquired in 2003 (approximately $4.9 million), and the eight clubs opened or acquired in 2004 (approximately $4.6 million). In addition, revenues increased during 2004 by approximately $6.8 million, or 2.1%, at our mature clubs. These increases were offset by a $2.5 million decrease in revenues related to the three clubs we relocated in 2003. Comparable club revenue increased during the year by 2.5%. In 2003, we received $2.8 million of insurance proceeds related to our business interruption insurance final settlement and such proceeds were classified as Fees and Other revenue. In 2004, no such business interruption proceeds were received.

The 2.1% increase in mature club revenue is due to a 2.8% increase in membership and a 1.4% increase in ancillary revenue, offset by a 2.1% decrease in membership price.

Our mature club revenue increased 4.1%, 1.6% and 2.1% for the years ended December 31, 2002, 2003 and 2004, respectively.

Operating Expenses

Operating expenses increased $20.2 million, or 6.8%, to $318.8 million in 2004, from $298.6 million in 2003. The increase was due to the following increases in payroll and related expenses, club operating expenses, general and administrative expenses and depreciation and amortization:

Payroll and related. Payroll and related expenses increased by $7.7 million, or 5.9%, to $138.3 million in 2004, from $130.6 million in 2003. This increase was attributable to the following factors:

In connection with the restructuring and distribution to common stockholders of TSI Holdings, vested common stock option holders, who did not exercise their options, were paid a one-time bonus recorded as payroll expense. This one-time payment totaled $1.1 million. See Liquidity and Capital Resources.

In an effort to increase membership satisfaction and improve our membership retention rates, we have increased the level of in-house training and club support personnel and have moved from third-party contracted equipment maintenance and housekeeping services to in-house supplied labor for these services. These customer service efforts resulted in a $2.4 million increase in payroll expense with a commensurate savings in club operating expenses.

Personal training and Sports Clubs for Kids programming payroll expense increased $2.0 million, or 9.3%, to $23.2 million in 2004 from $21.2 million in 2003 to support increases in revenue generated by these programs and services.

Payroll expense related to management in our legal, marketing, training and development and club operations departments increased a total of $486,000.

Payroll taxes and benefits increased $1.5 million due to increases in total payroll and increases in healthcare costs.

Club operating. Club operating expenses increased by $5.7 million, or 5.1%, to $116.8 million in 2004, from $111.1 million in 2003. This increase is principally attributable to the following:

A $4.1 million increase in rent expense principally resulting from increases related to clubs that have opened since, or expanded after, December 2003.

Facility repairs and maintenance costs increased $1.9 million, or 27.0%. Incremental costs to support our initiatives to increase member satisfaction and improve member retention contributed to this increase.

In addition, we experienced a $611,000 increase in utilities due to increases in utility rates, and a 5.1% increase in square footage in operation.

The aforementioned increases in club operating expense were partially offset by a $789,000 decrease in advertising costs as well as a $314,000 decrease in equipment maintenance costs that were predominately outsourced to third parties in 2003 and moved to in-house labor in 2004.

General and administrative. General and administrative expenses increased by $2.7 million, or 12.3%, to $24.7 million in 2004, from $22.0 million in 2003:

Liability insurance expense increased by $690,000. Premiums increased $327,000 coupled with a favorable adjustment of $363,000 recorded in the first quarter of 2003, where we had adjusted our reserves related to premium audits.

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We also experienced an increase of $700,000 in data communication lines costs. This related in part to the correction of our service provider s billing errors in the first half of 2004 that amounted to a $429,000 increase. These costs also increased due to data-line redundancies created at our clubs to safeguard against single line outages. Furthermore, data-line traffic increased in 2004 due to the completion of our Club Network systems rollout that began in 2003.

Accounting and tax consulting fees increased $622,000 principally due to an increase in accounting services related to our senior discount note offering in February 2004, and increases in consulting with respect to preparation for compliance with Section 404 of the Sarbanes-Oxley Act.

Legal fees increased by $447,000 principally due to an increase in the number of new club leases and expansions executed.

In an effort to increase member satisfaction and improve member retention rates, we have increased staff development and recruiting costs. These customer service efforts resulted in an increase of $292,000 over the prior year.

