TOWN SPORTS INTERNATIONAL HOLDINGS INC

FORM 10-K
(Annual Report)

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Address	5 PENN PLAZA 4TH FLOOR NEW YORK, NY 10001
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Industry	Recreational Activities
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☑ **Annual Report pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2013

☐ **Transition Report pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934**

For the transition period from

Commission file number: 000-52013

Town Sports International Holdings, Inc.

(Exact name of Registrant as specified in its charter)

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

(212) 246-6700
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.001 par value	**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

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

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

Indicate by check mark whether the registrant has submitted electronically 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part IV of this Form 10-K or any amendment to this Form 10-K. ☑

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

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a 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 ☑

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 28, 2013 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $194.1 million (computed by reference to the last reported sale price on The Nasdaq National Market on that date). The registrant does not have any non-voting common stock outstanding.

As of February 27, 2014, there were 24,092,016 shares of Common Stock of the Registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2014 Annual Meeting of Stockholders, to be filed not later than April 30, 2014, are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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TOWN SPORTS INTERNATIONAL HOLDINGS, INC.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding our future expectations regarding the sale of the property located at East 86 th Street, New York, future financial results and performance, potential sales revenue, legal contingencies and tax benefits and contingencies, and the existence of adverse litigation and other risks, uncertainties and factors set forth under Item 1A., entitled "Risk Factors", of this Annual Report on Form 10-K and in our reports and documents filed with the Securities and Exchange Commission ("SEC"). 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" 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 the level of market demand for our services, competitive pressure, the ability to achieve reductions in operating costs and to continue to integrate club acquisitions, the ability to close the sale of the property located at East 86 th Street, New York, environmental initiatives, the application of Federal and state tax laws and regulations, and other specific factors discussed herein and in other SEC filings by us. We believe that all forward-looking statements are based on reasonable assumptions when made; however, we caution that it is impossible to predict actual results or outcomes or the effects of risks, uncertainties or other factors on anticipated results or outcomes and that, accordingly, one should not place undue reliance on these statements. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update these statements in light of subsequent events or developments. Actual results may differ materially from anticipated results or outcomes discussed in any forward-looking statement.

PART I

Item 1. *Business*

In this Annual Report, 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.

General

We are the largest owner and operator of fitness clubs in the Northeast and Mid-Atlantic regions of the United States ("U.S.") and the third largest fitness club owner and operator in the U.S., in each case based on the number of clubs. As of December 31, 2013, the Company, through its subsidiaries, operated 162 fitness clubs under our four key regional brand names; "New York Sports Clubs" (NYSC), "Boston Sports Clubs" (BSC), "Philadelphia Sports Clubs" (PSC) and "Washington Sports Clubs" (WSC). As of December 31, 2013, these clubs collectively served approximately 497,000 members, including approximately 41,000 members under our restricted student and teacher membership programs. We owned and operated a total of 108 clubs under the "New York Sports Clubs" brand name within a 120-mile radius of New York City as of December 31, 2013, including 37 locations in Manhattan where we are the largest fitness club owner and operator. We owned and operated 29 clubs in the Boston region under our "Boston Sports Clubs" brand name, 16 clubs (two of which are partly-owned) in the Washington, D.C. region under our "Washington Sports Clubs" brand name and six clubs in the Philadelphia region under our "Philadelphia Sports Clubs" brand name as of December 31, 2013. In addition, we owned and operated three clubs in Switzerland as of December 31, 2013. 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. Our members generally have annual income levels of between $50,000 and $150,000. We believe that this "mid-value" segment is the broadest of the market. Our goal is to be the most recognized health club network in each of the four major metropolitan regions that we serve. We believe that our strategy of clustering clubs provides significant benefits to our members and allows us to achieve strategic operating advantages. In each of our markets, we have developed clusters by initially opening or acquiring clubs located in the more central urban markets of the region and then branching out from these urban centers to suburbs and neighboring communities.

We currently offer three principal types of memberships in our clubs, "Passport," which offers access to all clubs at all times, "Core," which offers access to a single home club at all times, and "Restricted" memberships, which is a favorably priced, restricted month-to-month membership offering access to a single home club during all operating hours except 4:30pm to 7:30pm, Monday through Thursday, otherwise a usage fee applies. Members, excluding restricted members, can elect to commit to a minimum contract period of one year in order to benefit from reduced joining fees. Alternatively, our memberships are available on a month-to-month basis. These membership types are described in further detail in the Sales discussion that follows.

Over our 40-year history since 1973, we have developed and refined our club formats, which allows us to cost-effectively construct and efficiently operate our fitness clubs in the different real estate environments in which we operate. Our fitness-only clubs average approximately 21,000 square feet, while our multi-recreational clubs average approximately 37,000 square feet. The aggregate average size of our clubs is approximately 26,000 square feet. Our clubs typically have an open fitness area to accommodate cardiovascular and strength-training equipment, as well as special purpose rooms for group fitness classes and other exercise programs. We seek to provide a broad array of high-quality exercise programs and equipment that are popular and effective, promoting a quality exercise experience for our members. When developing clubs, we carefully examine the potential membership base and the likely demand for supplemental offerings such as swimming, basketball, children's programs, tennis or squash and, provided suitable real estate is available, we will add one or more of these offerings to our fitness-only format. For example, a multi-recreational club in a family market may include Sports Clubs for Kids programs, which can include swim lessons and sports camps for children.

As the fitness industry continues to see a rise in popularity of private studio offerings, we intend to offer our own private studio brand called the Boutique Fitness Experience ("BFX Studio") with our first unit opening in the first half of 2014 with expectations to open a total of two to four BFX Studio units during 2014. This three-dimension luxury studio brand will take advantage of the rise in consumer demand for studio experiences. Our BFX Studio will include three unique offerings: Ride Republic, which is indoor cycling, Private Sessions for personal training and Master Class for certain group exercise classes. Our BFX Studio will be staffed with high caliber instructors in each of the three core offerings and the studios will be designed to appeal to all ages and all experience levels of metropolitan, active healthy lifestylers. We estimate that this studio concept will require approximately 7,500 to 10,000 square feet of space per studio which compares to the approximately 26,000 square feet aggregate average size of our traditional clubs.

