

# TOWN SPORTS INTERNATIONAL HOLDINGS INC

## FORM 10-Q (Quarterly Report)

Filed 07/28/16 for the Period Ending 06/30/16

Address	5 PENN PLAZA 4TH FLOOR NEW YORK, NY 10001
Telephone	(212) 246-6700
CIK	0001281774
Symbol	CLUB
SIC Code	7997 - Membership Sports and Recreation Clubs
Industry	Recreational Activities
Sector	Services
Fiscal Year	12/31

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

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**Form 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended June 30, 2016

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the Transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 001-36803

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**TOWN SPORTS INTERNATIONAL HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

20-0640002  
(I.R.S. Employer  
Identification Number)

5 Penn Plaza (4th Floor)  
New York, New York 10001  
Telephone: (212) 246-6700

(Address, zip code, and telephone number, including area code, of registrant's principal executive office)

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if smaller reporting company) Smaller reporting company

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

As of July 25, 2016, there were 25,748,547 shares of Common Stock of the registrant outstanding.

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**For the Quarter Ended June 30, 2016**  
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**TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**June 30, 2016 and December 31, 2015**  
**(All figures in thousands except share and per share data)**  
**(Unaudited)**

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 58,929	\$ 76,217
Accounts receivable (less allowance for doubtful accounts of \$2,518 and \$3,133 as of June 30, 2016 and December 31, 2015, respectively)	1,370	1,923
Inventory	244	337
Deferred tax assets	—	1,549
Prepaid corporate income taxes	—	6,895
Prepaid expenses and other current assets	8,655	13,170
Total current assets	69,198	100,091
Fixed assets, net	182,196	195,341
Goodwill	1,053	1,025
Intangible assets, net	153	171
Deferred tax assets	—	219
Deferred membership costs	1,850	3,029
Other assets	2,694	3,225
Total assets	\$ 257,144	\$ 303,101
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Current portion of long-term debt	\$ 2,082	\$ 2,810
Accounts payable	2,761	2,615
Accrued expenses	26,155	26,129
Accrued interest	116	129
Deferred revenue	41,818	40,225
Corporate income taxes payable	8,779	—
Deferred tax liabilities	—	236
Total current liabilities	81,711	72,144
Long-term debt	195,153	263,930
Deferred lease liabilities	51,119	51,136
Deferred tax liabilities	61	1,593
Deferred revenue	357	319
Other liabilities	10,101	10,224
Total liabilities	338,502	399,346
Commitments and Contingencies (Note 12)		
Stockholders' deficit:		
Preferred stock, \$0.001 par value; no shares issued and outstanding at both June 30, 2016 and December 31, 2015		
Common stock, \$0.001 par value; issued and outstanding 25,749,047 and 24,818,786 shares at June 30, 2016 and December 31, 2015, respectively	24	24
Additional paid-in capital	(6,953)	(8,386)
Accumulated other comprehensive loss	(928)	(523)
Accumulated deficit	(73,501)	(87,360)
Total stockholders' deficit	(81,358)	(96,245)
Total liabilities and stockholders' deficit	\$ 257,144	\$ 303,101

See notes to condensed consolidated financial statements.

**TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Three and Six Months Ended June 30, 2016 and 2015**  
**(All figures in thousands except share and per share data)**  
**(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Revenues:</b>				
Club operations	\$ 99,406	\$ 106,741	\$ 199,212	\$ 216,629
Fees and other	1,529	1,555	3,068	3,091
	<u>100,935</u>	<u>108,296</u>	<u>202,280</u>	<u>219,720</u>
<b>Operating Expenses:</b>				
Payroll and related	38,173	46,137	77,559	92,997
Club operating	46,783	50,821	94,413	102,106
General and administrative	6,544	8,039	13,410	16,448
Depreciation and amortization	10,897	12,178	22,082	23,852
Impairment of fixed assets	—	1,014	—	2,151
Impairment of goodwill	—	31,558	—	31,558
	<u>102,397</u>	<u>149,747</u>	<u>207,464</u>	<u>269,112</u>
Operating loss	(1,462)	(41,451)	(5,184)	(49,392)
Gain on extinguishment of debt	(38,497)	—	(38,497)	—
Interest expense	3,492	5,188	7,569	10,358
Equity in the earnings of investees and rental income	(89)	(579)	(146)	(1,190)
Income (loss) before provision (benefit) for corporate income taxes	33,632	(46,060)	25,890	(58,560)
Provision (benefit) for corporate income taxes	12,899	(14,992)	12,082	(14,728)
Net income (loss)	<u>\$ 20,733</u>	<u>\$ (31,068)</u>	<u>\$ 13,808</u>	<u>\$ (43,832)</u>
Earnings (loss) per share:				
Basic	\$ 0.81	\$ (1.26)	\$ 0.54	\$ (1.79)
Diluted	\$ 0.79	\$ (1.26)	\$ 0.54	\$ (1.79)
Weighted average number of shares used in calculating earnings (loss) per share:				
Basic	25,638,070	24,590,759	25,355,393	24,503,624
Diluted	26,165,827	24,590,759	25,735,612	24,503,624

See notes to condensed consolidated financial statements.

**TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**For the Three and Six Months Ended June 30, 2016 and 2015**  
**(All figures in thousands)**  
**(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Statements of Comprehensive Income (Loss):</b>				
Net income (loss)	\$ 20,733	\$ (31,068)	\$ 13,808	\$ (43,832)
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments, net of tax of \$0 for each of the three and six months ended June 30, 2016 and 2015	(135)	138	31	194
Interest rate swap, net of tax of \$0 for each of the three and six months ended June 30, 2016 and 2015	48	158	(436)	(716)
Total other comprehensive (loss) income, net of tax	(87)	296	(405)	(522)
Total comprehensive income (loss)	<u>\$ 20,646</u>	<u>\$ (30,772)</u>	<u>\$ 13,403</u>	<u>\$ (44,354)</u>

See notes to condensed consolidated financial statements.

**TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Six Months Ended June 30, 2016 and 2015**  
**(All figures in thousands)**  
**(Unaudited)**

	Six Months Ended June 30,	
	2016	2015
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 13,808	\$ (43,832)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	22,082	23,852
Impairment of fixed assets	—	2,151
Impairment of goodwill	—	31,558
Gain on extinguishment of debt	(38,497)	—
Amortization of debt discount	549	645
Amortization of debt issuance costs	342	393
Amortization of building financing costs	—	63
Non-cash rental income, net of non-cash rental expense	(2,336)	(1,659)
Share-based compensation expense	1,115	973
Net change in deferred taxes	—	(11,513)
Net change in certain operating assets and liabilities	22,600	20,337
Decrease in deferred membership costs	1,179	589
Landlord contributions to tenant improvements	2,080	296
Increase in insurance reserves	779	115
Other	(138)	340
Total adjustments	9,755	68,140
Net cash provided by operating activities	23,563	24,308
<b>Cash flows from investing activities:</b>		
Capital expenditures	(9,952)	(16,793)
Change in restricted cash	—	(1,100)
Net cash used in investing activities	(9,952)	(17,893)
<b>Cash flows from financing activities:</b>		
Proceeds from building financing arrangement	—	500
Principal payments on 2013 Term Loan Facility	(1,224)	(1,557)
Repurchase of 2013 Term Loan Facility	(29,765)	—
Debt issuance costs	—	(350)
Cash dividends paid	(17)	(82)
Redemption paid pursuant to the Rights Plan	—	(246)
Proceeds from stock option exercises	318	40
Net cash used in financing activities	(30,688)	(1,695)
Effect of exchange rate changes on cash	(211)	187
Net (decrease) increase in cash and cash equivalents	(17,288)	4,907
Cash and cash equivalents beginning of period	76,217	93,452
Cash and cash equivalents end of period	\$ 58,929	\$ 98,359
<b>Summary of the change in certain operating assets and liabilities:</b>		
Decrease in accounts receivable	\$ 657	\$ 125
Decrease in inventory	93	254
Decrease in prepaid expenses and other current assets	4,836	2,662
(Decrease) increase in accounts payable, accrued expenses and accrued interest	(332)	9,726
Change in prepaid corporate income taxes and corporate income taxes payable	15,715	(3,341)
Increase in deferred revenue	1,631	10,911
Net change in certain working capital components	\$ 22,600	\$ 20,337
Supplemental disclosures of cash flow information:		
Cash payments for interest, net of capitalized interest	\$ 6,693	\$ 8,565
Cash payments for income taxes	\$ 52	\$ 64



**TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(In thousands except share and per share data)**  
**(Unaudited)**

**1. Basis of Presentation**

As of June 30, 2016, Town Sports International Holdings, Inc. (the “Company” or “TSI Holdings”), through its wholly-owned subsidiary, Town Sports International, LLC (“TSI, LLC”), operated 149 fitness clubs (“clubs”) and two BFX Studio (“studio”) locations. The clubs are composed of 102 clubs in the New York metropolitan market under the “New York Sports Clubs” brand name, 27 clubs in the Boston market under the “Boston Sports Clubs” brand name, 12 clubs (one of which is partly-owned) in the Washington, D.C. market under the “Washington Sports Clubs” brand name, five clubs in the Philadelphia market under the “Philadelphia Sports Clubs” brand name and three clubs in Switzerland. We also have one partly-owned club that operated under a different brand name in Washington, D.C. as of June 30, 2016.

The Company’s operating segments are New York Sports Clubs, Boston Sports Clubs, Philadelphia Sports Clubs, Washington Sports Clubs and the clubs the Company owned in Switzerland, which is the level at which the chief operating decision makers review discrete financial information and make decisions about segment profitability based on earnings before income tax depreciation and amortization. The Company has determined that these operating segments have similar economic characteristics and meet the criteria which permit them to be aggregated into one reportable segment. Beginning in the first quarter of 2016, the Company’s chief operating decision makers do not review studio financial information separately for purposes of making operating decisions and assessing financial performance. Accordingly, the Company manages and reports results through one reportable segment. Previously, the Company managed and reported results through two reportable segments: clubs and studio.

Certain reclassifications were made to the reported amounts on the condensed consolidated balance sheet as of December 31, 2015 to conform to the presentation as of June 30, 2016.

The condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). The condensed consolidated financial statements should be read in conjunction with the Company’s December 31, 2015 consolidated financial statements and notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. The year-end condensed consolidated balance sheet data included within this Form 10-Q was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (“US GAAP”). Certain information and footnote disclosures that are normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to SEC rules and regulations. The information reflects all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the interim periods set forth herein. The results for the three and six months ended June 30, 2016 are not necessarily indicative of the results for the entire year ending December 31, 2016.

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

In December 2015, TSI Holdings purchased \$29,829 principal amount of debt outstanding under the 2013 Senior Credit Facility in the open market for \$10,947, or 36.7% of face value. On April 21, 2016, TSI Holdings settled a transaction to purchase \$8,705 principal amount of debt outstanding under the 2013 Senior Credit Facility for \$3,787, or 43.5% of face value. On May 6, 2016, TSI Holdings settled another transaction to purchase \$62,447 principal amount of debt outstanding under the 2013 Senior Credit Facility for \$25,978, or 41.6% of face value. The April and May transactions created gain on extinguishment of debt in the six months ended June 30, 2016 with a tax effect of \$13,451. When this was netted with our operating loss, it resulted in a tax provision for the six months ended June 30, 2016 of \$12,082. All of the above purchased debt was transferred to Town Sports International, LLC and cancelled.

The Company's ability to fund operations and capital expenditures is dependent upon its ability to generate sufficient cash from operations coupled with cash on hand. The Company believes it has sufficient liquidity from a combination of cash on hand and cash to be generated from operations to fund anticipated capital expenditures and currently scheduled debt service. As further described in Note 3 - Long-Term Debt, the Company maintains a senior credit facility with its lenders which contains a term loan facility and a revolving loan facility. The terms of the senior credit facility include a financial covenant under which the Company is currently not able to utilize more than 25% , or \$11,250 , of the revolving loan facility. The Company will continue not to be able to utilize more than 25% of the revolving loan facility until it has a total leverage ratio, as defined, of no greater than 4.50 :1.00. The revolving loan facility is scheduled to mature in November 2018.

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

### ***Change in Estimated Average Membership Life***

The average membership life was 25 months for the three and six months ended June 30, 2016 and 22 months for the full year of 2015. The Company monitors factors that might affect the estimated average membership life including retention trends, attrition trends, membership sales volumes, membership composition, competition, and general economic conditions, and adjusts the estimate as necessary on a quarterly basis.

Joining fees, as well as related direct and incremental expenses of membership acquisition, which include sales commissions, bonuses and related taxes and benefits, are deferred and recognized, on a straight-line basis, in operations over the estimated average membership life or 12 months to the extent these costs are related to the first annual fee paid at the time of enrollment. Annual fees are amortized over 12 months .

## **2. Recent Accounting Pronouncements**

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, "Improvements to Employee Share-Based Payment Accounting". Under this standard, all excess tax benefits and tax deficiencies will be recorded as an income tax expense or benefit in the income statement in the period in which the awards vest or are exercised. Excess tax benefits will be classified as an operating activity in the statement of cash flows. The standard also allows an entity to elect an accounting policy to either estimate the number of forfeitures or account for forfeitures when they occur. In addition, entities can withhold up to the maximum individual statutory tax rate without classifying the awards as a liability. This standard is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is evaluating the impact of this standard on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (topic 842)", to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This standard is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of this standard is permitted. The Company is evaluating the impact of this standard on its financial statements.

In November 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes". This amendment requires deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This standard is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company has prospectively adopted this amended guidance for the fiscal year beginning January 1, 2016. Prior periods were not retrospectively adjusted. The adoption of this standard did not have a material impact on the Company's consolidated financial statements as it only pertains to a change in the balance sheet presentation of deferred taxes.

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In April 2015, the FASB issued ASU No. 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs”. This standard changes the presentation of debt issuance costs in the financial statements to present such costs as a direct deduction from the related debt liability rather than as an asset. Amortization of debt issuance costs will be reported as interest expense. In August 2015, the FASB issued ASU No. 2015-15, “Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements”. ASU 2015-15 clarifies that the SEC would not object to the deferral and presentation of debt issuance costs as an asset and subsequent amortization of debt issuance costs over the term of the line-of-credit arrangement, whether or there are any outstanding borrowings on the line-of-credit arrangement. These standards are effective for annual reporting periods beginning after December 15, 2015. The Company has retrospectively adopted this guidance for the fiscal year beginning January 1, 2016 and accordingly reclassified \$2,141 and \$2,259 of deferred financing costs from other assets to long-term debt on its consolidated balance sheet as of March 31, 2016 and December 31, 2015, respectively. The adoption of this amended guidance did not impact our consolidated financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU No. 2015-05, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 35-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.” This ASU provides guidance to customers about whether a cloud computing arrangement includes a software license. If an arrangement includes a software license, the accounting for the license will be consistent with licenses of other intangible assets. If the arrangement does not include a license, the arrangement will be accounted for as a service contract. ASU 2015-05 is effective for interim and annual periods beginning after December 15, 2015. The Company adopted the updated guidance for the fiscal year beginning January 1, 2016 with no impact on the Company’s financial statements.

In January 2015, the FASB issued ASU No. 2015-01, “Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.” This guidance eliminates the concept of extraordinary items from US GAAP. As a result, an entity will no longer be required to segregate extraordinary items from the results of ordinary operations, to separately present an extraordinary item on its income statement, net of tax, after income from continuing operations or to disclose income taxes and earnings-per-share data applicable to an extraordinary item. However, the ASU does not affect the reporting and disclosure requirements for an event that is unusual in nature or infrequent in occurrence. This guidance is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company adopted the updated guidance for the fiscal year beginning January 1, 2016 with no impact on the Company’s financial statements.

In November 2014, the FASB issued ASU No. 2014-16, “Derivatives and Hedging” (Topic 815): “Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity, which provides guidance on identifying whether the nature of the host contract in a hybrid instrument is in the form of debt or equity”. This standard requires management to consider the stated and implied substantive terms and features of the hybrid financial instrument, including the embedded derivative features, in order to determine whether the nature of the host contract is more akin to debt or to equity. The ASU is effective for annual periods and interim periods with those annual periods beginning after December 15, 2015, with early adoption permitted. The Company adopted the updated guidance for the fiscal year beginning January 1, 2016 with no impact on the Company’s financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” The standard requires management to evaluate, at each annual and interim reporting period, the Company’s ability to continue as a going concern within one year of the date the financial statements are issued and provide related disclosures. This guidance is effective for annual period ending after December 15, 2016 and for annual periods and interim periods thereafter. The adoption of this guidance is not expected to have a material impact on the Company’s financial statements.

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In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (Topic 606). The standard provides a single, comprehensive revenue recognition model for all contracts with customers and supersedes current revenue recognition guidance. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The new standard also includes enhanced disclosures which are significantly more comprehensive than those in existing revenue standards. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 for all entities by one year, to annual reporting periods beginning after December 15, 2017. Early adoption will be permitted for annual reporting periods beginning after December 15, 2016. The standard allows for either “full retrospective” adoption, meaning the standard is applied to all of the periods presented, or “modified retrospective” adoption, meaning the standard is applied only to the most current period presented in the financial statements. In addition, the FASB issued ASU 2016-08, ASU 2016-10, and ASU 2016-12 in March 2016, April 2016, and May 2016, respectively, to help provide interpretive clarifications on the new guidance in ASC Topic 606. The Company is evaluating the impact of this standard on its financial statements.