Depreciation and amortization. Depreciation and amortization increased by $2.0 million, or 5.7%, to $36.9 million in 2004, from $34.9 million in 2003. This increase was principally attributable to increases in depreciation at new, expanded and remodeled clubs.

Goodwill Impairment

In the quarter ended March 31, 2004, we performed our annual impairment test. Goodwill impairment testing requires a comparison between the carrying value and fair value of reportable goodwill. If the carrying value exceeds the fair value, goodwill is considered to be impaired. The amount of the impairment loss is measured as the difference between the carrying value and the implied fair value of goodwill, which is determined based on purchase price allocation. As a result of this review, we determined that the goodwill at one of our remote clubs was not recoverable. The goodwill impairment associated with this under performing club amounted to $2.0 million. A deferred tax benefit of $881,000 has been recorded in connection with this impairment. Since this club is remote from one of our clusters, it does not benefit from the competitive advantage that our clustered clubs have, and as a result it is more susceptible to competition. We have reduced our projections of future cash flows of this club to take into account the impact of a recent opening of a competitor.

Interest Expense

Interest expense increased $15.6 million to $39.3 million in 2004 from $23.7 million in 2003. Interest expense increased $12.8 million due to the issuance of our senior discount notes in February 2004 while the remainder of the increase was principally due to the refinancing of our senior notes in April 2003 as discussed in Liquidity and Capital Resources.

Interest Income

Interest income increased $299,000 to $743,000 in 2004 from $444,000 in 2003. This increase is due to increases in cash balances in 2004 compared to 2003. Average interest rates earned on cash balances also increased in 2004 when compared to 2003.

Equity in the earnings of investees and rental income

Equity in the earnings of investees and rental income increased from $1.4 million in 2003 to $1.5 million in 2004 principally due to increases in rent charged to our tenant.

Provision for Income Tax

The provision for corporate income taxes decreased $4.4 million from $5.5 million in 2003 to $1.1 million in 2004. In 2004 we recorded tax charges related to:

A $597,000 increase in the deferred tax valuation allowance to reserve for state net operating losses that may not be utilized in future periods.

Change in the allocation factors used in the computation of our New York State taxes, caused by revenue, payroll and asset growth outside of New York State, resulting in a deferred tax charge of approximately $340,000.

Relief of our deferred tax asset totaling $1.1 million, associated with deferred compensation expense related to exercised stock options.

Accreted Dividends on Preferred Stock

In connection with the February 4, 2004 senior discount note offering, all outstanding shares of Series A and Series B preferred stock were redeemed. After giving effect to these redemptions, our capital structure no longer has outstanding preferred stock and therefore no dividends have been accreted in periods subsequent to February 2004.

Liquidity and Capital Resources

Liquidity. Historically, we have satisfied our liquidity needs through cash from operations and various borrowing arrangements. Principal liquidity needs have included the acquisition and development of new clubs, debt service requirements and other capital expenditures necessary to upgrade, expand and renovate existing clubs.

Operating Activities. Net cash provided by operating activities for the three months ended March 31, 2006 was $34.7 million compared to $24.9 million during the three months ended March 31, 2005. Net cash flows from operations have increased due to the increase in operating income excluding the effects of accreted interest expense and depreciation and amortization. Net changes in operating assets and liabilities, including the increase in deferred revenue, and a decrease in prepaid corporate income taxes, have further contributed to the increase in cash flows from operations. In the first quarter of 2006, we received a federal income tax refund of $3.6 million. This was the primary reason for the decrease in prepaid corporate income taxes.

Net cash provided by operating activities for the year ended December 31, 2005 was $63.3 million compared to $57.1 million during the year ended December 31, 2004. Net cash flows from operations have increased with profitability and due to a $6.1 million increase in cash provided by landlord contributions to tenant improvements, offset by a net increase of $9.0 million in cash paid for income taxes during the year ended December 31, 2005 when compared to 2004. The Jobs and Growth Tax Relief Reconciliation Act of 2003 permitted an acceleration of tax depreciation on 2004 capital improvements while no such acceleration was permitted in 2005. This resulted in an increase in cash paid for taxes when comparing the year 2005 to 2004.