Industry Overview

According to the most recent information released by the International Health, Racquet and Sportsclub Association ("IHRSA"), total U.S. fitness club industry revenues increased at a compound annual growth rate of 3.1% from $18.7 billion in 2007 to $21.8 billion in 2012, with a 1.9% increase from 2011 to 2012. Total U.S. fitness club memberships increased at a compound annual growth rate of 3.9% from 41.5 million in 2007 to 50.2 million in 2012, with a 2.3% decline from 2011 to 2012 after reaching an all-time high of 51.4 million members in 2011. Although memberships declined in 2012 compared to 2011, revenue increased slightly due, in

part, to the impact of non-membership revenue performance from niche and studio concepts. According to the IHRSA, the fitness industry is witnessing a shift in the exercise and preference of health club members. The club landscape now extends beyond the traditional, full-service fitness centers as studio concepts including boxing, yoga, Pilates, group cycling, barre, boot camps, CrossFit, and personal training, also shape the market.

According to the IHRSA, participation in health clubs has been growing over the past five years with 53.4 million Americans utilizing a health club in 2008, as compared to 58.5 million Americans utilizing a health club in 2012. Currently, approximately 17% of the total U.S. population belongs to a health club, leaving room for possible substantial growth in the industry and indicating a significant opportunity to convert these non-members to members. In 2012, the average number of days per year that health club members visited clubs was down 3.4% to 99.0 days after reaching an all time high of 102.5 days in 2011.

According to the IHRSA, demographic trends have helped drive the growth experienced by the fitness industry over the past decade. The average age of a health club member in 2012 was 38 years old and more than one-third of health club members were between the ages of 18 and 34 years old. The greatest membership growth in the past few years has been in the demographic group ages 18 to 34, which has grown 31.4% from 2008 to 2012 and in the group ages 35 to 54, where membership grew 6.1% from 2008 to 2012. These two age groups made up approximately 70.0% of total U.S. health club members in 2012. The industry has also benefited from the aging “baby boomer” and “Eisenhower” generations as they place greater emphasis on their health, including a focus on fitness.

According to the Centers for Disease Control and Prevention, during the period from 1990 through 2010 **,** there was a dramatic increase in obesity in the U.S. and rates remain high. State prevalence of obesity continues to remain high across the country in 2012, with no state with a prevalence of obesity less than 20.0%. In 2012, 41 states had a prevalence of 25% or more and 13 of these states had a prevalence of 30% or more. As healthcare costs continue to rise in the U.S., some of the focus on combating obesity and other diseases is being directed at prevention. Both government and medical research has shown that exercise and other physical activity plays a critical role in preventing obesity and other health conditions, thereby reducing healthcare costs for treating obesity related sicknesses.

As the focus on exercise and overall healthy lifestyles continue to impact the health club industry, we believe that we are well positioned to benefit from these dynamics as a large operator with recognized brand names, leading regional market shares and an established operating history.

Competitive Strengths

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

Strong market position with leading brands. Based on number of clubs, we are the third largest fitness club owner and operator in the U.S. and the largest fitness club owner and operator in the Northeast and Mid-Atlantic regions of the U.S. We are the largest fitness club owner and operator in our New York, Boston and Washington, D.C. regions, and the fourth largest owner and operator in our Philadelphia region. We attribute our positions in these markets in part to the strength of our localized owner and operator brand names, which foster recognition as a local network of quality fitness clubs.

Regional clustering strategy provides significant benefits to members and corporations. By operating a network of clubs in a concentrated geographic area, the value of our memberships is enhanced by our ability to offer members access to any of our clubs, which provides the convenience of having fitness clubs near a member’s workplace and home. This is also a benefit to our corporate members, as many corporations have employees that will take advantage of multiple gym locations. Approximately 226,000, or 45%, of our members currently have a Passport Membership, including our corporate and group Passport Memberships, and because these memberships offer enhanced privileges and greater convenience, they generate higher monthly dues than

our Core Membership in each respective region. Regional clustering also allows us to provide special facilities to all of our members within a local area, such as swimming pools and squash, tennis and basketball courts, without offering them at every location. In the year ended December 31, 2013, 40% of all club usage was by members visiting clubs other than their home clubs.

Regional clustering strategy designed to enhance revenues and achieve economies of scale. We believe our regional clustering strategy allows us to enhance revenue and earnings growth by providing high-quality, conveniently located fitness facilities on a cost-effective basis. We believe that potential new entrants would need to establish or acquire a large number of clubs in a market to compete effectively with us. Our clustering strategy also enables us to achieve economies of scale with regard to sales, marketing, purchasing, general operations and corporate administrative expenses and reduces our capital spending needs. Regional clustering also provides the opportunity for members who relocate within a region to remain members of our clubs, thus aiding in member retention.

Expertise in site selection and development process. We believe that our expertise in site selection and development provides an advantage over our competitors given the complex real estate markets in the metropolitan areas in which we operate and the relative scarcity of suitable sites. Before opening or acquiring a new club, we undertake a rigorous process involving demographic and competitive analysis, financial modeling, site selection and negotiation of lease and acquisition terms to ensure that a potential location meets our criteria for a model club. We believe our flexible club formats are well suited to the challenging real estate environments in our markets. We currently have 162 clubs under operation that can easily adapt and respond to the changing demands of our customers. This flexibility allows us to compete against private studios with unique specialty offerings by adapting the space and formats in our own clubs to match the offerings provided by these private studios. An example of the use of this flexibility is evidenced in the installation of our UXF training zones within our clubs which was introduced in 2012 as part of our UXF launch. This training zone features an array of innovative equipment designed to maximize the member’s experience and support growth in personal training. As of December 31, 2013, UXF training zones have been installed in 126 clubs.