### 3. Long-Term Debt

	June 30, 2016	December 31, 2015
2013 Term Loan Facility outstanding principal balance	\$ 203,042	\$ 275,417
Less: Unamortized discount	(4,308)	(6,418)
Less: Deferred financing costs	(1,499)	(2,259)
Less: Current portion due within one year	(2,082)	(2,810)
Long-term portion	\$ 195,153	\$ 263,930

#### 2013 Senior Credit Facility

On November 15, 2013, TSI, LLC, an indirect, wholly-owned subsidiary, entered into a \$370,000 senior secured credit facility (“2013 Senior Credit Facility”), among TSI, LLC, TSI Holdings II, LLC, a newly-formed, wholly-owned subsidiary of the Company (“Holdings II”), as a Guarantor, the lenders party thereto, Deutsche Bank AG, as administrative agent, and Keybank National Association, as syndication agent. The 2013 Senior Credit Facility consists of a \$325,000 term loan facility maturing on November 15, 2020 (“2013 Term Loan Facility”) and a \$45,000 revolving loan facility maturing on November 15, 2018 (“2013 Revolving Loan Facility”). Proceeds from the 2013 Term Loan Facility of \$323,375 were issued, net of an original issue discount (“OID”) of 0.5% , or \$1,625 . Debt issuance costs recorded in connection with the 2013 Senior Credit Facility were \$5,119 and are being amortized as interest expense and are recorded as a contra-liability to long-term debt on the accompanying condensed consolidated balance sheets. The Company also recorded additional debt discount of \$4,356 related to creditor fees. The proceeds from the 2013 Term Loan Facility were used to pay off amounts outstanding under the Company’s previously outstanding long-term debt facility (“2011 Term Loan Facility”) originally entered into on May 11, 2011 (as amended from time to time), and to pay related fees and expenses. None of the revolving loan facility was drawn upon as of the closing date on November 15, 2013. Loans under the 2013 Revolving Loan Facility may be drawn from time to time pursuant to the terms of the 2013 Senior Credit Facility. The borrowings under the 2013 Senior Credit Facility are guaranteed and secured by assets and pledges of capital stock by Holdings II, TSI, LLC, and, subject to certain customary exceptions, the wholly-owned domestic subsidiaries of TSI, LLC.

Borrowings under the 2013 Term Loan Facility and the 2013 Revolving Loan Facility, at TSI, LLC’s option, bear interest at either the administrative agent’s base rate plus 2.5% or a LIBOR rate adjusted for certain additional costs (the “Eurodollar Rate”) plus 3.5% , each as defined in the 2013 Senior Credit Facility. With respect to the outstanding term loans, the Eurodollar Rate has a floor of 1.00% and the base rate has a floor of 2.00% . Commencing with the last business day of the quarter ended March 31, 2014, TSI, LLC is required to pay 0.25% of the principal amount of the term loans each quarter, which may be reduced by voluntary prepayments. As of June 30, 2016 , TSI LLC has made a total of \$20,977 in principal payments on the 2013 Term Loan Facility.

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On January 30, 2015, the 2013 Senior Credit Facility was amended (the “Amendment”) to permit TSI Holdings to purchase term loans under the Credit Agreement. Any term loans purchased by TSI Holdings will be cancelled in accordance with the terms of the Credit Agreement, as amended by the Amendment. The Company may from time to time purchase term loans in market transactions, privately negotiated transactions or otherwise; however the Company is under no obligation to make any such purchases. Any such transactions, and the amounts involved, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. As of June 30, 2016, TSI Holdings had a cash balance of approximately \$500.

In December 2015, TSI Holdings purchased \$29,829 principal amount of debt outstanding under the 2013 Senior Credit Facility in the open market for \$10,947, or 36.7% of face value, which resulted in a gain on extinguishment of debt of \$17,911, including the write-off of related deferred financing costs and debt discount of \$249 and \$707, respectively. On April 21, 2016, TSI Holdings settled a transaction to purchase \$8,705 principal amount of debt outstanding under the 2013 Senior Credit Facility for \$3,787, or 43.5% of face value. On May 6, 2016, TSI Holdings settled another transaction to purchase \$62,447 principal amount of debt outstanding under the 2013 Senior Credit Facility for \$25,978, or 41.6% of face value. The April and May transactions created gain on extinguishment of debt in the six months ended June 30, 2016 of \$38,497 with a tax effect of \$13,451. When this was netted with our operating loss, it resulted in a tax provision for the six months ended June 30, 2016 of \$12,082. The gain on extinguishment of debt was net of the write-off of deferred financing costs and debt discount of \$545 and \$1,561, respectively, and other costs related to the transaction. All of the above purchased debt was transferred to Town Sports International, LLC and cancelled.

The terms of the 2013 Senior Credit Facility provide for a financial covenant in the situation where the total utilization of the revolving loan commitments (other than letters of credit up to \$5,500 at any time outstanding) exceeds 25% of the aggregate amount of those commitments. In such event, TSI, LLC is required to maintain a total leverage ratio, as defined in the 2013 Senior Credit Facility, of no greater than 4.50:1.00. While not subject to the total leverage ratio covenant as of June 30, 2016 as the Company’s only utilization of the 2013 Revolving Loan Facility as of June 30, 2016 was \$2,851 of issued and outstanding letters of credit thereunder, because the Company’s total leverage ratio as of June 30, 2016 was in excess of 4.50:1.00, the Company is currently not able to utilize more than 25% of the 2013 Revolving Loan Facility. The Company will continue not to be able to utilize more than 25% of the 2013 Revolving Loan Facility until it has a total leverage ratio of no greater than 4.50:1.00. The 2013 Senior Credit Facility also contains certain affirmative and negative covenants, including covenants that may limit or restrict TSI, LLC and Holdings II’s ability to, among other things, incur indebtedness and other liabilities; create liens; merge or consolidate; dispose of assets; make investments; pay dividends and make payments to shareholders; make payments on certain indebtedness; and enter into sale leaseback transactions, in each case, subject to certain qualifications and exceptions. In addition, at any time when the total leverage ratio is greater than 4.50:1.00, there are additional limitations on the ability of TSI, LLC and Holdings II to, among other things, make certain distributions of cash to TSI Holdings. The 2013 Senior Credit Facility also includes customary events of default (including non-compliance with the covenants or other terms of the 2013 Senior Credit Facility) which may allow the lenders to terminate the commitments under the 2013 Revolving Loan Facility and declare all outstanding term loans and revolving loans immediately due and payable and enforce its rights as a secured creditor.

TSI, LLC may prepay the 2013 Term Loan Facility and 2013 Revolving Loan Facility without premium or penalty in accordance with the 2013 Senior Credit Facility. Mandatory prepayments are required relating to certain asset sales, insurance recovery and incurrence of certain other debt and commencing in 2015 in certain circumstances relating to excess cash flow (as defined) for the prior fiscal year, as described below, in excess of certain expenditures. Pursuant to the terms of the 2013 Senior Credit Facility, the Company is required to apply net proceeds in excess of \$30,000 from sales of assets in any fiscal year towards mandatory prepayments of outstanding borrowings. In connection with the sale of the East 86th Street property, described in Note 5 - Sale of Building, the Company received approximately \$43,500 in net sales proceeds (after taxes, before giving effect to utilization of net operating losses and carryforward). Accordingly, the Company made a mandatory prepayment of \$13,500 on the 2013 Term Loan Facility in November 2014. To the extent the proceeds of the sale of the East 86th Street property were not reinvested within 30 months of the date of sale, the Company may have been required to use such amounts, other than amounts used in 2014 to repay debt, to pay down its outstanding debt, as provided under the terms of its 2013 Senior Credit Facility. The Company has reinvested all the remaining net proceeds from the sale.

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In addition, the 2013 Senior Credit Facility contains provisions that require excess cash flow payments, as defined, to be applied against outstanding 2013 Term Loan Facility balances. The excess cash flow is calculated annually for each fiscal year ending December 31 and paid 95 days after the fiscal year end. The applicable excess cash flow repayment percentage is applied to the excess cash flow when determining the excess cash flow payment. Earnings, changes in working capital and capital expenditure levels all impact the determination of any excess cash flow. The applicable excess cash flow repayment percentage is 50% when the total leverage ratio, as defined in the 2013 Senior Credit Facility, exceeds or is equal to 2.50 :1.00; 25% when the total leverage ratio is greater than or equal to 2.00 :1.00 but less than 2.50 :1.00 and 0% when the total leverage ratio is less than 2.00 :1.00. The excess cash flow calculation performed as of December 31, 2015 did not result in any required payments in April 2016. The next excess cash flow payment would be due in April 2017, if applicable. Based on the Company's unit growth projection and capital expenditures related to club renovations and the building of new locations, together with its operating forecast, the Company does not expect there will be an excess cash flow payment required at that time.

As of June 30, 2016, the 2013 Term Loan Facility has a gross principal balance of \$203,042 and a balance of \$197,235 net of unamortized debt discount of \$4,308 and unamortized debt issuance costs of \$1,499. As of June 30, 2016, both the unamortized balance of debt issuance costs and unamortized debt discount are recorded as a contra-liability to long-term debt on the accompanying condensed consolidated balance sheet and are being amortized as interest expense using the effective interest method.

As of June 30, 2016, there were no outstanding 2013 Revolving Loan Facility borrowings and outstanding letters of credit issued totaled \$2,851. The unutilized portion of the 2013 Revolving Loan Facility as of June 30, 2016 was \$42,149 and the available unutilized portion, based on the Company's total leverage ratio exceeding 4.50 :1.00, was \$11,250, in accordance with terms of credit agreement.

### ***Fair Market Value***

Based on quoted market prices, the 2013 Term Loan Facility had a fair value of approximately \$135,277 and \$104,658 at June 30, 2016 and December 31, 2015, respectively, and is classified within level 2 of the fair value hierarchy. Level 2 is based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. The fair value for the Company's 2013 Term Loan Facility is determined using observable current market information such as the prevailing Eurodollar interest rate and Eurodollar yield curve rates and includes consideration of counterparty credit risk.

For the fair market value of the Company's interest rate swap instrument refer to Note 4 - Derivative Financial Instruments.

## **4. Derivative Financial Instruments**

In its normal operations, the Company is exposed to market risks relating to fluctuations in interest rates. In order to minimize the possible negative impact of such fluctuations on the Company's cash flows the Company may enter into derivative financial instruments ("derivatives"), such as interest-rate swaps. Derivatives are not entered into for trading purposes and the Company only uses commonly traded instruments. Currently, the Company has used derivatives solely relating to the variability of cash flows from interest rate fluctuations.

The Company originally entered into an interest rate swap arrangement on July 13, 2011 in connection with the 2011 Senior Credit Facility. In connection with entering into the 2013 Senior Credit Facility, the Company amended and restated the interest rate swap agreement initially entered into (and amended in August 2012 and November 2012). Effective as of November 15, 2013, the closing date of the 2013 Senior Credit Facility, the interest rate swap arrangement had a notional amount of \$160,000 and will mature on May 15, 2018. The swap effectively converts \$160,000 of the current outstanding principal of the total variable-rate debt under the 2013 Senior Credit Facility to a fixed rate of 5.384%, when including the applicable 3.50% margin. As permitted by FASB Accounting Standards Codification ("ASC") 815, Derivatives and Hedging, the Company has designated this swap as a cash flow hedge, the effects of which have been reflected in the Company's condensed consolidated financial statements for the three and six months ended June 30, 2016 and 2015. The objective of this hedge is to manage the variability of cash flows in the interest payments related to the portion of the variable-rate debt designated as being hedged.

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When the Company's derivative instrument was executed, hedge accounting was deemed appropriate and it was designated as a cash flow hedge at inception with re-designation being permitted under ASC 815, Derivatives and Hedging. Interest rate swaps are designated as cash flow hedges for accounting purposes since they are being used to transform variable interest rate exposure to fixed interest rate exposure on a recognized liability (debt). On an ongoing basis, the Company performs a quarterly assessment of the hedge effectiveness of the hedge relationship and measures and recognizes any hedge ineffectiveness in the condensed consolidated statements of operations. For the three and six months ended June 30, 2016 and 2015, hedge ineffectiveness was evaluated using the hypothetical derivative method. There was no hedge ineffectiveness for the three and six months ended June 30, 2016 and 2015.

Accounting guidance on fair value measurements specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1—Quoted prices for *identical* instruments in active markets.
- Level 2—Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

The fair value for the Company's interest rate swap is determined using observable current market information such as the prevailing Eurodollar interest rate and Eurodollar yield curve rates and include consideration of counterparty credit risk. The following table presents the aggregate fair value of the Company's derivative financial instrument:

	Fair Value Measurements Using:			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap liability as of June 30, 2016	\$ 2,478	\$ —	\$ 2,478	\$ —
Interest rate swap liability as of December 31, 2015	\$ 2,042	\$ —	\$ 2,042	\$ —

The swap contract liability of \$2,478 and \$2,042 are recorded as a component of other liabilities as of June 30, 2016 and December 31, 2015, respectively, with the offset to accumulated other comprehensive income ( \$1,400 and \$1,154, net of taxes, as of June 30, 2016 and December 31, 2015, respectively) on the accompanying condensed consolidated balance sheet.

There were no significant reclassifications out of accumulated other comprehensive income during the three and six months ended June 30, 2016 and 2015 and the Company does not expect that significant derivative losses included in accumulated other comprehensive income at June 30, 2016 will be reclassified into earnings within the next 12 months.

## 5. Sale of Building

On September 12, 2014, the Company completed the legal sale of its property (building and land) on East 86th Street, New York City, to an unaffiliated third-party for gross proceeds of \$85,650. Concurrent with the closing of the transaction, the Company leased back the portion of the property comprising its health club (“Initial Lease”) and had agreed to vacate the property in connection with the purchaser's future development of a new luxury, high-rise multi-use building. In connection with vacating the property, the Company had agreed to enter into a new lease (“New Club Lease”) for approximately 24,000 square feet in the new building for the purpose of operating a health club upon completion of construction by the purchaser/landlord. This sale-leaseback transaction was characterized as a financing arrangement for accounting purposes rather than a sale until any continuing involvement has ceased. In March 2015, the Company received the remaining proceeds held in escrow of \$500, which was included in the Company's cash flow statement for the six months ended June 30, 2015 as a financing cash inflow.

On December 23, 2015, the Company terminated the Initial Lease and the agreement to enter into the New Club Lease and received gross proceeds of \$3,500 in connection with the termination. Because the lease was terminated with no continuing involvement, this sale-leaseback transaction was accounted for as a completed sale as of December 23, 2015. Under this treatment, the Company recorded a \$77,146 gain, previously accounted for as a financing, on the sale of the property, recorded in Gain on sale of building in the consolidated statements of operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

## 6. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and the interest rate swap. Although the Company deposits its cash with more than one financial institution, as of June 30, 2016, \$34,237 of the cash balance of \$58,929 was held at one financial institution. The Company has not experienced any losses on cash and cash equivalent accounts to date, and the Company believes that, based on the credit ratings of these financial institutions, it is not exposed to any significant credit risk related to cash at this time.

The counterparty to the Company's interest rate swap is a major banking institution with a credit rating of investment grade or better and no collateral is required, and there are no significant risk concentrations. The Company believes the risk of incurring losses on derivative contracts related to credit risk is unlikely.

## 7. Earnings (Loss) Per Share

Basic earnings (loss) per share (“EPS”) is computed by dividing net earnings (loss) applicable to common stockholders by the weighted average numbers of shares of common stock outstanding during the period. Diluted EPS is computed similarly to basic EPS, except that the denominator is increased for the assumed exercise of dilutive stock options and unvested restricted stock calculated using the treasury stock method.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Weighted average number of common shares outstanding — basic	25,638,070	24,590,759	25,355,393	24,503,624
Effect of dilutive share based awards	527,757	—	380,219	—
Weighted average number of common shares outstanding — diluted	26,165,827	24,590,759	25,735,612	24,503,624
Earnings (loss) per share:				
Basic	\$ 0.81	\$ (1.26)	\$ 0.54	\$ (1.79)
Diluted	\$ 0.79	\$ (1.26)	\$ 0.54	\$ (1.79)

For the three and six months ended June 30, 2016, the Company did not include stock options to purchase 120,753 shares and 1,060,544 shares of the Company's common stock, respectively, in the calculations of diluted EPS because the exercise prices of those options were greater than the average market price and such inclusion would be anti-dilutive.

For the three and six months ended June 30, 2015, there was no effect of dilutive stock options and unvested restricted common stock on calculation of diluted EPS as the Company had a net loss for these periods. There would have been 340,086 and 342,183 anti-dilutive shares had the Company not been in a net loss position for the three and six months ended June 30, 2015, respectively.