Excluding the effects of cash and cash equivalent balances, we normally operate with a working capital deficit because we receive dues and program and services fees either (i) during the month services are rendered, or (ii) when paid-in-full, in advance. As a result, we typically do not have significant accounts receivable. We record deferred liabilities for revenue received in advance in connection with dues and services paid-in-full and for initiation fees paid at the time of enrollment. Prior to January 1, 2006, initiation fees received were deferred and amortized over a 24-month period, which represented the approximate life of a member. At the time a member joins a club we incur enrollment costs that typically offset the impact that initiation fees have on working capital. Effective January 1, 2006, initiation fees and enrollment costs are deferred over 30 months. This change reflects the increase in the estimated average membership life. We do not believe we will have to finance this working capital deficit in the foreseeable future, because as we increase the number of clubs open, we expect we will continue to have deferred revenue balances that reflect services and dues that are paid-in-full in advance at levels similar to, or greater than, those currently maintained. The deferred revenue balances that give rise to this working capital deficit represent cash received in advance of services performed, and do not represent liabilities that must be funded with cash.

Investing Activities. We invested $15.0 million and $10.2 million in capital expenditures during the three months ended March 31, 2006 and 2005, respectively.

For the year ended December 31, 2006, we estimate we will invest $63.6 million in capital expenditures which includes $15.5 million to continue to upgrade existing clubs and $3.3 million to enhance our management information systems. The remainder of our 2006 capital expenditures will be committed to build or acquire clubs. These expenditures will be funded by cash flow provided by operations and available cash on hand.

We invested $66.3 million and $40.7 million in capital expenditures and club acquisitions during the years ended December 31, 2005 and 2004, respectively.

Financing Activities. Net cash used in financing activities was $1.3 million for the three months ended March 31, 2006 compared to $389,000 in 2005.

Net cash used in financing activities was $3.1 million for the year ended December 31, 2005 compared to net cash provided by financing activities of $265,000 in 2004.

Subsequent 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 up to 35% of our outstanding senior discount notes.

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

February 4, 2004 Restructuring

On February 4, 2004, TSI, Inc. and affiliates and TSI Holdings, a then newly formed company, entered into a restructuring agreement. We refer to the associated transactions as our restructuring. In connection with our restructuring, the holders of TSI, Inc. s Series A preferred stock, Series B preferred stock and common stock contributed their shares of TSI, Inc. to TSI Holdings for an equal amount of newly issued shares of the same form in TSI Holdings. Immediately following this exchange, TSI Holdings contributed to TSI, Inc. the certificates representing all of TSI, Inc. s shares contributed in the aforementioned exchange and in return TSI, Inc. issued 1,000 shares of common stock to TSI Holdings, and cancelled on its books and records the certificate representing TSI, Inc. s shares contributed to it by TSI Holdings.

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On February 4, 2004, TSI Holdings completed an offering of our 11.0% senior discount notes that will mature in February 2014. TSI Holdings received a total of $124.8 million in connection with this issuance. Fees and expenses related to this transaction totaled approximately $4.4 million. No cash interest is required to be paid prior to February 2009. The accreted value of each discount note will increase from the date of issuance until February 1, 2009, at a rate of 11.0% per annum compounded semi-annually such that on February 1, 2009 the accreted value will equal $213.0 million, the principal value due at maturity. Subsequent to February 1, 2009 cash interest on the discount notes will accrue and be payable semi-annually in arrears February 1 and August 1 of each year, commencing August 1, 2009. The discount notes are structurally subordinated and effectively rank junior to all indebtedness of TSI, Inc. The debt of TSI Holdings is not guaranteed by TSI, Inc. and TSI Holdings relies on the cash flows of TSI, Inc., subject to restrictions contained in the indenture governing the senior notes, to service its debt.

The use of proceeds from our senior discount note offering was as follows (in thousands):

Redemption of Series A and Series B preferred stock	$	50,635
Common stock distribution, net of option exercise proceeds		68,404
Underwriting fees and other closing costs		4,378
Bonus paid to employees in lieu of distribution		1,144
Available for general corporate purposes		246
Total use of funds	$	124,807

On February 6, 2004, all of TSI Holdings outstanding Series A preferred stock and Series B preferred stock was redeemed for a total of $50.6 million.