Expertise of senior management. We believe that our senior management’s industry expertise, particularly that of our Chief Executive Officer, Robert Giardina, our President, Chief Operating Officer and Chief Financial Officer, Daniel Gallagher, and our Senior Vice President, Chief Information Officer, Paul Barron, provides us with a competitive advantage. Mr. Giardina has extensive knowledge of the fitness industry and over 30 years of experience with the Company. Mr. Giardina was appointed President and Chief Executive Officer in March 2010 and now serves as Chief Executive Officer. He originally joined the Company in 1981 and served as President and Chief Operating Officer from 1992 to 2001, and as Chief Executive Officer from January 2002 through October 2007. Mr. Gallagher joined the Company in February of 1999 as Vice President—Finance and served as the Company’s Chief Financial Officer since April 2008. Mr. Gallagher was recently promoted to President and Chief Operating Officer in January 2014. Prior to joining the Company, Mr. Gallagher’s experience included management roles at large public accounting firms including Coopers & Lybrand and PricewaterhouseCoopers. Mr. Barron joined the Company in February 2011 as Chief Information Officer. Prior to joining the Company, Mr. Barron’s experience included a vice president role at Newmarket International, a leading software company for hospitality sales automation and prior to that as a vice president of IT solutions at Starwood Hotels and Resorts. We believe that Mr. Giardina, Mr. Gallagher and Mr. Barron are highly talented and innovative executives who have strong strategic skills and leadership capabilities to lead the Company and execute its strategies.

Business Strategy

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

Build and acquire new clubs. We plan to expand our club base through both designing and building clubs and through selective acquisitions. During 2013, we completed the acquisition of the Fitcorp clubs in Boston, which included five clubs and four managed sites. We also completed an acquisition of a single club in Manhattan. In 2014, our expected club openings are concentrated in the urban markets in our New York and Boston regions, with plans to open a combined five to six NYSC and BSC clubs in 2014. We also plan to open two to four new BFX Studio units. This will bring our total unit growth to seven to 10 units when including the BFX Studio units. We expect to fund our club expansion with cash on hand or through internally generated cash flows and, if needed, we can utilize borrowings under our revolving credit facility.

Build on our new Boutique Fitness Experience studio concept. We plan to open a distinctive luxury studio brand in the first half of 2014. This three-product luxury studio brand will take advantage of the rise in consumer demand for studio experiences. Our BFX Studio will include three unique offerings: Ride Republic, which is indoor cycling, Private Sessions for personal training and Master Class for certain group exercise classes. Each BFX Studio is expected to be approximately 7,500 to 10,000 square feet and cost approximately $1.5 million to $2.25 million per studio.

Grow ancillary and other non-membership revenues. We intend to grow our ancillary and other non-membership revenues through a continued focus on increasing the additional value-added services that we provide to our members as well as capitalizing on the opportunities for other non-membership revenues such as in-club advertising and retail sales. Over the past five years, we have expanded the range of ancillary club services provided to members. Non-membership revenues have increased from $85.2 million, or 17.5% of revenues for the year ended December 31, 2009, to $97.1 million, or 20.6% of revenues for the year ended December 31, 2013. Personal training revenue, in particular, increased 16.5% over this five-year period and increased as a percentage of total revenue from 11.7% in 2009 to 14.1% in 2013. Our long-term goal is to generate approximately 20% of revenue from personal training. Our personal training offerings have expanded beyond the prepaid personal training sessions and now also include single or multi-session personal training membership products, originally introduced in 2011 and expanded in 2012 and 2013. We have also expanded our fee-based class offering to generate additional revenue. These offerings include our Ultimate Fitness Experience (“UXF”) class introduced in 2012. In addition, our fee-based Small Group Training programs include offerings such as Pilates Reformer Technique, Total Body Resistance Exercise (“TRX”) and Kettlebells, and our Signature Classes which include VBarre and Pilates Tower. We also offer Sports Clubs for Kids programs at select clubs. In 2014, we plan to remain focused on increasing our ancillary programs with continued improvements in training and hiring and building on ancillary programs such as our personal training membership product. These sources of ancillary and other non-membership revenues generate incremental profits with minimal capital investment and assist in attracting and retaining members.

Retain members by focusing on the member experience. Our Company’s mission is “Improving Lives Through Exercise.” We enact our mission through our “Ten Essentials,” which provide a clear road map for how we want our clubs to look and how we want to serve our members. This is the core of our member experience strategy and allows us to crystallize how we engage our staff to deliver a superior member experience. We tailor the hours of each club to the needs of the specific member demographic utilizing each club and offer a variety of ancillary services, including personal training, group classes, Small Group Training, Sports Clubs for Kids programs, and the XpressLine strength workout which is an eight-station total-body circuit workout designed to be used in 22 minutes and accommodates all fitness levels. We offer a variety of different sports facilities in each regional cluster of clubs; modern, varied and well-maintained exercise and fitness equipment; and an assortment of additional amenities including access to babysitting, sports massage and pro-shops. Through hiring, developing and training a qualified and diverse team that is passionate about fitness and health; maintaining and enhancing our programs and services; and continually increasing our attention to individual member needs, we expect to demonstrate our commitment to increase the quality of the member experience, and thereby increase

net membership. To further ensure the member experience remains at a high quality, we provide member surveys to help analyze the areas we can improve upon as well as the areas in which the members are satisfied overall.