## **8. Stock-Based Compensation**

The Company's 2006 Stock Incentive Plan, as amended and restated (the "2006 Plan") in April 2015, authorizes the Company to issue up to 3,500,000 shares of common stock to employees, non-employee directors and consultants pursuant to awards of stock options, stock appreciation rights, restricted stock, in payment of performance shares or other stock-based awards. In May 2016, the Company further amended the 2006 Plan to increase the aggregate number of shares of common stock issuable under the 2006 Plan by 1,000,000 shares to a total of 4,500,000. Under the 2006 Plan, stock options must be granted at a price not less than the fair market value of the stock on the date the option is granted, generally are not subject to re-pricing, and will not be exercisable more than ten years after the date of grant. Options granted under the 2006 Plan generally qualify as "non-qualified stock options" under the U.S. Internal Revenue Code. As of June 30, 2016, there were 1,181,861 shares available to be issued under the 2006 Plan. At June 30, 2016, the Company had 501,207 stock options outstanding and 660,495 shares of restricted stock outstanding under the 2006 Plan.

In 2015, the Company granted its Chief Operating Officer non-qualified options ("Non-Plan Options") and restricted stock ("Non-Plan RSA") outside of any shareholder-approved plan as an inducement to accept employment with the Company. At June 30, 2016, the Company had 450,000 Non-Plan Options outstanding and 300,000 Non-Plan RSA outstanding.

Effective December 31, 2014, the Company's Board of Directors adopted a stockholder rights plan (the "Rights Plan"). Pursuant to the Rights Plan, the Board of Directors declared a dividend distribution of one preferred share right (a "Right") for each share of Common Stock held as of January 12, 2015. Each Right entitled the holder to purchase one one-thousandth of a share of Series A Junior Participating Preferred Stock (the "Preferred Shares") at an initial exercise price of \$15, subject to certain adjustments. On March 24, 2015, the Company entered into a nomination and standstill agreement (the "Nomination and Standstill Agreement"). Pursuant to the Nomination and Standstill Agreement, the Company agreed to redeem, effective immediately, the rights issued pursuant to the Rights Plan. Pursuant to the terms of the Rights Plan, the Company paid a redemption price to the holders of the rights equal to \$0.01 per right in cash, or \$246, on April 20, 2015.

### ***Stock Option Awards***

The Company did not grant any stock options during the three and six months ended June 30, 2016.

Total compensation expense, classified within payroll and related on the condensed consolidated statements of operations, related to stock options outstanding was \$68 and \$136 for the three and six months ended June 30, 2016, respectively. There was no compensation expense related to stock options in the three months ended June 30, 2015. In the six months ended June 30, 2015, total compensation expense related to stock options was not material.

As of June 30, 2016, a total of \$544 in unrecognized compensation expense related to stock options is expected to be recognized over a weighted-average period of 2.2 years.

### ***Restricted Stock Awards***

On March 10, 2016, the Company issued 559,000 shares of restricted stock to employees under the 2006 Plan. The fair value for these awards was \$2.06 per share, representing the closing stock price on the date of grant. These shares will vest in three equal installments on each of the first three anniversaries of the date of grant.

The total compensation expense, classified within payroll and related on the condensed consolidated statements of operations, related to restricted stock was \$399 and \$733 for the three and six months ended June 30, 2016, respectively, versus \$136 and \$528 for the comparable prior-year periods.

As of June 30, 2016, a total of \$1,910 in unrecognized compensation expense related to restricted stock awards is expected to be recognized over a weighted-average period of 2.5 years.

## **Stock Grants**

On February 3, 2016, the Company issued 206,750 shares of common stock to members of the Company's Board of Directors in respect of their annual retainer. The fair value of the shares issued was \$1.19 per share and was expensed upon the date of grant. The total compensation expense, classified within general and administrative expenses, related to Board of Director common stock grants was \$246 and \$445 for the six months ended June 30, 2016 and 2015, respectively. There was no compensation expense related to Board of Director common stock grants for the three months ended June 30, 2016 and 2015 .

## **9. Fixed Asset Impairment**

Fixed assets are evaluated for impairment periodically whenever events or changes in circumstances indicate that related carrying amounts may not be recoverable from undiscounted cash flows in accordance with FASB guidance. The Company's long-lived assets and liabilities are grouped at the individual club level, which is the lowest level for which there are identifiable cash flows. To the extent that estimated future undiscounted net cash flows attributable to the assets are less than the carrying amount, an impairment charge equal to the difference between the carrying value of such asset and their fair values is recognized.

In the six months ended June 30, 2016 , the Company has determined that there were no adverse changes in our markets or other triggering events that could affect the valuation of our assets and as such no impairment was recorded. In the six months ended June 30, 2015 , the Company recorded impairment charges of \$2,151 related to nine underperforming clubs. The fixed asset impairment charges are included as a component of operating expenses in a separate line on the condensed consolidated statements of operations.

In periods tested, the recoverability of fixed assets, Level 3 inputs were used in determining undiscounted cash flows, which are based on internal budgets and forecasts through the end of the life of the primary asset in the asset group which is normally the life of leasehold improvements. The most significant assumptions in those budgets and forecasts relate to estimated membership and ancillary revenue, attrition rates, estimated results related to new program launches and maintenance capital expenditures, which were generally estimated at approximately 3% to 5% of total revenues depending upon the conditions and needs of a given club. The fair value of fixed assets evaluated for impairment was determined considering a combination of a market approach and a cost approach.

## **10. Goodwill and Other Intangibles**

Goodwill was allocated to reporting units that closely reflect the regions served by the Company's four trade names: New York Sports Clubs ("NYSC"), Boston Sports Clubs ("BSC"), Washington Sports Clubs ("WSC") and Philadelphia Sports Clubs ("PSC"), with certain more remote clubs that do not benefit from a regional cluster being considered single reporting units ("Outlier Clubs"), and the Company's three clubs located in Switzerland being considered a single reporting unit ("SSC"). As of June 30, 2016 , only the SSC region has a remaining goodwill balance.

The Company's annual goodwill impairment test is performed on the last day of February, or more frequently, should circumstances change which would indicate the fair value of goodwill is below its carrying amount.

The Company's current year annual goodwill impairment test as of February 29, 2016 was performed using the two-step goodwill impairment analysis. Step 1 involves comparing the fair value of the Company's reporting units to their carrying amounts. If the estimated fair value of the reporting unit is greater than its carrying amount, there is no requirement to perform Step 2 of the impairment test, and there is no impairment. If the reporting unit's carrying amount is greater than the estimated fair value, the second step must be completed to measure the amount of impairment, if any. Step 2 calculates the implied fair value of goodwill by deducting the estimated fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the estimated fair value of the reporting unit as determined in Step 1. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment charge is recognized equal to the difference. The February 29, 2016 annual impairment test supported the goodwill balance and as such no impairment of goodwill was required.

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For the February 29, 2016 impairment test, fair value was determined by using an income approach, as this was deemed to be the most indicative of the Company's fair value. Under this income approach, the Company determined fair value based on estimated future cash flows of the SSC reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn, which are unobservable Level 3 inputs. The discounted estimates of future cash flows include significant management assumptions such as revenue growth rates, operating margins, weighted average cost of capital, and future economic and market conditions. The estimated weighted-average cost of capital of SSC was 11.2% as of February 29, 2016. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and operating margins, discount rates and future market conditions, among others. These assumptions were determined separately for each reporting unit. The Company believes its assumptions are reasonable, however, there can be no assurance that the Company's estimates and assumptions made for purposes of the Company's goodwill impairment testing as of February 29, 2016 will prove to be accurate predictions of the future. If the Company's assumptions regarding forecasted revenue or margin growth rates of certain reporting units are not achieved, the Company may be required to record goodwill impairment charges in future periods, whether in connection with the Company's next annual impairment testing or prior to that, if any such change constitutes a triggering event outside the quarter when the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result. The estimated fair value of SSC was greater than book value by over 50% as of February 29, 2016.

Solely for purposes of establishing inputs for the fair value calculation described above related to goodwill impairment testing, the Company made the following assumptions. The Company developed long-range financial forecasts ( three years) for all reporting units and assumed known changes in the existing club base. Terminal growth rates were calculated for years beyond the three year forecast. As of February 29, 2016, the Company used a terminal growth rate of 2% .

The Company's next annual impairment test will be performed as of February 28, 2017 or earlier, should circumstances change which would indicate the fair value of goodwill is below its carrying amount.

The changes in the carrying amount of goodwill from December 31, 2015 through June 30, 2016 are detailed in the charts below.

	NYSC	BSC	SSC	Outlier Clubs	Total
Goodwill	\$ 31,549	\$ 15,775	\$ 1,175	\$ 3,982	\$ 52,481
Changes due to foreign currency exchange rate fluctuations	—	—	(150)	—	(150)
Less: accumulated impairment of goodwill	(31,549)	(15,775)	—	(3,982)	(51,306)
<b>Balance as of December 31, 2015</b>	—	—	1,025	—	1,025
Changes due to foreign currency exchange rate fluctuations	—	—	28	—	28
<b>Balance as of June 30, 2016</b>	\$ —	\$ —	\$ 1,053	\$ —	\$ 1,053

Amortization expense was \$9 and \$18 for the three and six months ended June 30, 2016 , respectively, versus \$79 and \$202 for the comparable prior-year periods. Intangible assets are as follows:

	As of June 30, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
Membership lists	11,344	(11,344)	—
Management contracts	250	(129)	121
Trade names	40	(8)	32
	\$ 11,634	\$ (11,481)	\$ 153
	As of December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
Membership lists	\$ 11,344	\$ (11,344)	\$ —
Management contracts	250	(112)	138
Trade names	40	(7)	33
	\$ 11,634	\$ (11,463)	\$ 171

## **11. Income Taxes**

For the six months ended June 30, 2016, the Company recorded an income tax provision of \$12,082 inclusive of valuation allowance compared with an income tax benefit of \$14,728 for the six months ended June 30, 2015, reflecting an effective income tax rate of 47% for the six months ended June 30, 2016 and 25% for the six months ended June 30, 2015. For the six months ended June 30, 2016, the Company calculated its income tax provision using the estimated annual effective tax rate methodology and for the six months ended June 30, 2015, the Company determined its income tax benefit on a discrete basis since the potential impact of fluctuations in the Company's forecast may have had a significant impact on the estimated annual effective tax rate.

As of both June 30, 2016 and December 31, 2015, the Company had a net deferred tax liability of \$61 and state net deferred tax liability of \$17. The Company maintained a full valuation allowance against its U.S. net deferred tax assets as of both June 30, 2016 and December 31, 2015.

As of June 30, 2016, the Company had \$1,187 of unrecognized tax benefits and it is reasonably possible that the entire amount could be realized by the Company in the year ending December 31, 2016 since the income tax returns may no longer be subject to audit in 2016.

The following state and local jurisdictions are currently examining our respective returns for the years indicated: New York State (2006 through 2013), and New York City (2006 through 2012). On June 10, 2016, the Company received from the State of New York a notice of deficiency related to tax years 2006-2009 for \$4,544, inclusive of \$2,042 of interest. The Company disagrees with the proposed assessment and intends to file a Request for Conciliation Conference with the State of New York to appeal the assessment. The Company has not recorded a tax reserve related to the proposed assessment. It is difficult to predict the final outcome or timing of resolution of any particular matter regarding these examinations. An estimate of the reasonably possible change to unrecognized tax benefits within the next 12 months cannot be made.

## **12. Commitments and Contingencies**

On February 7, 2007, in an action styled White Plains Plaza Realty, LLC v. TSI, LLC et al., the landlord of one of TSI, LLC's former health and fitness clubs filed a lawsuit in state court against it and two of its health club subsidiaries alleging, among other things, breach of lease in connection with the decision to close the club located in a building owned by the plaintiff and leased to a subsidiary of TSI, LLC, the tenant, and take additional space in a nearby facility leased by another subsidiary of TSI, LLC. Following a determination of an initial award, which TSI, LLC and the tenant have paid in full, the landlord appealed the trial court's award of damages, and on August 29, 2011, an additional award (amounting to approximately \$900) (the "Additional Award"), was entered against the tenant, which has recorded a liability. Separately, TSI, LLC is party to an agreement with a third-party developer, which by its terms provides indemnification for the full amount of any liability of any nature arising out of the lease described above, including attorneys' fees incurred to enforce the indemnity. As a result, the developer reimbursed TSI, LLC and the tenant the amount of the initial award in installments over time and also agreed to be responsible for the payment of the Additional Award, and the tenant has recorded a receivable related to the indemnification for the Additional Award. The developer and the landlord are currently litigating the payment of the Additional Award and judgment was entered against the developer on June 5, 2013, in the amount of approximately \$1,045, plus interest, which judgment was upheld by the appellate court on April 29, 2015. TSI, LLC does not believe it is probable that TSI, LLC will be required to pay for any amount of the Additional Award.

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

On January 21, 2016, in an action styled Triangle 17 Center, LLC v. Town Sports International Holdings (NJ), LLC, et al. ("TSI Holdings NJ"), a Landlord of one of TSI Holdings NJ's competitors filed an action against TSI Holdings NJ, its affiliate and subsidiary, claiming that TSI Holdings NJ engaged in sham litigation to prevent the opening of a competitor's facility in close proximity to TSI Holdings NJ's location in Ramsey, New Jersey. This matter recently settled for nominal consideration without any admission of liability on the Company's part.

In addition to the litigation discussed above, the Company is involved in various other lawsuits, claims and proceedings incidental to the ordinary course of business, including personal injury, employee relations claims and landlord tenant disputes. The results of litigation are inherently unpredictable. Any claims against the Company, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources. The results of these other lawsuits, claims and proceedings cannot be predicted with certainty. The Company establishes accruals for loss contingencies when it has determined that a loss is probable and that the amount of loss, or range of loss, can be reasonably estimated. Any such accruals are adjusted thereafter as appropriate to reflect changes in circumstances. The Company concluded that an accrual for any such matters is not required as of June 30, 2016 .

### **13 . Other Commitments**

During the three months ended March 31, 2016, the Company entered into an agreement with Cyc Fitness Partners, LLC (“Cyc”) to provide up to \$5,600 of growth capital to Cyc from time to time over the next five years of which half of the growth capital will be considered a loan. Cyc will use any proceeds provided by the Company for capital to build-out locations within certain TSI clubs as well as other locations. The Company must provide consent to the use of any proceeds prior to funding more than \$750 per location. A percentage of net earnings derived from each location funded by the Company will be applied to interest accrued on the loan, and the remaining amount will be applied to the principal of the loan.

## Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

### Introduction

In this Form 10-Q, unless otherwise stated or the context otherwise indicates, references to "Town Sports," "TSI," "the Company," "we," "our" and similar references refer to Town Sports International Holdings, Inc. and its subsidiaries, references to "TSI Holdings" refers to Town Sports International Holdings, Inc., and references to "TSI, LLC" refer to Town Sports International, LLC, our wholly-owned operating subsidiary.

Based on the number of clubs, we are one of the leading owners and operators of fitness clubs in the Northeast and Mid-Atlantic regions of the United States and one of the largest fitness club owners and operators in the United States. As of June 30, 2016, the Company, through its subsidiaries, operated 149 fitness clubs ("clubs") and two BFX Studio ("studio") locations. Our clubs collectively served approximately 551,000 members as of June 30, 2016. We owned and operated a total of 102 clubs under the "New York Sports Clubs" brand name within a 120-mile radius of New York City as of June 30, 2016, including 34 locations in Manhattan where we are the largest fitness club owner and operator. We owned and operated 27 clubs in the Boston region under our "Boston Sports Clubs" brand name, 12 clubs (one of which is partly-owned) in the Washington, D.C. region under our "Washington Sports Clubs" brand name and five clubs in the Philadelphia region under our "Philadelphia Sports Clubs" brand name as of June 30, 2016. In addition, we owned and operated three clubs in Switzerland as of June 30, 2016. We also have one partly-owned club that operated under a different brand name in Washington, D.C. as of June 30, 2016. We employ localized brand names for our clubs to create an image and atmosphere consistent with the local community and to foster recognition as a local network of quality fitness clubs rather than a national chain.

We develop clusters of clubs to serve densely populated major metropolitan regions and we service such populations by clustering clubs near the highest concentrations of our target customers' areas of both employment and residence. Our clubs are located for maximum convenience to our members in urban or suburban areas, close to transportation hubs or office or retail centers. Our members include a wide age demographic covering the student market to the active mature market. In each of our markets, we have developed clusters by initially opening or acquiring clubs located in the more central urban markets of the region and then branching out from these urban centers to suburbs and neighboring communities.

### Revenue and operating expenses

We have two principal sources of revenue:

- *Membership revenue:* Our largest sources of revenue are dues inclusive of monthly membership fees, annual maintenance fees, initiation and processing fees paid by our members. In addition, we collect usage fees on a per visit basis for non-passport members using non-home clubs. These dues and fees comprised 75.9% of our total revenue for the six months ended June 30, 2016. We recognize revenue from membership dues in the month when the services are rendered. We recognize revenue from initiation and processing fees over the estimated average membership life and annual fees over a twelve month period.
- *Ancillary club revenue:* For the six months ended June 30, 2016, we generated 17.6% of our revenue from personal training and 5.0% of our revenue from other ancillary programs and services consisting of Sports Clubs for Kids, racquet sports, Small Group Training and studio classes, as well as sales of miscellaneous sports products. We continue to grow ancillary club revenue by building on ancillary programs such as our personal training membership product and our fee-based Small Group Training programs.