On March 12, 2004, 65,536 vested common stock options of TSI Holdings were exercised. TSI Holdings received $539,000 in cash related to these exercises.

On March 15, 2004, the Board of Directors of TSI Holdings 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.

April 16, 2003 Refinancing Transaction

On April 16, 2003, TSI, Inc. completed a refinancing of its debt. This refinancing included an offering of $255.0 million of $9^5/8$% senior notes that will mature April 15, 2011, and the entering into of a new $50.0 million senior secured revolving credit facility that will expire April 15, 2008. The senior notes accrue interest at $9^5/8$% per annum and interest is payable semiannually on April 15 and October 15. In connection with this refinancing, we wrote off $3.7 million of deferred financing costs related to extinguished debt, paid a call premium of $3.0 million and incurred $1.0 million of interest on the senior notes representing the interest incurred during the 30-day redemption notification period.

The use of proceeds from the notes offering was as follows (in thousands):

Redemption of senior notes, principal and interest	$	126,049
Call premium on senior notes		3,048
Redemption of senior preferred stock, at liquidation value		66,977
Repayment of line of credit principal borrowings and interest		4,013
Repayment of subordinated credit principal borrowings and interest		9,060
Underwriting fees and other closing costs		9,578
Available for general corporate purposes		36,275
Total use of funds	$	255,000

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As of March 31, 2006, our total consolidated debt was $415.0 million. This substantial amount of debt could have significant consequences, including:

Making it more difficult to satisfy our obligations;

Increasing our vulnerability to general adverse economic and industry conditions;

Limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions of new clubs and other general corporate requirements;

Requiring cash flow from operations for the annual payment of $24.5 million interest on our Senior Notes 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 less-leveraged competitors.

As of March 31, 2006, we had $157.2 million of senior discount notes and $255.0 million of senior notes outstanding. Under the provisions of the senior note indenture, TSI, Inc. may not issue additional senior notes without modification of the indenture with the bondholders consent.

Senior Credit Facility

Our line of credit with our principal bank provides for direct borrowings and letters of credit of up to $50.0 million. The line of credit carries interest at our option based upon the Eurodollar borrowing rate plus 4.0% or the bank s prime rate plus 3.0%, as defined, and we are required to pay a commitment fee of 0.75% per annum on the daily unutilized amount. As of December 31, 2005 and March 31, 2006, no borrowings were outstanding under this line. As of December 31, 2005 and March 31, 2006, outstanding letters of credit totaled $8.0 million and $7.9 million, respectively. As of December 31, 2005 and March 31, 2006, we had approximately $42.0 million and $42.1 million, respectively, unutilized under the line of credit, which matures in April 2008, and has no scheduled amortization requirements. In addition, as of December 31, 2005 and March 31, 2006, we had $51.3 million and $69.7 million, respectively, of cash and cash equivalents.

The senior secured revolving credit facility contains various covenants including limits on capital expenditures, the maintenance of a consolidated interest coverage ratio of not less than 2.75:1.00 and 3.00:1.00 during 2005 and 2006, respectively, and a maximum permitted total leverage ratio of 3.75:1.00 from December 31, 2004 through December 31, 2005 and 3.50:1.00 from December 31, 2005 through September 29, 2006 and 3.25:1.00 from September 30, 2006 through September 29, 2007. TSI s interest coverage ratio and leverage ratios were 3.52:1.00 and 3.13:1.00, respectively, as of December 31, 2005 and 3.63:1.00 and 2.99:1.00, respectively, as of March 31, 2006. These covenants limit TSI, Inc. s ability to incur additional debt, and as of December 31, 2005, permitted additional borrowing capacity under the senior secured revolving credit facility was limited to $34.6 million.

Notes payable were incurred upon the acquisition of various clubs and are subject to the right of offset for possible post-acquisition adjustments arising out of operations of the acquired clubs. These notes bear interest at rates between 5% and 9%, and are non-collateralized. The notes are due on various dates through 2009.