Provide state-of-the-art fitness equipment and services. To help members develop and maintain a healthy lifestyle, train for athletic events or lose weight, each of our clubs has a large array of cardiovascular machines and resistance training equipment and free weights. Exercise equipment is positioned to allow for easy movement from machine to machine, facilitating a convenient and efficient workout. Equipment in these areas is generally arranged in long parallel rows that are labeled by muscle group, which allows members to conveniently customize their exercise programs and reduce downtime during their workouts. We have technicians who service and maintain our equipment on a timely basis. In addition, we have personal viewing television screens on most pieces of cardiovascular equipment. Most clubs have between one and three studios used for exercise classes, including at least one large studio used for most group exercise classes, a cycling studio and a mind and body studio used for yoga and Pilates classes. We offer a large variety of group fitness classes at each club and these classes generally are at no additional cost to our members. The volume and variety of activities at each club allow each member to enjoy the club, whether customizing their own workout or participating in group activities and classes.

Marketing

Our marketing campaign, which we believe has increased awareness of our brand names, is directed by our marketing department, which directly reports to the Chief Executive Officer. This team develops advertising strategies to convey each of our regionally branded networks as the premier network of fitness clubs in its region. Our marketing team's goal is to focus on growing our membership base, achieving broad awareness of our regional brand names and be "top of mind". We are organized to enable close collaboration between our marketing, sales, fitness and operations staff, which helps to align efforts around operational objectives and new product development while ensuring a primary focus on the member experience.

Brand awareness and preference is aided by a number of factors, including visibility of multiple retail locations and associated signage across each region, word-of-mouth recognition and referrals generated by our membership base of approximately 497,000 as of December 31, 2013, a 40-year operating history and continual advertising investment. All of these factors provide a strong foundation for our ongoing marketing and advertising efforts.

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

Our advertising and marketing message is designed to build our brand while creating an approachable personality that is attractive to prospective members and allows them to feel comfortable with our brand. In contrast to most health club advertising, we generally forego depicting images of hard bodies, facilities and gym equipment. Advertisements generally feature creative slogans that use current events to communicate the serious approach we take toward fitness in a provocative and/or humorous tone. We believe this approach is easily communicated and understood and makes our product more approachable for all consumers regardless of their health club experience.

Promotional marketing campaigns will typically feature opportunities to participate in a variety of value-added services such as personal training, Small Group Training and youth centered sports activities. We also may offer reduced joining fees to encourage enrollment. Additionally, we sponsor member referral incentive programs periodically and other types of member appreciation, acquisition activities and internal promotions to enhance loyalty and to encourage more members to take advantage of our ancillary services.

We engage in public relations, sponsorships and special events to promote our brand image across our network, regionally and in our local communities. We have been featured in national broadcast channels and television shows, such as Good Morning America, The Today Show, Fox & Friends, CNN, MSNBC, CNBC, Fox News Channel, ESPN, The Steve Harvey Show and Access Hollywood; and major newspapers, such as The New York Times, USA Today, Washington Post, Boston Globe, The Wall Street Journal, and Crain's; and seen in magazines, such as Fitness, Self, Shape, New York Magazine, Women's Health, Marie Claire and Prevention Magazines.

Our philosophy of giving back to our communities includes sponsoring company-wide and local charitable efforts. Our club management teams and staff are also encouraged to organize and engage in charitable activities. These events have benefited organizations such as the HealthCorps, ALS Therapy Development Institute, Muscular Dystrophy Association, American Cancer Society, Susan G. Komen Race for the Cure, Wounded Warrior Project, No Kid Hungry, as well as many smaller local and specific charities such as: Boston Children's Hospital, Josephine's Garden for Pediatric Cancer, North Rockland Soccer Association, and The Theatre Offensive of Boston and Verrazano Babe Ruth League.

Sales

We sell our memberships through four channels: direct sales at the club level; through our corporate and group sales division; through our online website; and through our call center which we introduced in September 2010 principally to reach out to former members and to handle specific campaigns. We are constantly reviewing other possible opportunities to sell memberships through the call center. We employ over 400 "in-club" membership sales consultants who are responsible for new membership sales in and around their designated club locations. Each club generally has either two or three membership sales consultants. These consultants report directly to the club general manager, who, in turn, reports to a business director. Additional incentive-based compensation represents a majority of the compensation for the membership sales consultants. Membership sales consultants must successfully complete an in-house four week training program through which they learn our sales strategy and gain valuable hands-on experience. In our New York, Boston and Washington regions, these trainings primarily occur in our three sales academies which were introduced in August 2011. All membership sales consultants hired and working within these regions attend these training centers where a full time sales training manager is available to them. These academies are hosted within "working clubs" and the membership sales consultants all have the opportunity to learn and experience the entire sales process (from prospecting to after care) and product knowledge in what we consider a live but supervised environment. There are assessments throughout the training and the membership sales consultants must pass the course prior to being selected and placed in a club. Both the in-house/in-club and sales academy training allows us to achieve consistency in our selling process. Successful completion of our training program allows each membership sales consultant to be consistently trained and exit the training program with a high level of brand standard selling skills, which will assist them in achieving their targeted sales objectives.

Our corporate and group sales division consists of approximately 21 full-time employees located throughout our markets, who concentrate on building long-term relationships with local and regional companies and large groups. Corporate and group members accounted for approximately 18% of our total membership base as of December 31, 2013. We offer numerous programs to meet our corporate and group clients' needs. We have developed our club level teams and systems to allow our corporate and group clients the opportunity to join at their convenience at their local club, online or through our call center. Standard & Poors, New York University, Ralph Lauren, Con Edison, Viacom and Citibank are among just a few of the many clients that are currently enrolled in our corporate membership program. We believe this focus on relationship building, providing the corporate and group member with options for enrollment and our clustering strategy will continue to lead to new group participation in the future. Corporate and group membership sales are typically sold under our higher priced Passport Memberships at a discount to our standard rates with corporations sometimes subsidizing the costs of memberships provided to their employees. During 2013, as a means of continuing to grow our corporate and group sales division, we launched the Fitcorp Private Fitness Center Division in June 2013 under the

leadership of Gary Klencheski who joined TSI as part of the Fitcorp acquisition in May 2013. The Fitcorp Private Fitness Center Division is responsible for managing private fitness centers for both large and small corporations, colleges and universities, and private clubs. We currently manage eight fitness facilities comprised of three university fitness clubs, four managed sites which were acquired as part of the Fitcorp acquisition and one new managed site which was added during the fourth quarter of 2013 under the efforts of our Fitcorp Private Fitness Center Division.