We also receive revenue (approximately 1.5% of our total revenue for the six months ended June 30, 2016) from the rental of space in our facilities to operators who offer wellness-related offerings, such as physical therapy and juice bars. In addition, we sell in-club advertising and sponsorships and generate management fees from certain club facilities that we do not wholly own. We also collect laundry related revenue for the laundering of towels for third parties. We refer to these revenues as Fees and other revenue.

Our performance is dependent in part on our ability to continually attract and retain members at our clubs. In the three months ended June 30, 2016 and 2015, our monthly average attrition rate was 3.5% and 4.0%, respectively.

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Our operating and selling expenses are comprised of both fixed and variable costs. Fixed costs include club and supervisory and other salary and related expenses, occupancy costs, including most elements of rent, utilities, housekeeping and contracted maintenance expenses, as well as depreciation. Variable costs are primarily related to payroll associated with ancillary club revenue, membership sales compensation, advertising, certain facility repairs and club supplies.

General and administrative expenses include costs relating to our centralized support functions, such as accounting, insurance, information and communication systems, purchasing, member relations, legal and consulting fees and real estate development expenses. Payroll and related expenses are included in a separate line item on the condensed consolidated statements of operations and are not included in general and administrative expenses. Approximately 40% of general and administrative expenses relate directly to club operations including phone and data lines, computer maintenance, business licenses, office and sales supplies, general liability insurance, recruiting and training.

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

As of June 30, 2016, 148 of our fitness clubs were wholly-owned by us and our consolidated financial statements include the operating results of all such clubs. One location in Washington, D.C. was partly-owned by us, with our profit sharing percentage approximating 45%, and is treated as an unconsolidated affiliate for which we apply the equity method of accounting. We also partly-owned another location in Washington D.C. that is not part of the WSC with a profit sharing percentage approximating 20% (after priority distributions) for which the equity accounting method is also applied. In addition, we provide management services at locations where we do not have an equity interest which include three fitness clubs located in colleges and universities and eight managed sites.

### Historical Club Count

The following table sets forth the changes in our club count during each of the quarters in 2015, the full-year 2015, and the first and second quarters of 2016

	2015					2016	
	Q1	Q2	Q3	Q4	Full Year	Q1	Q2
Wholly owned clubs operated at beginning of period	156	156	152	151	156	151	150
New clubs opened	1	—	—	—	1	—	—
Clubs closed	(1)	(4)	(1)	—	(6)	(1)	(2)
Wholly owned clubs operated at end of period	156	152	151	151	151	150	148
Partly-owned clubs operated at end of period(1)	2	2	2	1	1	1	1
Total clubs operated at end of period (1)(2)(3)	158	154	153	152	152	151	149

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

(2) Excludes locations that are managed by us in which we do not have an equity interest. These managed sites include three fitness clubs located in colleges and universities and eight managed sites.

(3) Excludes two BFX Studio locations.

### Comparable Club Revenue

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

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

	2015				2016	
	Q1	Q2	Q3	Q4	Q1	Q2
Comparable club revenue	(3.5)%	(5.4)%	(7.1)%	(6.7)%	(7.6)%	(4.5)%

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The comparable club revenue decline experienced in the six months ended June 30, 2016 was primarily due to lower average dues per membership, partially offset by an increase in membership sales volume and annual fees. The comparable club revenue decline experienced in the full-year 2015 was primarily due to the decline in membership dues. The effect of new members enrolling at lower monthly dues combined with members cancelling who were paying higher monthly dues was only partially offset by an increase in membership sales volume.

**Consolidated Results of Operations**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Operating expenses:				
Payroll and related	37.8	42.6	38.4	42.3
Club operating	46.3	46.9	46.7	46.5
General and administrative	6.5	7.4	6.6	7.5
Depreciation and amortization	10.8	11.3	10.9	10.8
Impairment of fixed assets	—	0.9	—	1.0
Impairment of goodwill	—	29.2	—	14.4
	101.4	138.3	102.6	122.5
Operating loss	(1.4)	(38.3)	(2.6)	(22.5)
Gain on extinguishment of debt	(38.1)	—	(19.0)	—
Interest expense	3.5	4.8	3.7	4.7
Equity in the earnings of investees and rental income	(0.1)	(0.6)	(0.1)	(0.5)
Income (loss) before provision (benefit) for corporate income taxes	33.3	(42.5)	12.8	(26.7)
Provision (benefit) for corporate income taxes	12.8	(13.8)	6.0	(6.8)
Net income (loss)	20.5 %	(28.7)%	6.8 %	(19.9)%

*Three Months Ended June 30, 2016 compared to Three Months Ended June 30, 2015*

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

	Three Months Ended June 30,				% Variance
	2016		2015		
	Revenue	% Revenue	Revenue	% Revenue	
Membership dues	\$ 74,932	74.3%	\$ 77,912	71.9%	(3.8)%
Initiation and processing fees	2,030	2.0	3,883	3.6	(47.7)
Membership revenue	76,962	76.3	81,795	75.5	(5.9)
Personal training revenue	17,694	17.5	19,338	17.9	(8.5)
Other ancillary club revenue (1)	4,750	4.7	5,608	5.2	(15.3)
Ancillary club revenue	22,444	22.2	24,946	23.1	(10.0)
Fees and other revenue (2)	1,529	1.5	1,555	1.4	(1.7)
Total revenue	\$ 100,935	100.0%	\$ 108,296	100.0%	(6.8)%

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

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

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Revenue decreased \$7.4 million , or 6.8% in the three months ended June 30, 2016 compared to the same prior-year period, as a result of lower membership revenue and ancillary club revenue. Revenue decreased approximately \$4.8 million at our mature clubs and \$3.1 million at closed clubs. These decreases were partially offset by a \$577,000 increase in revenue from our clubs that were opened or acquired in the last 24 months.

Membership dues revenue decreased \$3.0 million , or 3.8% , in the three months ended June 30, 2016 compared to the same prior-year period primarily reflecting the effect of club closures in 2015 and the first half of 2016 and lower average dues per membership.

Initiation and processing fees revenue decreased \$1.9 million , or 47.7% , in the three months ended June 30, 2016 compared to the same prior-year period, primarily reflecting a reduction in new memberships as well as a decrease in initiation fees collected per new membership in the latter half of 2015 and the first half of 2016. Initiation and processing fees are amortized over the estimated average membership life and as a lesser amount of fees is collected, the revenue recognized will continue to decrease for the amortization period. When the high initiation fees that were initially collected with the conversion to the lower pricing model in 2014 and the first half of 2015 are no longer part of the calculation, we expect this revenue to decrease further.

Personal training revenue decreased \$1.6 million , or 8.5% , in the three months ended June 30, 2016 compared to the same prior-year period, primarily due to a decline in sales volume for our personal training products, as well as club closures in 2015 and the first half of 2016.

Other ancillary club revenue decreased \$858,000 , or 15.3% , in the three months ended June 30, 2016 compared to the same prior-year period primarily driven by decreased revenue from our Sports Clubs for Kids programs.

Comparable club revenue decreased 4.5% in the three months ended June 30, 2016 as compared to the same prior-year period. The price of our membership dues and fees decreased which was partially offset by an increase in memberships at our comparable clubs.

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

	Three Months Ended June 30,		% Variance
	2016	2015	
Payroll and related	\$ 38,173	\$ 46,137	(17.3)%
Club operating	46,783	50,821	(7.9)
General and administrative	6,544	8,039	(18.6)
Depreciation and amortization	10,897	12,178	(10.5)
Impairment of fixed assets	—	1,014	(100.0)
Impairment of goodwill	—	31,558	(100.0)
Total operating expenses	\$ 102,397	\$ 149,747	(31.6)%

Operating expenses decreased due to the following factors:

*Payroll and related.* Payroll and related expenses decreased \$8.0 million , or 17.3% , in the three months ended June 30, 2016 compared to the same prior-year period. In the three months ended June 30, 2015, payroll expenses included a \$776,000 separation accrual related to our former Chief Executive Officer. The decline in payroll expenses also reflected decreased overhead and club payroll associated with headcount reductions and other cost savings initiatives which began in September 2015.

*Club operating.* Club operating expenses decreased \$4.0 million , or 7.9% , in the three months ended June 30, 2016 compared to the same prior-year period. This decrease was principally attributable to the following:

- Marketing expenses decreased \$1.6 million mainly due to the increased advertising spend in the three months ended June 30, 2015 associated with the roll-out of the lower pricing model.
- Repair and maintenance expenses decreased \$1.0 million primarily reflecting a decrease in vendor costs as well as other cost-savings initiatives. The decline also reflected club closures in 2015 and the first half of 2016.

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- Utilities expenses decreased \$666,000 primarily reflecting lower electric rates, lower energy prices due to the mild weather experienced in our markets during the second quarter of 2016, as well as club closures in 2015 and the first half of 2016.
- Rent and occupancy expenses decreased \$425,000 in the three months ended June 30, 2016 compared to the same prior year period. Penalties paid for early lease terminations decreased \$692,000 and we realized savings of \$931,000 related to closed clubs. Offsetting these decreases was an increase of \$936,000 at mature clubs primarily due to rent escalations and an increase of \$262,000 related to newly opened and future locations.

*General and administrative.* General and administrative expenses decreased \$1.5 million , or 18.6% , in the three months ended June 30, 2016 compared to the same period last year, primarily reflecting our cost savings initiatives. In addition, in the three months ended June 30, 2015 , we incurred expenses of \$314,000 associated with the changes to our Board of Directors and other related expenses.

*Depreciation and amortization.* In the three months ended June 30, 2016 compared to the same period last year, depreciation and amortization expense decreased \$1.3 million , or 10.5% , principally due to a decline in our depreciable fixed assets base.

*Impairment of fixed assets.* We did not have fixed asset impairment charges in the three months ended June 30, 2016 . In the three months ended June 30, 2015 , we recorded impairment charges of \$1.0 million related to four underperforming clubs.

*Impairment of goodwill.* We did not have goodwill impairment charges in the three months ended June 30, 2016 . In the three months ended June 30, 2015 , as a result of the significant decrease in market capitalization and a decline in our current performance primarily due to existing members downgrading their memberships to those with lower monthly dues and new members enrolling at lower rates, we performed an interim impairment test as of May 31, 2015. We concluded that there would be no remaining implied fair value of goodwill attributable to the NYSC and BSC regions. Accordingly, in June 2015, we wrote off \$31.6 million of goodwill associated with these reporting units.

### **Gain on extinguishment of debt**

On April 21, 2016, TSI Holdings settled a transaction to purchase \$8.7 million principal amount of debt outstanding under the 2013 Senior Credit Facility for \$3.8 million , or 43.5% of face value. On May 6, 2016, TSI Holdings settled another transaction to purchase \$62.4 million principal amount of debt outstanding under the 2013 Senior Credit Facility for \$26.0 million , or 41.6% of face value. The April and May transactions resulted in a gain on debt extinguishment in the three months ended June 30, 2016 of \$38.5 million . The gain was net of the write-off of deferred financing costs and debt discount of \$545,000 and \$1.6 million , respectively, and other costs related to the transaction. Both of the above purchased debt was transferred to Town Sports International, LLC and cancelled.

### **Interest expense**

Interest expense decreased \$1.7 million , or 32.7% , in the three months ended June 30, 2016 compared to the same period last year, primarily reflecting the absence of the second quarter 2015 non-cash rental payments related to our former tenant at the East 86th Street property, as well as a decrease in interest expense due to principal payments made on, and purchases and cancellation of debt outstanding under our 2013 Term Loan Facility.

### **Provision (Benefit) for Corporate Income Taxes**

We recorded an income tax provision inclusive of valuation allowance of \$12.9 million and an income tax benefit inclusive of valuation allowance of \$15.0 million for the three months ended June 30, 2016 and 2015 , respectively, reflecting an effective income tax rate of 38% for the three months ended June 30, 2016 and 33% for the three months ended June 30, 2015 . For the three months ended June 30, 2016 , we calculated our income tax provision using the estimated annual effective tax rate methodology and for the three months ended June 30, 2015 , we determined our income tax benefit on a discrete basis since the potential impact of fluctuations in our forecast may have had a significant impact on the estimated annual effective tax rate.

**Six Months Ended June 30, 2016 compared to Six Months Ended June 30, 2015**

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

	Six Months Ended June 30,				
	2016		2015		% Variance
	Revenue	% Revenue	Revenue	% Revenue	
Membership dues	\$ 149,440	73.9%	\$ 160,379	73.0%	(6.8)%
Initiation and processing fees	4,071	2.0	7,277	3.3	(44.1)
Membership revenue	153,511	75.9	167,656	76.3	(8.4)
Personal training revenue	35,598	17.6	37,659	17.1	(5.5)
Other ancillary club revenue (1)	10,103	5.0	11,314	5.2	(10.7)
Ancillary club revenue	45,701	22.6	48,973	22.3	(6.7)
Fees and other revenue (2)	3,068	1.5	3,091	1.4	(0.7)
Total revenue	\$ 202,280	100.0%	\$ 219,720	100.0%	(7.9)%

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

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

Revenue decreased \$17.4 million , or 7.9% , in the six months ended June 30, 2016 compared to the same prior-year period, as a result of lower membership revenue and ancillary club revenue. Revenue decreased approximately \$12.7 million at our mature clubs and \$6.2 million at closed clubs. These decreases were partially offset by a \$1.5 million increase in revenue from our clubs that were opened or acquired in the last 24 months.

Membership dues revenue decreased \$10.9 million , or 6.8% , in the six months ended June 30, 2016 compared to the same prior-year period, primarily reflecting lower average dues per membership and club closures in 2015 and the first half of 2016, partially offset by an increase in annual fees.

Initiation and processing fees revenue decreased \$3.2 million , or 44.1% , in the six months ended June 30, 2016 compared to the same prior-year period, primarily reflecting a reduction in new memberships as well as a decrease in initiation fees collected per new membership in the latter half of 2015 and the first half of 2016. Initiation and processing fees are amortized over the estimated average membership life and as a lesser amount of fees is collected, the revenue recognized will continue to decrease for the amortization period. When the high initiation fees that were initially collected with the conversion to the lower pricing model in 2014 and the first quarter of 2015 are no longer part of the calculation, we expect this revenue to decrease further. The decrease was also due to the effect of higher estimated average membership life of 25 months for the first half of 2016 versus 22 months for the same prior-year period, which resulted in initiation and processing fees being amortized over the longer time period and therefore less revenue was recognized.

Personal training revenue decreased \$2.1 million , or 5.5% , in the six months ended June 30, 2016 compared to the same prior-year period, primarily due to club closures in 2015 and the first half of 2016, and a decline in sales volume for our personal training products.

Other ancillary club revenue decreased \$1.2 million , or 10.7% , in the six months ended June 30, 2016 compared to the same prior-year period primarily driven by decreased revenue from our Sports Clubs for Kids programs and decreased revenue from guest fees, partially offset by increased revenue from our studio classes.

Comparable club revenue decreased 6.0% in the six months ended June 30, 2016 as compared to the same prior-year period. The price of our membership dues and fees decreased which was partially offset by an increase in memberships at our comparable clubs.

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

	Six Months Ended June 30,		% Variance
	2016	2015	
Payroll and related	\$ 77,559	\$ 92,997	(16.6)%
Club operating	94,413	102,106	(7.5)
General and administrative	13,410	16,448	(18.5)
Depreciation and amortization	22,082	23,852	(7.4)
Impairment of fixed assets	—	2,151	(100.0)
Impairment of goodwill	—	31,558	(100.0)
Total operating expenses	\$ 207,464	\$ 269,112	(22.9)%

Operating expenses decreased due to the following factors:

*Payroll and related.* Payroll and related expenses decreased \$15.4 million , or 16.6% , in the six months ended June 30, 2016 compared to the same prior-year period. In the six months ended June 30, 2015 , payroll expenses included \$2.1 million of separation accrual related to our former Executive Chairman and former Chief Executive Officer. The decline in payroll expenses also reflected decreased overhead and club payroll associated with club closures in 2015 and the first half of 2016, headcount reductions and other cost savings initiatives which began in September 2015.

*Club operating.* Club operating expenses decreased \$7.7 million , or 7.5% , in the six months ended June 30, 2016 compared to the same prior-year period. This decrease was principally attributable to the following:

- Marketing expenses decreased \$3.5 million mainly due to the increased advertising spend in the six months ended June 30, 2015 associated with the roll-out of the lower pricing model.
- Repair and maintenance expenses decreased \$2.0 million primarily reflecting a decrease in vendor costs as well as other cost-savings initiatives. The decline also reflected club closures in 2015 and the first half of 2016.
- Utilities expenses decreased \$1.3 million primarily reflecting lower electric rates, lower energy prices due to the mild weather experienced in our markets during the first half of 2016, as well as club closures in 2015 and the first half of 2016.
- Rent and occupancy expenses decreased \$187,000 in the six months ended June 30, 2016 compared to the same prior year period. Penalties paid for early lease terminations decreased \$746,000 and we realized savings of \$1.6 million related to closed clubs. Offsetting these decreases was an increase of \$1.7 million at mature clubs primarily due to rent escalations and an increase of \$476,000 related to newly opened and future clubs.