We believe that we have or will be able to obtain or generate sufficient funds to finance our current operating and growth plans through the end of 2007. Any material acceleration or expansion of that plan through additional new club locations that we have constructed or acquisitions (to the extent such acquisitions include cash payments) may require us to pursue additional sources of financing prior to the end of 2007. There can be no assurance that such financing will be available, or that it will be available on acceptable terms. Our line of credit accrues interest at variable rates based on market conditions.

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Therefore, future increases in interest rates could have a negative impact on net income should borrowings be required.

Contractual Obligations and Commitments

The aggregate long-term debt and operating lease obligations as of March 31, 2006 were as follows:

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
			(In thousands)		
Long-term debt(1)	$ 1,126,844	$ 25,732	$ 50,673	$ 95,948	$ 954,491
Operating lease obligations(2)	730,374	62,315	126,524	118,895	422,640
Total contractual cash obligations	$ 1,857,218	$ 88,047	$ 177,197	$ 214,843	$ 1,377,131

(1) The long-term debt contractual cash obligations include principal and interest payment requirements. Interest on TSI, Inc. s senior notes amounts to $24.5 million annually.

(2) Operating lease obligations include base rent only. Certain leases provide for additional rent based on real estate taxes, common area maintenance and defined amounts based on the operating results of the lessee.

The foregoing table does not reflect the tender offer for up to $85.0 million aggregate principal amount of TSI, Inc. s senior notes or the exercise in connection with this offering of our right to redeem up to 35% of our outstanding senior discount notes. See Subsequent Events.

Stock Based Compensation

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), using the modified prospective transition method and therefore have not restated results for prior periods. Under this transition method, stock-based compensation expense for the first quarter of fiscal 2006 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provision of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). Stock-based compensation expense for all stock-based compensation awards granted after January 1, 2006 will be based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. We recognize these compensation costs on a straight-line basis over the requisite service period of the award. We recognize these compensation costs net of a forfeiture rate and recognizes the compensation costs for only those shares expected to vest on a straight-line basis over the requisite service period of the award. We estimated the forfeiture rate for the first quarter of 2006 based on our historical experience during the preceding five years. Prior to the adoption of SFAS 123R, we recognized stock-based compensation expense in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). Also, prior to January 1, 2006, we provided pro forma disclosure amounts in accordance with SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148), as if the fair value method defined by SFAS 123 had been applied to our stock-based compensation. In March 2005, the Securities and Exchange Commission (the SEC) issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC s interpretation of SFAS 123R and the valuation of share-based payments for public companies. We have applied the provisions of SAB 107 in our adoption of SFAS 123R.

At March 31, 2006, we had 88,366 stock options outstanding under our 2004 Stock Option Plan. The total compensation expense related to this plan was approximately $43,000 for the three months ended March 31, 2006. Prior to January 1, 2006, we accounted for stock options under the recognition and

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measurement provisions of APB 25. Accordingly, we generally recognized compensation expense only when we granted options with a discounted exercise price. Any resulting compensation expense was recognized ratably over the associated service period.

As a result of adopting SFAS 123R, we recorded approximately $43,000 of stock based compensation expense for the three months ended March 31, 2006. In addition, prior to the adoption of SFAS 123R, we presented the tax benefit of stock option exercises as operating cash flows. Upon the adoption of SFAS 123R, tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options are classified as financing cash flows.

The pro forma table below reflects net earnings and earnings per share for the first quarter of 2005, had we applied the fair value recognition provisions of SFAS 123, as follows:

	Three Months Ended March 31, 2005	
	($000 s)	
Net loss, as reported	$	179
Add: Stock-based compensation included in reported net earnings, net of related tax effects		9
Less: Stock-based compensation expense determined under the fair-value-based method for all awards, net of related tax effects		(28)
Pro forma net earnings	$	160
Basic earnings (loss) per share:		
As reported	$	0.14
Pro forma	$	0.12
Diluted earnings (loss) per share:		
As reported	$	0.14
Pro forma	$	0.12

During the first quarter of 2005 and 2006, we did not issue stock options under the 2004 Stock Option Plan. Options granted under the Plan generally qualify as incentive stock options under the U.S. Internal Revenue Code. The exercise price of a stock option generally is equal to the fair market value of our common stock on the option grant date.