We also sell individual memberships online at www.mysportsclubs.com for our standard membership types and the website also enables us to sell memberships for pre-established corporate and group programs. The website also allows our members to give us direct feedback about our service levels and enables prospective members to sign up for our popular 30 days for 30 dollars web trial membership. The online sales channel offers a high degree of convenience for customers who know and trust our brand and do not require up-front interaction with a membership sales consultant to make their decision. In addition, selling online significantly reduces our cost of sale. Members who joined online accounted for approximately 1.9% of memberships sold in 2013. The web site also provides information about club locations, program offerings, exercise class schedules and sales promotions. Job seekers can also begin the employment application process through the site and investors can access financial information and resources.

We believe that clustering clubs allows us to sell memberships based upon the opportunity for members to utilize multiple club locations near their workplace and their home. As of December 31, 2013, we currently offer the following three types of memberships:

- The Passport Membership is our higher priced membership and entitles members to use any of our clubs in any region at any time and our Regional Passport Membership, offered in our WSC and PSC regions, entitles members to use any of our clubs within one region. These membership plans provide the convenience of having fitness clubs near a member's workplace and home. The current list price of a commit Regional Passport and Passport Memberships generally ranges from $69.99 per month to $99.99 per month, excluding passport restricted members, corporate and group members and premium memberships available at a very limited number of clubs. Our corporate and group memberships are sold as Passport Memberships and averaged approximately $65 per month for those sold in the year ended December 31, 2013. The Passport Membership, excluding our passport restricted members, described below, and including our corporate and group members, was held by approximately 226,000 members, or 45% of our total members as of December 31, 2013. In addition, we have a Passport Premium Membership at two select clubs, which includes a greater array of member services and facilities, with list prices currently ranging from $105.99 per month to $115.99 per month. Further, our Boston Racquet Club, offers a higher level Premium Membership that includes an exclusive Squash membership available only at this club, with pricing ranging from $135.00 to $170.00 per month.
- The Core Membership was introduced on November 1, 2010 and enables members to use a specific club at any time. The current list price of a commit Core membership generally ranges from $39.99 per month to $89.99 per month based on club specific facilities and services, the market area of enrollment and length of the membership contract. Core members can also elect to pay a per visit fee ranging from $9.50 to $12.00 per visit to use non-home clubs. The Core Membership, excluding our core restricted members described below, was held by approximately 152,000 members, or 31% of our members as of December 31, 2013.
- The Restricted Membership is a favorably-priced, restricted-use month-to-month only membership. In April 2010, this membership was introduced to students and we extended the membership to teachers and first responders in April 2011 and September 2011, respectively. Usage fees ranging from $9.50 to $12.00 per visit are applied if a restricted member chooses to use a club from 4:30pm to 7:30pm, Monday through Thursday. The restricted Passport Membership is currently listed at $39.99 per month and the restricted Core Membership is currently listed at $29.99 per month. Additional groups may also be offered a restricted membership at times through our call center. The Restricted Membership was held by

approximately 41,000 restricted members, or 8% of our members as of December 31, 2013. Approximately 87% of these restricted members are comprised of our restricted student and teacher memberships.

Prior to November 1, 2010, we also offered The Gold Membership, which is no longer offered to new members. This membership enables members to use a specific club at any time and any of our clubs during off-peak times. Gold members can elect to pay a per visit fee ranging from $9.50 to $12.00 per visit to use non-home clubs during peak hours. This membership was held by approximately 78,000 members, or 16% of our members as of December 31, 2013.

We offer both “month-to-month” and “commit” membership options. A member may cancel a month-to-month membership at any time with 30-days notice. Under the commit model, new members commit to a one year membership. In 2013 and 2012, 90% and 89%, respectively, of our newly enrolled members opted for a commit membership. As of December 31, 2013, approximately 20% of our members had originated under a month-to-month non-commit membership and 80% had originated under a commit membership. When the members’ commit period is over, they retain membership as a month-to-month member until they choose to cancel. As of December 31, 2013, approximately 72% of our total members were on a month-to-month basis. We believe that members prefer to have the flexibility to choose between committing for one year or to join under the month-to-month, non-commit membership.

Prior to the implementation of our rate lock guarantee and maintenance fee in May 2011, we have historically increased our existing member dues annually by between 1% and 3% on average, in line with increases in the cost of living. In May 2011, we implemented a combined rate lock guarantee and maintenance fee to which all members agree at the time of enrollment. This fee, which is currently $39.99, is collected annually in January and is recognized in membership revenue over the subsequent 12 month period following collection. In January 2013 and January 2012, we collected approximately $7.0 million and $3.5 million, respectively, related to this new fee. In 2013, membership dues increases were applied to approximately 10% of our membership base (for those members joining prior to the May 2011 rate lock guarantee) resulting in an overall dues increase of approximately less than 1% on these members.

In joining a club, a new member signs a membership agreement that typically obligates the member to pay one-time joining fees, an annual rate lock guarantee and maintenance fee, and monthly dues on an ongoing basis. Joining fees collected for new monthly electronic funds transfer, or EFT, members averaged approximately $59, $57 and $55 per member for the years ended December 31, 2013, 2012 and 2011, respectively. Monthly EFT of individual membership dues on a per-member basis, including the effect of promotions and memberships with reduced dues, averaged approximately $59, $58 and $59 per month for the years ended December 31, 2013, 2012 and 2011, respectively. Currently, 97.0% of our members pay their membership dues through EFT, with EFT membership revenue constituting approximately 73.5% of consolidated revenue for the year ended December 31, 2013. Substantially all other membership dues are paid in full in advance. Our membership agreements call for monthly dues to be collected by EFT based on credit card or bank account debit authorization contained in the agreement. During the first week of each month, we receive the EFT dues for that month after the payments are initiated by a third-party EFT processor. Discrepancies and insufficient funds incidents are researched and resolved by our in-house account services department.