*General and administrative.* General and administrative expenses decreased \$3.0 million , or 18.5% , in the six months ended June 30, 2016 compared to the same period last year, primarily reflecting our cost savings initiatives. In addition, in the six months ended June 30, 2015 , we incurred expenses of \$200,000 associated with stock awards granted to the new members of the Board of Directors and \$699,000 associated with the changes to our Board of Directors and other related expenses. These decreases were partially offset by current year increased general liability insurance expenses of \$623,000 primarily related to an increase in reserves for claims related to prior periods.

*Depreciation and amortization.* In the six months ended June 30, 2016 compared to the same period last year, depreciation and amortization expense decreased \$1.8 million , or 7.4% , due to a decline in our depreciable fixed assets base.

*Impairment of fixed assets.* We did not have fixed asset impairment charges in the six months ended June 30, 2016 . In the six months ended June 30, 2015 , we recorded impairment charges of \$2.2 million related to nine underperforming clubs.

*Impairment of goodwill.* We did not have goodwill impairment charges in the six months ended June 30, 2016 . In the six months ended June 30, 2015 , as a result of the significant decrease in market capitalization and a decline in our current performance primarily due to existing members downgrading their memberships to those with lower monthly dues and new members enrolling at lower rates, we performed an interim impairment test as of May 31, 2015. We concluded that there would be no remaining implied fair value of goodwill attributable to the NYSC and BSC regions. Accordingly, in June 2015, we wrote off \$31.6 million of goodwill associated with these reporting units.

### **Gain on extinguishment of debt**

On April 21, 2016, TSI Holdings settled a transaction to purchase \$8.7 million principal amount of debt outstanding under the 2013 Senior Credit Facility for \$3.8 million , or 43.5% of face value. On May 6, 2016, TSI Holdings settled another transaction to purchase \$62.4 million principal amount of debt outstanding under the 2013 Senior Credit Facility for \$26.0 million , or 41.6% of face value. The April and May transactions resulted in a gain on debt extinguishment in the six months ended June 30, 2016 of \$38.5 million . The gain was net of the write-off of deferred financing costs and debt discount of \$545,000 and \$1.6 million , respectively, and other costs related to the transaction. Both of the above purchased debt was transferred to Town Sports International, LLC and cancelled.

### **Interest expense**

Interest expense decreased \$2.8 million , or 26.9% , in the six months ended June 30, 2016 compared to the same period last year, primarily reflecting the absence of the 2015 non-cash rental payments related to our former tenant at the East 86th Street property, as well as a decrease in interest expense due to principal payments made on, and purchases of debt outstanding under, our 2013 Term Loan Facility.

### **Provision (Benefit) for Corporate Income Taxes**

We recorded an income tax provision inclusive of valuation allowance of \$12.1 million and an income tax benefit inclusive of valuation allowance of \$14.7 million for the six months ended June 30, 2016 and 2015 , respectively, reflecting an effective income tax rate of 47% for the six months ended June 30, 2016 and 25% for the six months ended June 30, 2015 . For the six months ended June 30, 2016 , we calculated our income tax provision using the estimated annual effective tax rate methodology and for the six months ended June 30, 2015 , we determined our income tax benefit on a discrete basis since the potential impact of fluctuations in our forecast may have had a significant impact on the estimated annual effective tax rate.

### **Liquidity and Capital Resources**

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

In December 2015, TSI Holdings purchased \$29.8 million principal amount of debt outstanding under the 2013 Senior Credit Facility in the open market for \$10.9 million , or 36.7% of face value. On April 21, 2016, TSI Holdings settled a transaction to purchase \$8.7 million principal amount of debt outstanding under the 2013 Senior Credit Facility for \$3.8 million , or 43.5% of face value. On May 6, 2016, TSI Holdings settled another transaction to purchase \$62.4 million principal amount of debt outstanding under the 2013 Senior Credit Facility for \$26.0 million , or 41.6% of face value. The April and May transactions created gain on extinguishment of debt in the six months ended June 30, 2016 with a tax effect of \$13.5 million . When this was netted with our operating loss, it resulted in a tax provision for the six months ended June 30, 2016 of \$12.1 million . All of the above purchased debt was transferred to Town Sports International, LLC and cancelled.

Our ability to fund operations and capital expenditures is dependent upon our ability to generate sufficient cash from operations coupled with cash on hand. We believe we have sufficient liquidity from a combination of cash on hand and cash to be generated from operations to fund anticipated capital expenditures and currently scheduled debt service. As further described below, we maintain a senior credit facility with our lenders which contains a term loan facility and a revolving loan facility. The terms of the senior credit facility include a financial covenant under which we are currently not able to utilize more than 25% , or \$11.3 million , of the revolving loan facility. We will continue not to be able to utilize more than 25% of the revolving loan facility until we have a total leverage ratio, as defined, of no greater than 4.50 :1.00. The revolving loan facility is scheduled to mature in November 2018.

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

As of June 30, 2016, we had \$58.9 million of cash and cash equivalents. Financial instruments that potentially subject us to concentrations of credit risk consist of cash and cash equivalents. Although we deposit our cash with more than one financial institution, as of June 30, 2016, \$34.2 million was held at one financial institution. We have not experienced any losses on cash and cash equivalent accounts to date and we do not believe that, based on the credit ratings of the aforementioned institutions, we are exposed to any significant credit risk related to cash at this time.

Historically, we have satisfied our liquidity needs through cash generated from operations and various borrowing arrangements. Principal liquidity needs have included the acquisition and development of new clubs, debt service requirements, debt purchases and other capital expenditures necessary to upgrade, expand and renovate existing clubs. We believe that our existing cash and cash equivalents, cash generated from operations and our existing credit facility will be sufficient to fund capital expenditures, working capital needs and other liquidity requirements associated with our operations through at least the next 12 months.

*Operating Activities.* Net cash provided by operating activities for the six months ended June 30, 2016 decreased \$745,000 compared to the same period last year. Decreases in operating cash included the following:

- Cash collected for membership dues decreased \$16.9 million.
- Cash collected for member enrollment, including the initial annual fee paid upon joining, decreased \$7.9 million related to the decrease in memberships sold, and recurring annual and rate lock fees collected decreased \$865,000.
- Cash collected for personal training memberships decreased \$2.3 million.

Offsetting increases in operating cash included the following:

- These decreases were partially offset by a decrease in payments for payroll of \$6.2 million, marketing of \$3.7 million, utilities of \$2.3 million, insurance of \$1.7 million, repair and maintenance of \$1.6 million, as well as other cost-savings initiatives.
- The cash decrease was also partially offset by a decline in cash paid for interest of \$1.9 million.
- In the six months ended June 30, 2016, we received an income tax refund of \$3.7 million and cash contribution from landlord of \$1.8 million.

*Investing Activities.* Net cash used in investing activities decreased \$7.9 million in the six months ended June 30, 2016 compared to the same prior-year period, primarily due to the decreased activity in building new locations. Also, the \$1.1 million funding for a separation obligation was recorded as restricted cash in 2015, which generated a favorable cash variance for the current year period.

*Financing Activities.* Net cash used in financing activities increased \$29.0 million in the six months ended June 30, 2016 compared to the same prior-year period. In the six months ended June 30, 2016, TSI Holdings settled two transactions to purchase a total of \$71.1 million principal amount of debt outstanding under the 2013 Senior Credit Facility for \$29.8 million, or an average of 41.8% of face value. The purchased debt was transferred to Town Sports International, LLC and cancelled upon settlement. In the six months ended June 30, 2016 and 2015, we made principal payments on the 2013 Term Loan Facility of \$1.2 million and \$1.6 million, respectively.

As of June 30, 2016, our total principal amount of debt outstanding was \$203.0 million. This substantial amount of debt could have significant consequences, including:

- making it more difficult to satisfy our obligations, including with respect to our outstanding indebtedness;
- increasing our vulnerability to general adverse economic and industry conditions;

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- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions of new clubs and other general corporate requirements;
- requiring a substantial portion of our cash flow from operations for the payment of interest on our debt, which is variable on our 2013 Revolving Loan Facility and partially variable on our 2013 Term Loan Facility, and/or principal pursuant to excess cash flow requirements and reducing our ability to use our cash flow to fund working capital, capital expenditures and acquisitions of new clubs and general corporate requirements;
- increasing our vulnerability to interest rate fluctuations in connection with borrowings under our 2013 Senior Credit Facility, some of which are at variable interest rates;
- limiting our ability to refinance our existing indebtedness on favorable terms, or at all; and
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

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

We believe that we have, or will be able to obtain or generate, sufficient funds to finance our current operating plans through the next 12 months. Any material acceleration or expansion of our plans through newly constructed clubs or acquisitions (to the extent such acquisitions include cash payments) may require us to pursue additional sources of financing. There can be no assurance that such financing will be available, or that it will be available on acceptable terms.

### ***2013 Senior Credit Facility***

On November 15, 2013, TSI, LLC, an indirect, wholly-owned subsidiary, entered into a \$370.0 million senior secured credit facility (“2013 Senior Credit Facility”), among TSI, LLC, TSI Holdings II, LLC, a newly-formed, wholly-owned subsidiary of the Company (“Holdings II”), as a Guarantor, the lenders party thereto, Deutsche Bank AG, as administrative agent, and Keybank National Association, as syndication agent. The 2013 Senior Credit Facility consists of a \$325.0 million term loan facility maturing on November 15, 2020 (“2013 Term Loan Facility”) and a \$45.0 million revolving loan facility maturing on November 15, 2018 (“2013 Revolving Loan Facility”). Proceeds from the 2013 Term Loan Facility of \$323.4 million were issued, net of an original issue discount (“OID”) of 0.5% , or \$1.6 million . Debt issuance costs recorded in connection with the 2013 Senior Credit Facility were \$5.1 million and are being amortized as interest expense and are recorded as a contra-liability to long-term debt on the accompanying condensed consolidated balance sheets. We also recorded additional debt discount of \$4.4 million related to creditor fees. The proceeds from the 2013 Term Loan Facility were used to pay off amounts outstanding under our previously outstanding long-term debt facility (“2011 Term Loan Facility”) originally entered into on May 11, 2011 (as amended from time to time), and to pay related fees and expenses. None of the revolving loan facility was drawn upon as of the closing date on November 15, 2013. Loans under the 2013 Revolving Loan Facility may be drawn from time to time pursuant to the terms of the 2013 Senior Credit Facility. The borrowings under the 2013 Senior Credit Facility are guaranteed and secured by assets and pledges of capital stock by Holdings II, TSI, LLC, and, subject to certain customary exceptions, the wholly-owned domestic subsidiaries of TSI, LLC.

Borrowings under the 2013 Term Loan Facility and the 2013 Revolving Loan Facility, at TSI, LLC’s option, bear interest at either the administrative agent’s base rate plus 2.5% or a LIBOR rate adjusted for certain additional costs (the “Eurodollar Rate”) plus 3.5% , each as defined in the 2013 Senior Credit Facility. With respect to the outstanding term loans, the Eurodollar Rate has a floor of 1.00% and the base rate has a floor of 2.00% . Commencing with the last business day of the quarter ended March 31, 2014, TSI, LLC is required to pay 0.25% of the principal amount of the term loans each quarter, which may be reduced by voluntary prepayments. As of June 30, 2016 , we have made a total of \$21.0 million in principal payments on the 2013 Term Loan Facility.

On January 30, 2015, the 2013 Senior Credit Facility was amended (the “Amendment”) to permit TSI Holdings to purchase term loans under the Credit Agreement. Any term loans purchased by TSI Holdings will be cancelled in accordance with the terms of the Credit Agreement, as amended by the Amendment. We may from time to time purchase term loans in market transactions, privately negotiated transactions or otherwise; however we are under no obligation to make any such purchases. Any such transactions, and the amounts involved, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. As of June 30, 2016 , TSI Holdings had a cash balance of approximately \$500,000 .

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In December 2015, TSI Holdings purchased \$29.8 million principal amount of debt outstanding under the 2013 Senior Credit Facility in the open market for \$10.9 million, or 36.7% of face value, which resulted in a gain on extinguishment of debt of \$17.9 million, including the write-off of related deferred financing costs and debt discount of \$249,000 and \$707,000, respectively. On April 21, 2016, TSI Holdings settled a transaction to purchase \$8.7 million principal amount of debt outstanding under the 2013 Senior Credit Facility for \$3.8 million, or 43.5% of face value. On May 6, 2016, TSI Holdings settled another transaction to purchase \$62.4 million principal amount of debt outstanding under the 2013 Senior Credit Facility for \$26.0 million, or 41.6% of face value. The April and May transactions created gain on extinguishment of debt in the six months ended June 30, 2016 of \$38.5 million with a tax effect of \$13.5 million. When this was netted with our operating loss, it resulted in a tax provision for the six months ended June 30, 2016 of \$12.1 million. The gain on extinguishment of debt was net of the write-off of deferred financing costs and debt discount of \$545,000 and \$1.6 million, respectively, and other costs related to the transaction. All of the above purchased debt was transferred to Town Sports International, LLC and cancelled.

The terms of the 2013 Senior Credit Facility provide for a financial covenant in the situation where the total utilization of the revolving loan commitments (other than letters of credit up to \$5.5 million at any time outstanding) exceeds 25% of the aggregate amount of those commitments. In such event, TSI, LLC is required to maintain a total leverage ratio, as defined in the 2013 Senior Credit Facility, of no greater than 4.50:1.00. While not subject to the total leverage ratio covenant as of June 30, 2016 as our only utilization of the 2013 Revolving Loan Facility as of June 30, 2016 was \$2.9 million of issued and outstanding letters of credit thereunder, because our total leverage ratio as of June 30, 2016 was in excess of 4.50 :1.00, we are currently not able to utilize more than 25% of the 2013 Revolving Loan Facility. We will continue not to be able to utilize more than 25% of the 2013 Revolving Loan Facility until we have a total leverage ratio of no greater than 4.50 :1.00. The 2013 Senior Credit Facility also contains certain affirmative and negative covenants, including covenants that may limit or restrict TSI, LLC and Holdings II's ability to, among other things, incur indebtedness and other liabilities; create liens; merge or consolidate; dispose of assets; make investments; pay dividends and make payments to shareholders; make payments on certain indebtedness; and enter into sale leaseback transactions, in each case, subject to certain qualifications and exceptions. In addition, at any time when the total leverage ratio is greater than 4.50 :1.00, there are additional limitations on the ability of TSI, LLC and Holdings II to, among other things, make certain distributions of cash to TSI Holdings. The 2013 Senior Credit Facility also includes customary events of default (including non-compliance with the covenants or other terms of the 2013 Senior Credit Facility) which may allow the lenders to terminate the commitments under the 2013 Revolving Loan Facility and declare all outstanding term loans and revolving loans immediately due and payable and enforce its rights as a secured creditor.

TSI, LLC may prepay the 2013 Term Loan Facility and 2013 Revolving Loan Facility without premium or penalty in accordance with the 2013 Senior Credit Facility. Mandatory prepayments are required relating to certain asset sales, insurance recovery and incurrence of certain other debt and commencing in 2015 in certain circumstances relating to excess cash flow (as defined) for the prior fiscal year, as described below, in excess of certain expenditures. Pursuant to the terms of the 2013 Senior Credit Facility, we are required to apply net proceeds in excess of \$30.0 million from sales of assets in any fiscal year towards mandatory prepayments of outstanding borrowings. In connection with the sale of the East 86th Street property, described in Note 5 - Sale of Building to our condensed consolidated financial statements, we received approximately \$43.5 million in net sales proceeds (after taxes, before giving effect to utilization of net operating losses and carryforward). Accordingly, we made a mandatory prepayment of \$13.5 million on the 2013 Term Loan Facility in November 2014. To the extent the proceeds of the sale of the East 86th Street property were not reinvested within 30 months of the date of sale, we may have been required to use such amounts, other than amounts used in 2014 to repay debt, to pay down our outstanding debt, as provided under the terms of its 2013 Senior Credit Facility. We have reinvested all the remaining net proceeds from the sale.

In addition, the 2013 Senior Credit Facility contains provisions that require excess cash flow payments, as defined, to be applied against outstanding 2013 Term Loan Facility balances. The excess cash flow is calculated annually for each fiscal year ending December 31 and paid 95 days after the fiscal year end. The applicable excess cash flow repayment percentage is applied to the excess cash flow when determining the excess cash flow payment. Earnings, changes in working capital and capital expenditure levels all impact the determination of any excess cash flow. The applicable excess cash flow repayment percentage is 50% when the total leverage ratio, as defined in the 2013 Senior Credit Facility, exceeds or is equal to 2.50 :1.00; 25% when the total leverage ratio is greater than or equal to 2.00 :1.00 but less than 2.50 :1.00 and 0% when the total leverage ratio is less than 2.00 :1.00. The excess cash flow calculation performed as of December 31, 2015 did not result in any required payments in April 2016. The next excess cash flow payment would be due in April 2017, if applicable. Based on our unit growth projection and capital expenditures related to club renovations and the building of new locations, together with our operating forecast, we do not expect there will be an excess cash flow payment required at that time.