As of March 31, 2006, approximately $865,000 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 7 years.

September 11, 2001 Events

The September 11 events resulted in a tremendous loss of life and property. Secondarily, those events interrupted the operations at four of our clubs located in downtown Manhattan. Three of the affected clubs were back in operation by October 2001, while the fourth club reopened in September 2002.

We carry business interruption insurance to mitigate certain lost revenue and profits such as those experienced with the September 11 events. In this regard, in the third quarter of 2001 a $175,000 insurance receivable was recorded representing an estimate of costs incurred in September 2001. Such costs included rent, payroll benefits and other club operating costs incurred during the period of closure. In 2002, we collected this $175,000 receivable and received additional on-account payments of $1.0 million. In 2003, we received $2.8 million from our insurer and we entered into a final settlement agreement. These on-account and final payments were classified in Fees and Other revenue when received.

Use of Estimates and Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Our most significant assumptions and estimates relate to the allocation and fair value ascribed to assets acquired in connection with the acquisition of clubs under the purchase method of accounting, the useful lives, recoverability and impairment of fixed and intangible assets, deferred income tax valuation, self-insurance reserves, valuation of, and expense incurred in connection with, stock options, legal contingencies and the estimated membership life.

Effective January 1, 2006, the estimated average life of our membership increased from 24 months to 30 months. Our one-time member initiation fees and related direct expenses are deferred and recognized on a straight-line basis in operations over the estimated membership life. This estimated membership life has been derived from actual membership retention experienced by us. Prior to January 1, 2006, the average membership life approximated 24 months. This estimated life could increase or decrease in future periods. Consequently, the amount of initiation fees and direct expenses deferred by us would increase or decrease in similar proportion.

Fixed assets are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, which are 30 years for building and improvements, five years for club equipment, furniture, fixtures and computer equipment, and three years for computer software. Leasehold improvements are amortized over the shorter of their estimated useful lives or the remaining period of the lease. Expenditures for maintenance and repairs are charged to operations as incurred. The cost and related accumulated depreciation or amortization of assets retired or sold are removed from the respective accounts and any gain or loss is recognized in operations. The costs related to developing web applications, developing web pages and installing developed applications on the web servers are capitalized and classified as computer software. Web site hosting fees and maintenance costs are expensed as incurred.

Long-lived assets, such as fixed assets, and intangible assets are reviewed for impairment when events or circumstances indicate that the carrying value may not be recoverable. Estimated undiscounted expected future cash flows are used to determine if an asset is impaired, in which case the asset s carrying value would be reduced to fair value. Actual cash flows realized could differ from those estimated and could result in asset impairments in the future.

Effective January 1, 2002, we implemented SFAS No. 142, Goodwill and Other Intangible Assets. There were no changes to the estimated useful lives of amortizable intangible assets due to the SFAS No. 142 implementation. In connection with the SFAS No. 142 transition impairment test, we recorded a $1.3 million write-off of goodwill. A deferred tax benefit of $612,000 was recorded as a result of this goodwill write-off, resulting in a net cumulative effect of change in accounting principle of $689,000 in the first quarter of 2002. The write-off of goodwill related to four remote underperforming clubs. The impairment test was performed with discounted estimated future cash flows as the criteria for determining fair market value. Goodwill has been allocated to reporting units that closely reflect the regions served by our four trade names: New York Sports Clubs, Boston Sports Clubs, Washington Sports Clubs and Philadelphia Sports Clubs, with certain more remote clubs that do not benefit from a regional cluster being considered single reporting units.

We perform our annual impairment test in the first quarter of each year. Goodwill impairment testing requires a comparison between the carrying value and fair value of reportable goodwill. If the carrying value exceeds the fair value, goodwill is considered to be impaired. The amount of the impairment loss is measured as the difference between the carrying value and the implied fair value of goodwill, which is determined based on purchase price allocation. As a result of the March 31, 2004 review, we determined that the goodwill at one of our remote clubs was not recoverable. The goodwill impairment associated with this under performing club amounted to $2.0 million. A deferred tax benefit of $881,000 has been recorded in connection with this impairment. Since this club is remote from one of our clusters, it does not benefit from the competitive advantage that our clustered clubs have, and as a result it is more susceptible to competition. We have reduced our projections of future cash flows of this club to take into account the

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impact of a recent opening of a competitor. Following the reviews in the first quarter in each of 2003, 2005 and 2006, no goodwill impairment charges were recorded.