Usage

Our suburban clubs are generally open 5:00 AM to 10:00 PM on weekdays and 7:00 AM to 7:00 PM on weekends, while our urban clubs are generally open 5:30 AM to 11:00 PM on weekdays and 8:00 AM to 9:00 PM on weekends. We generally consider our peak usage times to be between 6:00 AM and 8:30 AM and 4:30 PM and 7:30 PM on weekdays. Our hours of business are based on usage patterns at each individual club. Our total club usage, based on the number of member visits, was 29.1 million and 29.7 million member visits for

the years ended December 31, 2013 and 2012, respectively. In the year ended December 31, 2013, approximately 40% of total usage or club visits was to members' non-home clubs, indicating that our members take advantage of our network of clubs. Our memberships plans allow for club members to elect to pay a per visit fee ranging from $9.50 to $12.00 to use non-home clubs, subject to peak and non-peak hourly restrictions depending on the membership type. In the aggregate, approximately $2.1 million and $2.2 million of usage fees were generated in 2013 and 2012, respectively, and are reported in membership dues in our consolidated statements of operations.

Non-Membership Revenue

The table below presents non-membership revenue components as a percentage of total revenue for the years ended December 31, 2009 through 2013.

	For the Years Ended December 31, ($ in thousands)									
	2013	%	2012	%	2011	%	2010	%	2009	%
Total revenue	$470,225	100.0%	$478,981	100.0%	$466,941	100.0%	$462,387	100.0%	$485,392	100.0%
Non-Membership Revenue:										
Personal training revenue(1)	66,367	14.1%	65,641	13.7%	62,394	13.4%	60,875	13.2%	56,971	11.7%
Other ancillary club revenue(2)	24,720	5.3%	29,897	6.3%	28,297	6.1%	24,684	5.3%	23,536	4.8%
Fees and Other revenue(3)	5,985	1.3%	5,804	1.2%	4,890	1.0%	4,761	1.0%	4,661	1.0%
Total non-membership revenue	$ 97,072	20.6%	$101,342	21.2%	$ 95,581	20.5%	$ 90,320	19.5%	$ 85,168	17.5%

(1) Personal training revenue in the year ended December 31, 2010 includes $2,697 related to unused and expired sessions in three jurisdictions, of which $570 is related to expired sessions that would have been recognized in 2010.

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

(3) Fees and other revenue primarily consist of rental income, marketing revenue and management fees. The year ended December 31, 2013 includes $424 for the correction of an accounting error related to out of period rental income.

Club Format and Locations

Our clubs are generally located in middle- or upper-income residential, commercial, urban and suburban neighborhoods within major metropolitan areas that are capable of supporting the development of a cluster of clubs. Our clubs typically have high visibility and are easily accessible. In the New York metropolitan, Boston, Washington, D.C. and Philadelphia markets, we have created clusters of clubs in urban areas and their commuter suburban areas aligned with our operating strategy of offering our target members the convenience of multiple locations close to where they live and work, reciprocal use privileges, and standardized facilities and services.

Approximately 66% of our existing clubs are fitness-only clubs and the remaining clubs are multi-recreational. Our fitness-only clubs generally range in size from 15,000 to 25,000 square feet and average approximately 21,000 square feet. Our multi-recreational clubs generally range in size from 25,000 to 65,000 square feet, with one club being approximately 200,000 square feet. The average multi-recreational club size is approximately 37,000 square feet. Memberships for each club generally range from 2,000 to 4,500 members at maturity. Our newly introduced BFX Studio will begin to open in the first half of 2014. The BFX Studio will generally range from 7,500 to 10,000 square feet and will consist of three spaces including a cycling studio, group exercise studio and a personal training area.

Our existing club base consists of clubs which we have developed and constructed as well as clubs we have acquired. Over the past five years from January 1, 2009 to December 31, 2013, we constructed six new clubs while closing or relocating 16 clubs. Currently, 57 of our clubs, or approximately 35% of our existing club base, were from acquisitions of privately owned single and multi-club businesses. In the year ended December 31, 2013, we acquired six clubs and closed four clubs, ending the year with 162 total clubs under operation. This compares to no club openings or closings during the year ended December 31, 2012. In both 2013 and 2012, we also upgraded certain existing clubs and plan to continue to do so in 2014.

To identify potential new club opportunities, we engage in detailed trade area analyses and selection processes. Target areas are identified based upon population demographics, psychographics, traffic and commuting patterns, availability of sites and competitive market information. As part of our club growth strategy we also evaluate potential targeted acquisitions of both single club and multiple club operators in our core markets that would complement our existing club network. In addition, we evaluate growth opportunities in secondary markets located near our existing markets. In the future, we may explore expansion opportunities in other markets in the U.S. that share similar demographic characteristics to those in which we currently operate. We currently have four signed leases in place for club openings expected in 2014 in our Boston and New York regions. We are currently targeting to open a combined four to six NYSC and BSC clubs and two to four new BFX Studio units in 2014. This will bring our total expected unit growth in 2014 to six to 10 units when including the BFX Studio units. We expect construction cost for the traditional clubs to be approximately $2.5 million per club and the BFX Studio is expected to be approximately $1.5 million to $2.25 million per studio.