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As of June 30, 2016, the 2013 Term Loan Facility has a gross principal balance of \$203.0 million and a balance of \$197.2 million, net of unamortized debt discount of \$4.3 million and unamortized debt issuance costs of \$1.5 million. As of June 30, 2016, both the unamortized balance of debt issuance costs and unamortized debt discount are recorded as a contra-liability to long-term debt on the accompanying condensed consolidated balance sheet and are being amortized as interest expense using the effective interest method.

As of June 30, 2016, there were no outstanding 2013 Revolving Loan Facility borrowings and outstanding letters of credit issued totaled \$2.9 million. The unutilized portion of the 2013 Revolving Loan Facility as of June 30, 2016 was \$42.1 million and the available unutilized portion, based on our total leverage ratio exceeding 4.50 : 1.00, was \$11.3 million, in accordance with terms of credit agreement.

### ***Financial Instruments***

In our normal operations, we are exposed to market risks relating to fluctuations in interest rates. In order to minimize the possible negative impact of such fluctuations on our cash flows we may enter into derivative financial instruments (“derivatives”), such as interest-rate swaps. Derivatives are not entered into for trading purposes and we only use commonly traded instruments. Currently, we have used derivatives solely relating to the variability of cash flows from interest rate fluctuations.

We originally entered into our interest rate swap arrangement on July 13, 2011 in connection with the 2011 Senior Credit Facility. In connection with entering into the 2013 Senior Credit Facility, we amended and restated the interest rate swap agreement initially entered into (and amended in August 2012 and November 2012). Effective as of November 15, 2013, the closing date of the 2013 Senior Credit Facility, the interest rate swap arrangement had a notional amount of \$160.0 million and will mature on May 15, 2018. The swap effectively converts \$160.0 million of the current outstanding principal of the total variable-rate debt under the 2013 Senior Credit Facility to a fixed rate of 5.384%, when including the applicable 3.50% margin. As permitted by FASB Accounting Standards Codification (“ASC”) 815, Derivatives and Hedging, we have designated this swap as a cash flow hedge, the effects of which have been reflected in our condensed consolidated financial statements for the three and six months ended June 30, 2016 and 2015. The objective of this hedge is to manage the variability of cash flows in the interest payments related to the portion of the variable-rate debt designated as being hedged.

When our derivative instrument was executed, hedge accounting was deemed appropriate and it was designated as a cash flow hedge at inception with re-designation being permitted under ASC 815, Derivatives and Hedging. Interest rate swaps are designated as cash flow hedges for accounting purposes since they are being used to transform variable interest rate exposure to fixed interest rate exposure on a recognized liability (debt). On an ongoing basis, we perform a quarterly assessment of the hedge effectiveness of the hedge relationship and measure and recognize any hedge ineffectiveness in the condensed consolidated statements of operations. For the three and six months ended June 30, 2016 and 2015, hedge ineffectiveness was evaluated using the hypothetical derivative method. There was no hedge ineffectiveness for the three and six months ended June 30, 2016 and 2015.

The counterparty to our derivatives is a major banking institution with a credit rating of investment grade or better and no collateral is required, and there are no significant risk concentrations. We believe the risk of incurring losses on derivative contracts related to credit risk is unlikely.

**Contractual Obligations**

As of June 30, 2016, our contractual obligations listed in the table below and payments due by period were as follows:

Contractual Obligations (4)(5)	Payments Due by Period (in thousands)				
	Total	Less than			More than
		1 Year	1-3 Years	3-5 Years	5 Years
Long-term debt (1)	\$ 203,042	\$ 2,082	\$ 4,165	\$ 196,795	\$ —
Interest payments on long-term debt (2)	42,374	10,656	19,419	12,299	—
Operating lease obligations (3)	602,033	90,283	166,451	138,832	206,467
Total contractual obligations	\$ 847,449	\$ 103,021	\$ 190,035	\$ 347,926	\$ 206,467

**Notes:**

- (1) Principal amounts paid each year may increase if annual excess cash flow amounts are required (as described above). Excess cash flow was calculated as of December 31, 2015 and no payments are currently required in 2016 or any future period.
- (2) Based on interest rates pursuant to the 2013 Term Loan Facility and the interest swap agreement as of June 30, 2016.
- (3) 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 our operating results.
- (4) The table above does not reflect payments related to planned club closures.
- (5) The table above does not reflect potential commitments in connection with our agreement with Cyc Fitness Partners, LLC. Refer to Note 13 - Other Commitments to our condensed consolidated financial statements.

The following long-term liabilities included on the condensed consolidated balance sheet are excluded from the table above: income taxes (including uncertain tax positions or benefits), insurance accruals and other accruals. We are unable to estimate the timing of payments for these items.

**Working Capital**

We had working capital deficit of \$12.5 million as of June 30, 2016, compared to positive working capital of \$27.9 million as of December 31, 2015. Major components of our working capital deficit on the current liability side are deferred revenues, accounts payable, corporate income taxes payable, accrued expenses (including, among others, accrued payroll and occupancy costs), and the current portion of long-term debt. As of June 30, 2016, these current liabilities more than offset the current assets, which consist of cash and cash equivalents, accounts receivable, and prepaid expenses and other current assets. This decrease of \$40.5 million is primarily due to payment of cash for the purchases of long-term debt of \$29.8 million as well as the increase in corporate income taxes payable of \$15.7 million. The deferred revenue that is classified as a current liability relates to dues and services paid-in-full in advance and fees paid at the time of enrollment and totaled \$41.8 million and \$40.2 million at June 30, 2016 and December 31, 2015, respectively. Initiation and processing fees received are deferred and amortized over the estimated average membership life of a club member and all annual fees are deferred and amortized over a 12 month period. Prepaid dues and fees for prepaid services are generally realized over a period of up to 12 months. In periods when we increase the number of members and consequently increase the level of payments received in advance, we would expect to see increased deferred revenue balances. By contrast, any decrease in demand for our services or reductions in initiation fees collected would have the effect of reducing deferred revenue balances, which would likely require us to rely more heavily on other sources of funding. In either case, a significant portion of the deferred revenue is not expected to constitute a liability that must be funded with cash. At the time a member joins our club, we incur enrollment costs, a portion of which are deferred over the estimated average membership life or 12 months to the extent these costs are related to the first annual fee paid at the time of enrollment. These costs are recorded as a long-term asset and as such do not affect working capital. We expect to record a working capital deficit in future periods and believe our cash and cash equivalents and our 2013 Senior Credit Facility, which includes a 2013 Revolving Loan Facility with \$11.3 million of remaining availability at June 30, 2016 based on our leverage ratio and utilization at that date, are sufficient to fund our operating, investing and financing requirements for the next twelve months.

**Recent Changes in or Recently Issued Accounting Pronouncements**

See Note 2 — Recent Accounting Pronouncements to the condensed consolidated financial statements.

## Use of Estimates and Critical Accounting Policies

Other than as disclosed below, management believes there have been no other material changes during the period covered by this Quarterly Report to the items that we disclosed as our critical accounting policies and estimates in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

*Estimated Average Membership Life.* Initiation and processing fees, as well as related direct and incremental expenses of membership acquisition, which include sales commissions, bonuses and related taxes and benefits, are deferred and recognized, on a straight-line basis, in operations over the estimated average membership life or 12 months to the extent these costs are related to the first annual fee paid at the time of enrollment. Annual fees are amortized over 12 months. As of June 30, 2016, the average membership life was 25 months. The Company monitors factors that might affect the estimated average membership life including retention trends, attrition trends, membership sales volumes, membership composition, competition, and general economic conditions, and adjusts the estimate as necessary on a quarterly basis.

*Fixed and intangible assets.* 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 to five years for computer software. Leasehold improvements are amortized over the shorter of their estimated useful lives or the remaining period of the related lease. Payroll costs directly related to the construction or expansion of the Company's locations are capitalized with leasehold improvements. Expenditures for maintenance and repairs are charged to operations as incurred. The cost and related accumulated depreciation of assets retired or sold, is 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 or enhancing developed applications on the web servers are capitalized and classified as computer software. Web site hosting fees and maintenance costs are expensed as incurred.

Fixed assets are evaluated for impairment periodically whenever events or changes in circumstances indicate that related carrying amounts may not be recoverable from undiscounted cash flows in accordance with FASB guidance. The Company's long-lived assets and liabilities are grouped at the individual club level, which is the lowest level for which there are identifiable cash flows. To the extent that estimated future undiscounted net cash flows attributable to the assets are less than the carrying amount, an impairment charge equal to the difference between the carrying value of such asset and their fair values is recognized.

In the six months ended June 30, 2016, the Company has determined that there were no adverse changes in our markets or other triggering events that could affect the valuation of our assets and as such no impairment was recorded. In the six months ended June 30, 2015, the Company recorded impairment charges of \$2.2 million related to nine underperforming clubs. The fixed asset impairment charges are included as a component of operating expenses in a separate line on the condensed consolidated statements of operations. We believe our forecasts are stable, but we will continue to monitor the performance of the clubs on a quarterly basis. If we under-perform against forecasts, we may record impairment charges in future quarters.

Goodwill was allocated to reporting units that closely reflect the regions served by the Company's 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, and the Company's three clubs located in Switzerland being considered a single reporting unit ("SSC"). As of June 30, 2016, only the SSC region has a remaining goodwill balance.

As of February 29, 2016, we performed our annual impairment test of goodwill, and this annual impairment test supported the recorded goodwill balance and as such no impairment of goodwill was required.

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For the February 29, 2016 impairment test, fair value was determined by using an income approach, as this was deemed to be the most indicative of the Company's fair value. Under this income approach, the Company determined fair value based on estimated future cash flows of the SSC reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn, which are unobservable Level 3 inputs. The discounted estimates of future cash flows include significant management assumptions such as revenue growth rates, operating margins, weighted average cost of capital, and future economic and market conditions. The estimated weighted-average cost of capital of SSC was 11.2% as of February 29, 2016. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and operating margins, discount rates and future market conditions, among others. These assumptions were determined separately for each reporting unit. The Company believes its assumptions are reasonable, however, there can be no assurance that the Company's estimates and assumptions made for purposes of the Company's goodwill impairment testing as of February 29, 2016 will prove to be accurate predictions of the future. If the Company's assumptions regarding forecasted revenue or margin growth rates of certain reporting units are not achieved, the Company may be required to record goodwill impairment charges in future periods, whether in connection with the Company's next annual impairment testing or prior to that, if any such change constitutes a triggering event outside the quarter when the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result. The estimated fair value of SSC was greater than book value by over 50% as of February 29, 2016.

Solely for purposes of establishing inputs for the fair value calculation described above related to goodwill impairment testing, the Company made the following assumptions. The Company developed long-range financial forecasts ( three years) for all reporting units and assumed known changes in the existing club base. Terminal growth rates were calculated for years beyond the three year forecast. As of February 29, 2016, the Company used a terminal growth rate of 2% .

The valuation of intangible assets requires assumptions and estimates of many critical factors, including revenue, market growth, operating cash flows and discount rates, and future market conditions, among others. We will complete interim evaluations of the goodwill by reporting unit if a triggering event exists.

### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, without limitation, statements regarding future financial results and performance, potential sales revenue, potential club closures, results of cost savings initiatives, legal contingencies and tax benefits and contingencies, future declarations and payments of dividends, and the existence of adverse litigation and other risks, uncertainties and factors set forth under Item 1A., entitled "Risk Factors", in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and in our other reports and documents filed with the SEC. You can identify these forward-looking statements by the use of words such as "outlook", "believes", "expects", "potential", "continues", "may", "will", "should", "seeks", "approximately", "predicts", "intends", "plans", "estimates", "anticipates", "target", "could" or the negative version of these words or other comparable words. These statements are subject to various risks and uncertainties, many of which are outside our control, including, among others, the level of market demand for our services, economic conditions affecting our business, the success of our pricing model, the geographic concentration of our clubs, competitive pressure, the ability to achieve reductions in operating costs and to continue to integrate acquisitions, outsourcing of certain aspects of our business, environmental matters, the application of Federal and state tax laws and regulations, any security and privacy breaches involving customer data, the levels and terms of the Company's indebtedness, and other specific factors discussed herein and in other SEC filings by us (including our reports on Forms 10-K and 10-Q filed with the SEC). We believe that all forward-looking statements are based on reasonable assumptions when made; however, we caution that it is impossible to predict actual results or outcomes or the effects of risks, uncertainties or other factors on anticipated results or outcomes and that, accordingly, one should not place undue reliance on these statements. Forward-looking statements speak only as of the date when made and we undertake no obligation to update these statements in light of subsequent events or developments. Actual results may differ materially from anticipated results or outcomes discussed in any forward-looking statement.

### **Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

Our debt effectively bears interest at fixed and variable rates so that we are exposed to market risks resulting from interest rate fluctuations. We regularly evaluate our exposure to these risks and take measures to mitigate these risks on our consolidated financial results. We do not participate in speculative derivative trading.

Interest rates on borrowings for the 2013 Term Loan Facility are for one-month periods in the case of Eurodollar borrowings. Our exposure to market risk for changes in interest rates relates to interest expense on variable rate debt. As of

June 30, 2016, we had \$203.0 million of outstanding borrowings under our 2013 Term Loan Facility of which \$160.0 million of this variable rate debt is hedged to a fixed rate under an interest rate swap agreement. Changes in the fair value of the interest rate swap derivative instrument is recorded each period in accumulated other comprehensive income (loss). Based on the amount of our variable rate debt and our interest rate swap agreement as of June 30, 2016, a hypothetical 100 basis point interest increase would increase our annual interest cost by approximately \$541,000.

For additional information concerning the terms of our 2013 Term Loan Facility, see Note 3 — Long-Term Debt to the condensed consolidated financial statements.

**Item 4. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures:*** We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that the information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and such information is accumulated and communicated to management, including the Executive Chairman and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired controls.

As of June 30, 2016, we carried out an evaluation, under the supervision and with the participation of our management, including the Executive Chairman and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures defined above. Based upon that evaluation, our Executive Chairman and Chief Financial Officer have concluded that, as of June 30, 2016, our disclosure controls and procedures were effective at the reasonable assurance level.

***Changes in Internal Control over Financial Reporting:*** There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. *Legal Proceedings*

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

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

On January 21, 2016, in an action styled Triangle 17 Center, LLC v. Town Sports International Holdings (NJ), LLC, et al. ("TSI Holdings NJ"), a Landlord of one of TSI Holdings NJ's competitors filed an action against TSI Holdings NJ, its affiliate and subsidiary, claiming that TSI Holdings NJ engaged in sham litigation to prevent the opening of a competitor's facility in close proximity to TSI Holdings NJ's location in Ramsey, New Jersey. This matter recently settled for nominal consideration without any admission of liability on the Company's part.

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

### ITEM 1A. *Risk Factors*

There have not been any material changes to the information related to the ITEM 1A. "Risk Factors" disclosure in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

### ITEM 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

None.

### ITEM 3. *Defaults Upon Senior Securities*

None.

**ITEM 4. *Mine Safety Disclosures***

Not applicable.

**ITEM 5. *Other Information***

None.

**ITEM 6. *Exhibits***

Required exhibits are listed in the Index to Exhibits and are incorporated herein by reference.

From time to time the Company may use its web site as a channel of distribution of material company information. Financial and other material information regarding the Company is routinely posted on and accessible at <http://investor.mysportsclubs.com>. In addition, you may automatically receive email alerts and other information about the Company by enrolling through the “Email Alerts” section at <http://investor.mysportsclubs.com>.

The foregoing information regarding the Company web site and its content is for convenience only. The content of its web site is not deemed to be incorporated by reference into this report nor should it be deemed to have been filed with the Securities and Exchange Commission.

**SIGNATURES**

Pursuant to requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TOWN SPORTS INTERNATIONAL  
HOLDINGS, INC.

DATE: July 28, 2016

By: /s/ Carolyn Spatafora  
Carolyn Spatafora  
*Chief Financial Officer*

**INDEX TO EXHIBITS**

The following is a list of all exhibits filed or furnished as part of this report:

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
3.1	Amended and Restated Certificate of Incorporation of Town Sports International Holdings, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).
3.2	Third Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K, filed on September 17, 2014).
10.1	Amendment No. 1 to the Town Sports International Holdings, Inc. 2006 Stock Incentive Plan (as amended and restated effective April 2, 2015) (incorporated herein by reference to Appendix A of the Company's definitive Proxy Statement on Schedule 14A filed on March 29, 2016).
10.2	Form of Executive Officer Indemnification Agreement (Filed herewith).
31.1	Certification of Executive Chairman pursuant to Rule 13a – 14(a) and Rule 15d – 14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a – 14(a) and Rule 15d – 14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Executive Chairman pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

**INDEMNIFICATION AGREEMENT**

THIS INDEMNIFICATION AGREEMENT (“Agreement”) is made and entered into as of the \_\_\_ day of June, 2016 (the “Effective Date”), by and between Town Sports International Holdings, Inc., a Delaware corporation (the “Company”), and \_\_\_\_\_ (“Indemnitee”).