As of December 31, 2005, our net deferred tax assets totaled $24.4 million. These net assets represent cumulative net temporary differences that will result in tax deductions in future years. The realizability of these assets greatly depends on our ability to generate sufficient future taxable income. Our pre-tax profit was $21.7 million and $13.0 million, and current tax liabilities were $10.3 million and $2.1 million, for the years ended December 31, 2002 and 2003, respectively. During the year ended December 31, 2004, our pre-tax loss was $2.8 million. During 2004, we incurred $12.7 million of additional interest expense related to our February 2004 issuance of the discount notes. In addition, we incurred $1.1 million of payroll expense related to a special bonus paid to common stockholders and we recorded a $2.0 million goodwill impairment charge. We believe that as our club base continues to expand, we will improve our profitability in years going forward and realize our deferred tax assets. For 2005, we generated pre-tax profit of $2.8 million. Given our profitability in past years and expected future profitability, the weight of available evidence indicates we will be able to realize these net deferred tax assets. If at some time in the future the weight of available evidence does not support the realizability of a portion of or the entire net deferred tax assets, the write-down of this asset could have a significant impact on our financial statements.

Quantitative and Qualitative Disclosures About Market Risk

We do not believe that we have any significant risk related to interest rate fluctuations since we currently only carry fixed-rate debt. We invest our excess cash in highly liquid short-term investments. These investments are not held for trading or other speculative purposes. Changes in interest rates affect the investment income we earn on our cash equivalents and therefore impact our cash flows and results of operations. If short-term interest rates were to have increased by 100 basis points during 2005, our interest income from cash equivalents would have increased by approximately $632,000. These amounts are determined by considering the impact of the hypothetical interest rates on our cash equivalents balance during 2005.

For additional information concerning the terms of our fixed-rate debt, see Note 6 to our consolidated financial statements appearing at the end of this prospectus.

Inflation

Although we cannot accurately anticipate the effect of inflation on our operations, we believe that inflation has not had, and is not likely in the foreseeable future to have, a material impact on our results of operations.

Seasonality of Business

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

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BUSINESS

Overview

We are one of the two leading owners and operators of fitness clubs in the Northeast and Mid-Atlantic regions of the United States and the third largest fitness club operator in the United States, in each case as measured by number of clubs. As of March 31, 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 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 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.

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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.

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.

We believe that the growth in fitness club memberships is attributable to several factors. Americans are focused on achieving a healthier, more active and less stressful lifestyle. Of the factors members consider very important in their decision to join a fitness club, the most commonly mentioned is health, closely followed by appearance-related factors including muscle tone, looking better and weight control.

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We believe that the increased emphasis on appearance and wellness in the media has heightened the focus on self-image and fitness and will continue to do so. We also believe that fitness clubs provide a more convenient venue for exercise than outdoor activities, particularly in densely populated metropolitan areas. According to published industry reports, convenience is a leading factor in choosing a fitness club.

We believe the industry can be segregated into three tiers based upon price, service and quality: (1) an upper tier consisting of clubs with monthly individual membership dues averaging in excess of $99 per month; (2) a middle tier consisting of clubs with monthly membership dues averaging between $35 and $99 per month; and (3) a lower tier consisting of clubs with monthly membership dues averaging less than $35 per month. We compete in the middle tier in terms of pricing, and because of our wide array of programs and services coupled with our commitment to customer service and our convenience to members work and home, we are positioned toward the upper end of this tier. Based upon the quality and service we provide to our members, we believe that we provide an attractive value to our members at the monthly membership dues we charge.

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 the 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.

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 15.5% of our common stock before this offering, and will own 11.0% of our common stock after this offering, in each case on a fully diluted basis.

Business Strategy

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

Drive comparable club revenue and profitability growth. 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. 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 cl