Our facilities include a mix of state-of-the-art cardiovascular equipment from some of the best manufacturers including Life Fitness ®, Cybex ®, Precor ®, Star Trac ®, Hammer ®, Woodway ® and Octane ®. At certain locations, additional amenities are also offered, including swimming pools, racquet and basketball courts, babysitting services, and pro-shops. Personal training services are offered at all locations for an additional charge. In addition, in our continuing efforts to provide our members with the best tools and equipment to take advantage of the latest exercise techniques, in 2012 we began to outfit our clubs with a new UXF training zone which was further rolled out to the majority of our existing club base in 2013 with 126 clubs installed with the UXF zones as of December 31, 2013. The UXF training zone is a training area within the club that features an array of innovative equipment designed to maximize the member's workout. The UXF training zone is approximately 600 to 800 square feet with AstroTurf flooring, a TRX suspension training frame and a variety of functional training equipment. The UXF training zone is open to members for free self guided workouts and UXF fee-based workout programs. The UXF training zone is also used by our personal trainers for their personal training sessions with our members. Our fee-based programs offered at many of our clubs, include personal training, Small Group Training, children's programs, and other signature classes targeting adult members such as VBarre and Pilates Tower. We also offer our Xpressline strength workout at all of our clubs which is provided for free to our members. Xpressline is an eight-station total-body circuit workout designed to be used in 22 minutes and to accommodate all fitness levels.

Our clubs also feature personal entertainment units. The units are typically mounted on or near individual pieces of cardiovascular equipment and are equipped with a flat-panel color screen for television viewing. We believe our members prefer the flexibility to view and listen to the programs of their choice during their cardiovascular workout.

Club Services and Operations

Our clubs are structured to provide an enhanced member experience through effective execution of our operating plan. Our club and support team members are the key to delivering a valued member experience and our operations are organized to maximize their overall effectiveness. Our club operations include:

Management. We believe that our success is largely dependent on the selection and development of our team members. Our management structure is designed to strike the right balance between consistent execution of

operational excellence and nurturing a leader's capacity for entrepreneurial decision making. Our learning and development system allows for all club positions to receive training on the key elements of their role as well as development training for growth. We believe a critical component to our growth is our ability to leverage internally-developed management talent.

Functional Support. Functional teams provide technical expertise and support designed to drive the member experience and revenue growth in specific areas of our clubs' services, including sales and marketing, fitness and ancillary programming, learning and development, as well as facility management and member service.

Driving excellence in fitness and ancillary programming is critical to our success. Members receive an introductory one-hour assessment session with a fitness manager who helps to develop a customized routine that supports the member's fitness goals. This initial assessment session includes a 30-minute workout evaluation, blood pressure and heart rate measurement, body composition analysis, cardio, strength and endurance testing, and movement screening. Members who elect to receive personal training can benefit from one-on-one coaching and guidance, with refreshed programs that evolve as the members achieve their fitness goals. All of our fitness clubs offer our personal training membership products where members can select from a package of one, four, eight, 12 or 16 personal training sessions per month. These sessions must be used in each respective month they are issued. Members who purchase this product commit to a six month period. Members can also purchase prepaid single sessions or multi-session packages which are sold at a premium to the personal training membership product. The personal training membership product provides members with a certified personal trainer who works with the member to create an individualized goal-based program. Our fitness teams are trained to provide superior fitness solutions to address member needs. We believe the qualifications of the personal training staff help to ensure that members receive a consistent level of quality service throughout our clubs and that our personal training programs provide valuable guidance to our members as well as a significant source of incremental revenue for us. We believe that members who participate in personal training programs typically have a longer membership life.

Our commitment to providing a quality exercise experience to our members also includes group exercise programming. Our instructors teach a variety of classes, including dance, cycling, strength conditioning, boxing, yoga, Pilates and step classes. Instructors report through local club management and are further supported by regional managers responsible for ensuring consistency in class content, scheduling, training and instruction. We also provide Small Group Training offerings to our members, which are fee-based programs that have smaller groups, with a maximum of four to eight members per class, and provide more focused and typically more advanced classes. Our fee-based offerings also include our newly launched UXF classes, as well as our signature classes, including VBarre and Power Pilates Tower.

In addition to group exercise, we offer a variety of ancillary programming for children under our Sports Clubs for Kids brand. As of December 31, 2013, Sports Clubs for Kids was being offered in 36 locations throughout our New York Sports Clubs, Boston Sports Clubs and Philadelphia Sports Clubs regions. Our Sports Clubs for Kids programming positions our multi-recreational clubs as family clubs, which we believe provides us with a competitive advantage. Depending upon the facilities available at a location, Sports Clubs for Kids programming can include traditional youth offerings such as day camps, sports camps, swim lessons, hockey and soccer leagues, gymnastics, dance, and birthday parties. It also can include non-competitive "learn-to-play" sports programs.

Our facilities and equipment management teams are dedicated to ensuring our clubs and fitness equipment are operating at the highest standard of performance for our members. Local teams are deployed to provide on-site support to clubs as needed.

Our club support and member services groups act as a coordinating point for all departments, supporting excellence in program execution and ensuring consistency of policies and procedures across the entire organization that support the member experience.

Employee Compensation and Benefits

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

Centralized Information Systems

Our information technology department and its strategies are led by our Senior Vice President, Chief Information Officer, Paul Barron. The year ended December 31, 2013 was the second year of a three year program to replace the current proprietary Club Management system that is used to process new memberships, bill members, check-in members and to track and analyze sales and membership statistics, the frequency and timing of member workouts, cross-club utilization, member life, value-added services and demographic profiles by member. During 2013, we converted the clubs to the new platform for all club related activities with the exception of processing new memberships and collecting membership dues, which continues to be processed under the legacy Club Management system.

In 2013, we introduced “My Club” as our first member self service web and mobile site which gives our members the freedom of managing their own schedules and booking into classes conveniently online. In 2014, we will enhance this experience and increase the self service capabilities for our members who book their classes online.

We intend to complete the final phase of the multi-year program to replace the legacy Club Management system over the next two years. The final phase will allow for the processing of memberships in the new system with the objective to have this completed by the end of the year. Once this phase is completed, we would then be in a position to remove our current legacy Club Management system and focus on managing a single Club Management system.