WHEREAS, at the request of the Company, Indemnitee currently serves as \_\_\_\_\_ of the Company and may, therefore, be subjected to claims, suits or proceedings arising as a result of his service; and

WHEREAS, as an inducement to Indemnitee to continue to serve as such Officer, the Company has agreed to indemnify and to advance expenses and costs incurred by Indemnitee in connection with any such claims, suits or proceedings, to the maximum extent permitted by law; and

WHEREAS, the parties by this Agreement desire to set forth their agreement regarding indemnification and advance of expenses;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

Section 1. Definitions. For purposes of this Agreement:

(a) “Adjudged” shall mean adjudged finally by a court or arbitral or other authority of competent jurisdiction.

(b) “Change in Control” means a change in control of the Company occurring after the Effective Date of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), whether or not the Company is then subject to such reporting requirement; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred if, after the Effective Date: (i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of all of the Company’s then-outstanding securities entitled to vote generally in the election of directors without the prior approval of at least a majority of the members of the Board of Directors of the Company (the “Board”) in office immediately prior to such person’s attaining such percentage interest; (ii) the Company is a party to a merger, consolidation, sale of assets, plan of liquidation or other reorganization not approved by at least two-thirds of the members of the Board then in office, as a consequence of which members of the Board in office immediately prior to such transaction or event constitute less than a majority of the Board thereafter; or (iii) at any time, a majority of the members of the Board are not comprised of (A) individuals who were directors as of the Effective Date and/or (B) individuals whose election by the Board or nomination for election by the Company’s stockholders was approved by the affirmative vote of at least two-thirds of the directors then in office who were directors as of the Effective Date or whose election for nomination for election was previously so approved.

(c) “Corporate Status” means the status of a person as a present or former director, officer, employee or agent of the Company or as a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any Enterprise.

(d) “Disinterested Director” means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification and/or advance of Expenses is sought by Indemnitee.

(e) “Enterprise” means any foreign or domestic corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise in which Indemnitee is or was serving as a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent at the request of the Company. As a clarification and without limiting the circumstances in which Indemnitee may be serving at the request of the Company, service by Indemnitee shall be deemed to be at the request of the Company if Indemnitee serves or served as a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise of which a majority of the voting power or equity interest is owned directly or indirectly by the Company.

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(f) “Expenses” means any and all disbursements or expenses incurred by Indemnitee in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in or otherwise participating in a Proceeding, including, without limitation, reasonable attorneys’ fees and costs, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees. Expenses shall also include (i) expenses incurred in connection with any appeal resulting from any Proceeding including, without limitation, the premium, security for and other costs relating to any cost bond, supersedeas bond or other appeal bond or its equivalent, (ii) expenses incurred in connection with recovery under any directors’ and officers’ liability insurance policies maintained by the Company and (iii) expenses incurred by Indemnitee in establishing or enforcing his right to indemnification or reimbursement under this Agreement. Expenses, however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments, fines or penalties against Indemnitee.

(g) “Independent Counsel” means a law firm, or a member of a law firm, with significant experience in matters of corporation law and neither is, nor in the past five years preceding the date of selection has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement or of other indemnitees under similar indemnification agreements), or (ii) any other party to or participant or witness in the Proceeding giving rise to a claim for indemnification or advance of Expenses hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement. The Company agrees to pay the reasonable fees and expenses of the Independent Counsel.

(h) “Proceeding” means any threatened, pending or completed action, suit, arbitration, mediation, alternate dispute resolution procedure, investigation, inquiry, administrative hearing or any other proceeding, whether brought by or in the right of the Company or otherwise and whether of a civil (including intentional or unintentional tort claims), criminal, administrative or investigative (formal or informal) nature, including any appeal therefrom, in which Indemnitee was, is, will or might be involved as a party or otherwise, by reason of any action taken by or omission by Indemnitee, or of any action or omission on Indemnitee’s part, in each case in or in connection with Indemnitee’s Corporate Status and whether or not acting or serving in such capacity at the time any liability or Expense is incurred for which indemnification, reimbursement or advancement of Expenses can be provided under this Agreement, except one pending or completed on or before the Effective Date, unless otherwise specifically agreed in writing by the Company and Indemnitee. The term “Proceeding” shall include, without limitation, the investigation, preparation, prosecution, defense, settlement, arbitration or appeal of, and the giving of testimony in or related to, any such threatened, pending or completed claim, action, suit or proceeding.

Section 2. Services by Indemnitee. The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce the Indemnitee to serve or continue to serve as an officer of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving or continuing to serve as an officer. However, this Agreement shall not impose any independent obligation on Indemnitee or the Company to continue Indemnitee’s service to the Company. This Agreement shall not be deemed an employment contract between the Company (or any other entity) and Indemnitee.

Section 3. General. The Company shall indemnify, hold harmless and exonerate, and advance Expenses to, Indemnitee (a) as provided in this Agreement and (b) otherwise to the fullest extent permitted by Delaware law in effect on the Effective Date and as amended from time to time; provided, however, that no change in Delaware law shall have the effect of reducing the benefits available to Indemnitee hereunder based on Delaware law as in effect on the Effective Date. The rights of Indemnitee provided in this Section 3 shall include, without limitation, the rights set forth in the other sections of this Agreement and the Company’s Certificate of Incorporation and Bylaws, as well as any additional indemnification permitted or available under Section 145 the Delaware General Corporation Law (the “DGCL”).

Section 4. Indemnification.

(a) If Indemnitee is, or is threatened to be, made a party to any Proceeding, other than a Proceeding by or in the right of the Company, the Company shall indemnify, hold harmless and exonerate Indemnitee against all judgments, penalties, fines and amounts paid in settlement and all Expenses actually and reasonably incurred by him or on his behalf in connection with any such Proceeding if Indemnitee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company and, in the case of a criminal Proceeding, had no reasonable cause to believe that his or her conduct was unlawful.

(b) If Indemnitee is, or is threatened to be, made a party to any Proceeding by or in the right of the Company, the Company shall indemnify, hold harmless and exonerate Indemnitee against all Expenses actually and reasonably incurred by

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him or on his behalf in connection with any such Proceeding if Indemnitee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company. No indemnification, hold harmless or exoneration for Expenses shall be made under this Section 4(b) in respect of any claim, issue or matter as to which Indemnitee shall have been Adjudged by a court to be liable to the Company, unless and only to the extent that any court in which the Proceeding was brought or the Delaware Court shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnification, to be held harmless or to exoneration.

Section 5. Certain Limits on Indemnification. Notwithstanding any other provision of this Agreement (other than Section 6), Indemnitee shall not be entitled to:

- (a) indemnification hereunder if Indemnitee is Adjudged to be liable on the basis that personal benefit was improperly received in any Proceeding charging improper personal benefit to Indemnitee;
- (b) indemnification or advance of Expense hereunder not permitted under applicable law, statute or rule;
- (c) indemnification or advance of Expenses hereunder if the Proceeding was brought by Indemnitee unless: (i) the Proceeding was brought to establish or enforce indemnification rights under this Agreement, and then only to the extent in accordance with and as authorized by Section 12 of this Agreement, or (ii) the Company's Certificate of Incorporation or Bylaws, a duly adopted resolution of the stockholders entitled to vote generally in the election of directors or of the Board or an agreement approved by the Board to which the Company is a party expressly provide otherwise;
- (d) indemnification or advance of Expenses hereunder in connection with any claim made against Indemnitee for an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Exchange Act or similar provisions of state statutory law or common law;
- (e) subject to Section 14, indemnification or advance of Expenses hereunder in connection with any claim made against Indemnitee for which payment has actually been received by or on behalf of Indemnitee under any insurance policy or other indemnity provision or any other source; or
- (f) indemnification or advance of Expenses hereunder for Indemnitee's reimbursement to the Company of any bonus or other incentive-based or equity-based compensation previously received by Indemnitee or payment of any profits realized by Indemnitee from the sale of securities of the Company, as required in each case under the Exchange Act (including any such reimbursements under Section 304 of the Sarbanes-Oxley Act of 2002 in connection with an accounting restatement of the Company or the payment to the Company of profits arising from the purchase or sale by Indemnitee of securities in violation of Section 306 of the Sarbanes-Oxley Act).

Section 6. Court-Ordered Indemnification. Notwithstanding any other provision of this Agreement, a court of appropriate jurisdiction, upon application of Indemnitee and such notice as the court shall require, may order indemnification as permitted or required by any applicable law or regulation.

Section 7. Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provision of this Agreement, and without limiting any such provision, to the extent that Indemnitee was or is made a party to (or otherwise becomes a participant in) any Proceeding and is successful, on the merits or otherwise, in the defense of such Proceeding, Indemnitee shall be indemnified to the fullest extent permitted by law for all Expenses actually and reasonably incurred by him or on his behalf in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify, hold harmless and exonerate Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Section 7 and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

Section 8. Advance of Expenses for a Party. If Indemnitee was, is, or is threatened to be, made a party to any Proceeding, the Company shall, without requiring a preliminary determination of Indemnitee's ultimate entitlement to indemnification hereunder, advance all reasonable Expenses incurred by or on behalf of Indemnitee in connection with such Proceeding within ten (10) days after the receipt by the Company of a statement or statements requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee and shall include or be preceded or accompanied by a written affirmation by Indemnitee of Indemnitee's good faith belief that the standard of conduct necessary for indemnification by the

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Company as authorized by law and by this Agreement has been met and a written undertaking by or on behalf of Indemnitee, in substantially the form attached hereto as Exhibit A or in such form as may be required under applicable law as in effect at the time of the execution thereof, to reimburse the portion (if any) of any Expenses advanced to Indemnitee relating to claims, issues or matters in the Proceeding as to which it shall ultimately be if it shall ultimately be determined that Indemnitee is not entitled to be indemnified against such Expenses. Advances shall be interest-free and unsecured. The undertaking required by this Section 8 shall be an unlimited general obligation by or on behalf of Indemnitee and shall be accepted without reference to Indemnitee's financial ability to repay such advanced Expenses and without any requirement to post security therefor. This Section 8 shall not apply to any claim made by Indemnitee for which an indemnification, hold harmless or exoneration payment is excluded pursuant to Section 5.

Section 9. Indemnification and Advance of Expenses of a Witness. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee was, is or may be made a witness or otherwise asked to participate in any Proceeding by reason of his or her Corporate Status, whether instituted by the Company or any other party, and to which Indemnitee is not a party, he shall be advanced all reasonable Expenses and indemnified, held harmless and exonerated against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith within ten days after the receipt by the Company of a statement or statements requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee. Advances shall be interest-free and unsecured.

Section 10. Procedure for Determination of Entitlement to Indemnification.

(a) To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. Indemnitee may submit one or more such requests from time to time and at such time(s) as Indemnitee deems appropriate in his sole discretion. The officer of the Company receiving any such request from Indemnitee shall, promptly upon receipt of such a request for indemnification, advise the Board in writing that Indemnitee has requested indemnification.

(b) Upon written request by Indemnitee for indemnification pursuant to Section 10(a) above, a determination with respect to Indemnitee's entitlement thereto shall promptly be made in the specific case: (i) if a Change in Control shall have occurred, by Independent Counsel, in a written opinion to the Board, a copy of which shall be delivered to Indemnitee, which Independent Counsel shall be selected by the Indemnitee and approved by the Board, which approval will not be unreasonably withheld; or (ii) if a Change in Control shall not have occurred, (A) by the Board by a majority vote of a quorum consisting entirely of Disinterested Directors or, if such a quorum cannot be obtained, then by a majority vote of a duly authorized committee of the Board consisting solely of one or more Disinterested Directors, (B) if Independent Counsel has been selected by the Board and approved by the Indemnitee, which approval shall not be unreasonably withheld, by Independent Counsel, in a written opinion to the Board, a copy of which shall be delivered to Indemnitee or (C) if so directed by a majority of the Disinterested Directors, by the stockholders of the Company. If it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten (10) days after such determination. Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination in the discretion of the Board or Independent Counsel if retained pursuant to clause (ii)(B) of this Section 10(b). Any Expenses incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company shall indemnify and hold Indemnitee harmless therefrom.

(c) The Company shall pay the reasonable fees and expenses of Independent Counsel, if one is appointed.

Section 11. Presumptions and Effect of Certain Proceedings.

(a) In making any determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 10(a) of this Agreement, and the Company shall have the burden of proof and the burden of persuasion by clear and convincing evidence to overcome that presumption in connection with the making of any determination contrary to that presumption.

(b) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, upon a plea of nolo contendere or its equivalent, or entry of an order of probation prior to judgment, does not of

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itself (except as otherwise expressly provided in this Agreement) create a presumption that Indemnitee did not meet the requisite standard of conduct described herein for indemnification.

(c) The knowledge and/or actions, or failure to act, of any other director, officer, employee or agent of the Company or any other director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any Enterprise shall not be imputed to Indemnitee for purposes of determining any other right to indemnification under this Agreement.

(d) For purposes of any determination of good faith, Indemnitee shall be deemed to have acted in good faith if, among other things and without limitation, Indemnitee's action is based on any information, opinion, report or statement, including any financial statement or other financial data or the records or books of account of the Company or any other Enterprise, prepared or presented by an officer or employee of the Company or any Enterprise whom Indemnitee reasonably believed to be reliable and competent in the matters presented, by a lawyer, certified public accountant, appraiser or other person or expert, as to a matter which Indemnitee reasonably believed to be within the person's professional or expert competence, or, if Indemnitee was serving on the Board of the Company or as a member of any similar body of any Enterprise, by a committee of the Board or such other body on which Indemnitee does not serve, as to a matter within its designated authority, if Indemnitee reasonably believes the committee to merit confidence. The provisions of this Section 11(d) shall not be deemed to be exclusive or to limit in any way the other circumstances in which Indemnitee meet, or be presumed to have met, the applicable standard of conduct set forth in this Agreement.

(e) For purposes of this Agreement, Indemnitee shall be presumed to have been wholly successful with respect to any Proceeding if such Proceeding is disposed of, on the merits or otherwise (including a disposition without prejudice), without (i) the disposition being adverse to Indemnitee, (ii) it being Adjudged that Indemnitee was liable to the Company, (iii) a plea of guilty by Indemnitee, (iv) it being Adjudged that an act or omission of Indemnitee was material to the matter giving rise to the Proceeding and was (A) committed in bad faith or (B) the result of Indemnitee's gross negligence or active and deliberate dishonesty, (v) it being Adjudged that Indemnitee actually received an improper personal benefit in money, property or services and/or (vi) with respect to any criminal proceeding, it being Adjudged that Indemnitee had reasonable cause to believe the act or omission was unlawful. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence.

## Section 12. Remedies of Indemnitee.

(a) If (i) a determination is made pursuant to Section 10(b) of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advance of Expenses is not timely made pursuant to Section 8 or Section 9 of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 10(b) of this Agreement within 60 days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 7 of this Agreement within ten days after receipt by the Company of a written request therefor, or (v) payment of indemnification pursuant to any other section of this Agreement or the Certificate of Incorporation or Bylaws of the Company is not made within ten days after a determination has been made that Indemnitee is entitled to indemnification, Indemnitee shall be entitled to an adjudication in an appropriate court located in the State of Delaware, or in any other court of competent jurisdiction, of his entitlement to such indemnification or advance of Expenses. Alternatively, Indemnitee, at his option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. Indemnitee shall commence a proceeding seeking an adjudication or an award in arbitration within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 12(a); provided, however, that the foregoing clause shall not apply to a proceeding brought by Indemnitee to enforce his rights under Section 7 of this Agreement. Except as set forth herein, the provisions of Delaware law (without regard to its conflicts of laws rules) shall apply to any such arbitration. The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

(b) In any judicial proceeding or arbitration commenced pursuant to this Section 12, Indemnitee shall be presumed to be entitled to indemnification or advance of Expenses, as the case may be, under this Agreement and the Company shall have the burden of proving that Indemnitee is not entitled to indemnification or advance of Expenses, as the case may be. If Indemnitee commences a judicial proceeding or arbitration pursuant to this Section 12, Indemnitee shall not be required to reimburse the Company for any advances pursuant to Section 8 of this Agreement until a final determination is made with respect to Indemnitee's entitlement to indemnification (as to which all rights of appeal have been exhausted or lapsed). If Indemnitee commences a judicial proceeding or arbitration pursuant to this Section 12, the Company may not refer to or introduce into evidence any determination pursuant to Section 10(b) of this Agreement adverse to Indemnitee for any purpose and any judicial proceeding or arbitration commenced pursuant to this Article 12 shall be conducted in all respects as a de novo trial or arbitration. The Company shall, to the fullest extent permitted by law, be precluded from asserting in any judicial

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proceeding or arbitration commenced pursuant to this Section 12 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all of the provisions of this Agreement.

(c) If a determination shall have been made pursuant to Section 10(b) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 12, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification or (ii) a prohibition of such indemnification under applicable law.

(d) In the event that Indemnitee, pursuant to this Section 12, seeks a judicial adjudication of or an award in arbitration to enforce his rights under, or to recover damages for breach of, this Agreement, Indemnitee shall be entitled to advancement from the Company, and shall be indemnified and held harmless by the Company for, any and all Expenses actually and reasonably incurred by him in such judicial adjudication or arbitration in accordance with this Agreement (unless such judicial proceeding or arbitration was brought by Indemnitee in bad faith or through active or deliberate dishonesty).

Section 13. Defense of the Underlying Proceeding.

(a) Indemnitee shall notify the Company promptly in writing upon being served with any summons, citation, subpoena, complaint, indictment, request or other document relating to any Proceeding which may result in the right to indemnification or the advance of Expenses hereunder and shall include with such notice a description of the nature of the Proceeding and a summary of the facts underlying the Proceeding. The failure to give any such notice shall not disqualify Indemnitee from the right, or otherwise affect in any manner any right of Indemnitee, to indemnification or the advance of Expenses under this Agreement unless the Company's ability to defend in such Proceeding or to obtain proceeds under any insurance policy is adversely prejudiced thereby, and then only to the extent the Company is thereby actually so prejudiced.

(b) Subject to the provisions of the last sentence of this Section 13(b) and of Section 13(c) below, the Company shall have the right to defend Indemnitee in any Proceeding which may give rise to indemnification hereunder using a law firm of the Company's choice, subject to the prior written approval of the Indemnitee, which shall not be unreasonably withheld, conditioned or delayed; provided, however, that the Company shall notify Indemnitee in writing of any such decision to defend within 30 calendar days following receipt of notice of any such Proceeding under Section 13(a) above. After notice from the Company to Indemnitee of its election to assume the defense of any such Proceeding, the Company shall not be liable to Indemnitee under this Agreement or otherwise for any Expenses subsequently incurred by Indemnitee in connection with Indemnitee's defense of such Proceeding other than as provided in Section 13(c) below. Indemnitee shall have the right to retain a separate law firm in any such Proceeding at Indemnitee's sole expense (which expenses, for the avoidance of doubt, are not reimbursable nor indemnified hereunder). The Company shall not, without the prior written consent of Indemnitee, which shall not be unreasonably withheld, conditioned or delayed, consent to the entry of any judgment against Indemnitee or enter into any settlement or compromise which (i) includes an admission of fault of Indemnitee, (ii) does not include, as an unconditional term thereof, the full release of Indemnitee from all liability in respect of such Proceeding, which release shall be in form and substance reasonably satisfactory to Indemnitee or (iii) would impose any Expense, judgment, fine, penalty or limitation on Indemnitee. This Section 13(b) shall not apply to a Proceeding brought by Indemnitee under Section 12 of this Agreement, a Proceeding by or in the right of the Company or in the case of clause (ii) of Section 13(c).

(c) Notwithstanding the provisions of Section 13(b) above, if in a Proceeding to which Indemnitee is a party (i) Indemnitee reasonably concludes, based upon an opinion of Indemnitee's counsel approved by the Company, the approval of which by the Company shall not be unreasonably withheld, conditioned or delayed, that he may have separate defenses or counterclaims to assert with respect to any issue which may not be consistent with other defendants in such Proceeding, (ii) Indemnitee reasonably concludes based upon an opinion of Indemnitee's counsel approved by the Company, the approval of which by the Company shall not be unreasonably withheld, conditioned or delayed, that an actual or apparent conflict of interest or potential conflict of interest exists between Indemnitee and the Company in defense of such Proceeding, or (iii) if the Company fails to assume the defense of such Proceeding in a timely manner, Indemnitee shall be entitled to be represented by separate legal counsel of Indemnitee's choice, subject, except in the case of (ii) or (iii) above, to the prior approval of the Company, which shall not be unreasonably withheld, conditioned or delayed, at the expense of the Company. In addition, if the Company fails to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes any action to declare this Agreement void or unenforceable, or institutes any Proceeding to deny or to recover from Indemnitee the benefits intended to be provided to Indemnitee hereunder, Indemnitee shall have the right to retain counsel of Indemnitee's choice, at the expense of the Company (subject to Section 12(d) of this Agreement), to represent Indemnitee in connection with any such matter.

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Section 14. Jointly Indemnifiable Claims.

(a) Given that certain Jointly Indemnifiable Claims may arise, the Company acknowledges and agrees that the Company shall, and to the extent applicable shall use best efforts to cause any Enterprise to (i) be fully and primarily responsible for, and be the indemnitor of first resort with respect to, payment to or payment on behalf of the Indemnitee in respect of indemnification or advancement of Expenses in connection with any such Jointly Indemnifiable Claim, irrespective of any right of recovery the Indemnitee may have from the Third-Party Indemnitors, and (ii) be required to advance the full amount of Expenses incurred by the Indemnitee and shall be liable for the full amount of all Expenses, judgments, fines, penalties and amounts paid in settlement to the maximum extent permitted by applicable law and as required by the terms of this Agreement, without regard to any rights the Indemnitee may have against the Third-Party Indemnitors. Under no circumstance shall the Company or any Enterprise be entitled to, and the Company hereby irrevocably waives, relinquishes and releases, any claims against the Third-Party Indemnitors for subrogation, contribution or recovery of any kind and no right of advancement or recovery the Indemnitee may have from the Third-Party Indemnitors shall reduce or otherwise alter the rights of the Indemnitee or the obligations of the Company or any Enterprise. The Company further agrees that no advancement or payment by any Third-Party Indemnitor on behalf of Indemnitee with respect to any Proceeding for which Indemnitee has sought indemnification, exoneration or hold harmless rights from the Company shall affect the foregoing and the Third-Party Indemnitor(s) shall have a right to receive from the Company, contribution and/or be subrogated, to the extent of such advancement or payment to all of the rights of recovery of Indemnitee against the Company. The Company and the Indemnitee agree that each of the Third-Party Indemnitors shall be third-party beneficiaries with respect to this Section 14 entitled to enforce this Section 14 as though each such Third-Party Indemnitor were a party to this Agreement.

(b) To the fullest extent permitted by law, if the indemnification rights provided for in this Agreement are unavailable to Indemnitee in whole or in part for any reason whatsoever, in respect of any Proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such Proceeding), the Company, in lieu of indemnifying Indemnitee, shall pay, in the first instance, the entire amount incurred by Indemnitee, whether for judgments, liabilities, fines, penalties, amounts paid or to be paid in settlement and/or for Expenses, without requiring Indemnitee to contribute to such payment, and the Company hereby waives and relinquishes any right of contribution it may have at any time against Indemnitee.

(c) For purposes of this Agreement "Third-Party Indemnitor" means any person or entity that has or may in the future provide to the Indemnitee any indemnification, exoneration, hold harmless or Expense advancement rights and/or insurance benefits other than (i) the Company, (ii) any Enterprise and (iii) any entity or entities through which the Company maintains liability insurance applicable to the Indemnitee.

(d) For purposes of this Agreement, "Jointly Indemnifiable Claims" shall mean any Proceeding for which the Indemnitee shall be entitled to indemnification, advancement of expenses or insurance from (i) the Company and/or any Enterprise pursuant to this Agreement, the Certificate of Incorporation or Bylaws or other governing documents of the Company or any Enterprise, any agreement or a resolution of the stockholders of the Company entitled to vote generally in the election of directors or of the Board, or otherwise, on the one hand, and (ii) any Third-Party Indemnitor pursuant to any agreement between any Third-Party Indemnitor and the Indemnitee pursuant to which the Indemnitee is indemnified, the laws of the jurisdiction of incorporation or organization of any Third-Party Indemnitor and/or the certificate of incorporation, certificate of organization, bylaws, partnership agreement, operating agreement, certificate of formation, certificate of limited partnership or other organizational or governing documents of any Third-Party Indemnitor, on the other hand.

Section 15. Non-Exclusivity; Survival of Rights; Subrogation.

(a) The rights of indemnification and advance of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Certificate of Incorporation or Bylaws or other governing documents of the Company or any Enterprise, any agreement or a resolution of the stockholders entitled to vote generally in the election of directors or of the Board, or otherwise. Unless consented to in writing by Indemnitee, no amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in or by reason of his Corporate Status prior to such amendment, alteration or repeal, regardless of whether a claim with respect to such action or inaction is raised prior or subsequent to such amendment, alteration or repeal. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right or remedy shall be cumulative and in addition to every other right or remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion of any right or remedy hereunder, or otherwise, shall not prohibit the concurrent assertion or employment of any other right or remedy.

(b) Except as set forth in Section 14, in the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required

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and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(c) Notwithstanding anything to the contrary contained herein, this Agreement shall survive the death, disability or incapacity of Indemnitee or the termination of Indemnitee's service as a director or officer of the Company and shall inure to the benefit of Indemnitee's heirs, executors and administrators.

Section 16. Insurance. The Company will use its reasonable best efforts to acquire directors and officers liability insurance, on terms and conditions deemed appropriate by the Board, with the advice of counsel, covering Indemnitee or any claim made against Indemnitee by reason of his Corporate Status or by reason of alleged actions or omissions by Indemnitee in such capacity and covering the Company for any indemnification or advance of Expenses made by the Company to Indemnitee for any claims made against Indemnitee by reason of his Corporate Status or by reason of alleged actions or omissions by Indemnitee in such capacity. The purchase, establishment and maintenance of any such insurance shall not in any way limit or affect the rights or obligations of the Company or Indemnitee under this Agreement except as expressly provided herein, and the execution and delivery of this Agreement by the Company and the Indemnitee shall not in any way limit or affect the rights or obligations of the Company under any such insurance policies. If, at the time the Company receives notice from any source of a Proceeding to which Indemnitee is a party or a participant (as a witness or otherwise) the Company has director and officer liability insurance in effect, the Company shall give prompt notice of such Proceeding to the insurers in accordance with the procedures set forth in the respective policies.

Section 17. Coordination of Payments. Except as set forth in Section 14, the Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable or payable or reimbursable as Expenses hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

Section 18. Reports to Stockholders. To the extent required by the DGCL, the Company shall report in writing to its stockholders the payment of any amounts for indemnification of, or advance of Expenses to, Indemnitee under this Agreement arising out of a Proceeding by or in the right of the Company with the notice of the meeting of stockholders of the Company next following the date of the payment of any such indemnification or advance of Expenses or prior to such meeting.

Section 19. Duration of Agreement; Binding Effect.

(a) This Agreement shall be effective as of the Effective Date and may apply to acts or omissions of Indemnitee taken in or in connection with Indemnitee's Corporate Status which occurred prior to such date if Indemnitee was an officer, director, employee or agent of the Company or was a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any Enterprise at the time such act or omission occurred.

(b) This Agreement shall continue until and terminate on the later of (i) the date that Indemnitee shall have ceased to serve as a director, officer, employee or agent of the Company or as a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any Enterprise and (ii) the date that Indemnitee is no longer subject to any actual or possible Proceeding (including any rights of appeal thereto and any Proceeding commenced by Indemnitee pursuant to Section 12 of this Agreement).

(c) The indemnification and advance of Expenses provided by, or granted pursuant to, this Agreement shall be binding upon and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), shall continue as to an Indemnitee who has ceased to be a director, officer, employee or agent of the Company or a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any Enterprise, and shall inure to the benefit of Indemnitee and his spouse, assigns, heirs, devisees, executors and administrators and other legal representatives.

(d) The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

(e) The Company and Indemnitee agree herein that a monetary remedy for breach of this Agreement, at some later date, may be inadequate, impracticable and difficult of proof, and further agree that such breach may cause Indemnitee irreparable harm. Accordingly, the parties hereto agree that Indemnitee may enforce this Agreement by seeking injunctive relief and/or specific performance hereof, without any necessity of showing actual damage or irreparable harm and that by

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seeking injunctive relief and/or specific performance, Indemnitee shall not be precluded from seeking or obtaining any other relief to which he may be entitled. Indemnitee shall further be entitled to such specific performance and injunctive relief, including temporary restraining orders, preliminary injunctions and permanent injunctions, without the necessity of posting bonds or other undertakings in connection therewith. The Company acknowledges that, in the absence of a waiver, a bond or undertaking may be required of Indemnitee by a court, and the Company hereby waives any such requirement of such a bond or undertaking.

Section 20. Section 409A. It is intended that any indemnification payment or advancement of Expenses made hereunder shall be exempt from Section 409A of the Internal Revenue Code of 1986, as amended, and the guidance issued thereunder (“Section 409A”) pursuant to Treasury Regulation Section 1.409A-1(b)(10). Notwithstanding the foregoing, if any indemnification payment or advancement of Expenses made hereunder shall be determined to be “nonqualified deferred compensation” within the meaning of Section 409A, then (i) the amount of the indemnification payment or advancement of Expenses during one taxable year shall not affect the amount of the indemnification payments or advancement of Expenses during any other taxable year, (ii) the indemnification payments or advancement of Expenses must be made on or before the last day of the Indemnitee’s taxable year following the year in which the expense was incurred, and (iii) the right to indemnification payments or advancement of Expenses hereunder is not subject to liquidation or exchange for another benefit.

Section 21. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any Section, paragraph or sentence of this Agreement containing any such provision held to be invalid, illegal or unenforceable that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section, paragraph or sentence of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

Section 22. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. One such counterpart signed by the party against whom enforceability is sought shall be sufficient to evidence the existence of this Agreement.

Section 23. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

Section 24. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

Section 25. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

- (a) If to Indemnitee, to the address set forth on the signature page hereto.
- (b) If to the Company, to:

Town Sports International Holdings, Inc.  
5 Penn Plaza  
New York, NY 10001  
Attention: Stuart M. Steinberg, Esq. - General Counsel  
Facsimile: (212) 246-6700 Ext. 1464  
Email: Stuart.Steinberg@tsiclubs.com

or to such other address as may have been furnished in writing to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

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Section 26. Governing Law. The parties agree that this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to its conflicts of laws rules.

Section 27. Miscellaneous. Use of the masculine pronoun shall be deemed to include usage of the feminine pronoun where appropriate.

[SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

TOWN SPORTS INTERNATIONAL  
HOLDINGS, INC.:

By: \_\_\_\_\_  
Name:  
Title:

INDEMNITEE:

\_\_\_\_\_  
Name:  
Title:

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**EXHIBIT A**

**FORM OF UNDERTAKING TO REPAY EXPENSES ADVANCED**

The Board of Directors of Town Sports International Holdings, Inc.

Re: Undertaking to Repay Expenses Advanced

Ladies and Gentlemen:

This undertaking is being provided pursuant to that certain Indemnification Agreement dated the \_\_\_\_ day of June, 2016, by and between Town Sports International Holdings, Inc., a Delaware corporation (the "Company"), and the undersigned Indemnitee (the "Indemnification Agreement"), pursuant to which I am entitled to advance of Expenses in connection with **[Description of Proceeding]** (the "Proceeding").

Terms used herein and not otherwise defined shall have the meanings specified in the Indemnification Agreement.

I am subject to the Proceeding by reason of my Corporate Status or by reason of alleged actions or omissions by me in such capacity. I hereby affirm my good belief that at all times, insofar as I was involved as **[a director]** **[an officer]** of the Company, in any of the facts or events giving rise to the Proceeding, I (1) did not act with bad faith, gross negligence or active or deliberate dishonesty, (2) did not receive any improper personal benefit in money, property or services and (3) in the case of any criminal proceeding, had no reasonable cause to believe that any act or omission by me was unlawful.

In consideration of the advance of Expenses by the Company for reasonable attorneys' fees and related Expenses incurred by me in connection with the Proceeding (the "Advanced Expenses"), I hereby agree that if, in connection with the Proceeding, it is established that (1) an act or omission by me was material to the matter giving rise to the Proceeding and (a) was committed in bad faith or (b) was the result of gross negligence, active and deliberate dishonesty or (2) I actually received an improper personal benefit in money, property or services or (3) in the case of any criminal proceeding, I had reasonable cause to believe that the act or omission was unlawful or (4) I am otherwise determined not to be have been entitled to be indemnified against such Expenses under the Agreement, then I shall promptly reimburse the portion of the Advanced Expenses relating to the claims, issues or matters in the Proceeding as to which the foregoing findings have been established.

IN WITNESS WHEREOF, I have executed this Affirmation and Undertaking on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_  
Name:

Title:

## CERTIFICATION

I, Patrick Walsh, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 of Town Sports International Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Patrick Walsh

Patrick Walsh

Executive Chairman

Date: July 28, 2016

## CERTIFICATION

I, Carolyn Spatafora, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 of Town Sports International Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Carolyn Spatafora

Carolyn Spatafora  
Chief Financial Officer

Date: July 28, 2016

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Patrick Walsh , certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Quarterly Report on Form 10-Q of Town Sports International Holdings, Inc. (the “Company”) for the quarterly period ended June 30, 2016 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78m); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Patrick Walsh

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Patrick Walsh

Town Sports International Holdings, Inc.

Executive Chairman

July 28, 2016

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Carolyn Spatafora, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Quarterly Report on Form 10-Q of Town Sports International Holdings, Inc. (the “Company”) for the quarterly period ended June 30, 2016 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78m); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Carolyn Spatafora

\_\_\_\_\_  
Carolyn Spatafora

Town Sports International Holdings, Inc.

Chief Financial Officer

July 28, 2016

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.