Information Technology

We recognize the value of enhancing and extending the uses of information technology (“IT”) in virtually every area of our business. Our IT strategy is aligned to support our business strategy and operating plans. We maintain an ongoing comprehensive multi-year program to replace or upgrade key systems and to optimize their performance.

In 2013, we upgraded several business applications and IT infrastructure components. Of note was the upgrade of our Oracle Financials application to a higher and more robust version along with a new and more resilient hardware platform. We continue to leverage our investment made in our Virtual Server infrastructure allowing IT to consolidate and better manage costs associated with the provision of server resources to our internal end users.

In the fourth quarter of 2013, we started the migration of our data and voice network from a traditional private network and fixed voice line service to an internet based Virtual Private Network and Cloud IP Voice service. This migration has already been completed in more than half of our clubs and in our call center and will be completed in the remainder of our clubs during 2014. The migration to an internet based Virtual Private Network and a cloud based IP Voice service will allow us to take full advantage of the applications and content hosted in the cloud and not be subject to the limited bandwidth issues we had with the traditional network design.

We continuously implement infrastructure changes to accommodate growth, provide network redundancy, better manage telecommunications and data costs, increase efficiencies in operations and improve management of all components of our technical architecture, including disaster recovery. Improvements in the IT infrastructure will continue to be made in the future in order to better serve our business needs.

Intellectual Property

We have registered various trademarks and service marks with the U.S. Patent and Trademark Office, including **, NEW YORK SPORTS CLUBS and NYSC** , **WASHINGTON SPORTS CLUBS and WSC** , **BOSTON SPORTS CLUBS and BSC** , **PHILADELPHIA SPORTS CLUBS and PSC, UXF, SPORTS CLUBS FOR KIDS,** C **OMPANIESGETFIT.COM, BFX STUDIO, RIDE REPUBLIC, MASTER CLASS,** and **PRIVATE SESSIONS.** We continue to register other trademarks and service marks. We believe that our rights to these properties are adequately protected.

Competition

The fitness club industry is highly competitive and continues to become more competitive. The number of health clubs in the U.S. has increased from 29,636 in 2007 to 30,500 in 2012, based on the most recent information available according to the IHRSA. In each of the markets in which we operate, we compete with other fitness clubs, physical fitness and recreational facilities.

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

- commercial, multi-recreational and fitness-only chains, including, among others, Equinox Holdings, Inc., Lifetime Fitness, Inc., Crunch, New York Health and Racquet, LA Fitness International LLC, Sports Club/LA, 24 Hour Fitness Worldwide, Inc., Bally Total Fitness Holding Corporation, Gold's Gym International, Inc., Retro Fitness, Snap Fitness, Anytime Fitness and Planet Fitness;
- private studios, including, among others, Flywheel, Soul Cycle, Barry's Bootcamp and Cross-Fit, as well as other private studios offering cycling, yoga or Pilates;
- the YMCA and similar non-profit organizations;
- physical fitness and recreational facilities established by local governments, hospitals and businesses;
- exercise and small fitness clubs; racquet, tennis and other athletic clubs;
- amenity gyms in apartments, condominiums and offices;
- weight-reducing salons;
- country clubs; and
- the home-use fitness equipment industry.

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

Competitive Position Measured by Number of Clubs

Market	Number of Clubs	Position
Boston metropolitan	29	Leading owner and operator
New York metropolitan	108	Leading owner and operator
Philadelphia metropolitan	6	#3 owner and operator, #2 in urban center
Washington, D.C. metropolitan	16	#3 owner and operator, #1 in urban center
Switzerland	3	Local owner and operator only

We consider our traditional service offerings to be in the mid-tier of the value/service proposition and designed to appeal to a large portion of the population who utilize fitness facilities. The number of competitor clubs that offer lower pricing and a lower level of service have continued to grow in our markets over the last few years. These clubs have attracted, and may continue to attract, members away from both our fitness-only clubs and our multi-recreational clubs.

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

Also, we face competition from the rising popularity and demand for private studios offering niche boutique experiences. As a means of growing and expanding our business, we are planning to launch our own private studio concept, the BFX Studio, set to open in the first half of 2014. This three-dimension luxury studio brand will take advantage of the rise in consumer demand for studio experiences and will have a higher membership pricing point versus our traditional clubs.

We also compete with other entertainment and retail businesses for the discretionary income in our target demographics. There can be no assurance that we will be able to compete effectively in the future in the markets in which we operate. Competitors, who may include companies that are larger and have greater resources than us, may enter these markets to our detriment. These competitive conditions may limit our ability to increase dues without a material loss in membership, attract new members and attract and retain qualified personnel. Additionally, consolidation in the fitness club industry could result in increased competition among participants, particularly large multi-facility operators that are able to compete for attractive acquisition candidates and/or newly constructed club locations. This increased competition could increase our costs associated with expansion through both acquisitions and for real estate availability for newly constructed club locations.

We believe that our market leadership, experience and operating efficiencies enable us to provide the consumer with a superior product in terms of convenience, quality service and affordability. We believe that there are barriers to entry in our metropolitan areas, including restrictive zoning laws, lengthy permit processes and a shortage of appropriate real estate, which could discourage any large competitor from attempting to open a chain of clubs in these markets. However, such a competitor could enter these markets more easily through one, or a series of, acquisitions. These barriers of entry are significant in our four metropolitan regions; however, they are not as challenging in our surrounding suburban locations.

Seasonality of Business

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

Government Regulation

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

Statutes and regulations affecting the fitness industry have been enacted in jurisdictions in which we conduct business and other states into which we may expand in the future have adopted or may adopt similar

legislation. Typically, these statutes and regulations prescribe certain forms and provisions of membership contracts, afford members the right to cancel the contract within a specified time period after signing or in certain circumstances, such as for medical reasons or relocation to a certain distance from the nearest club, require an escrow of funds received from pre-opening sales or the posting of a bond or proof of financial responsibility and may establish maximum prices for membership contracts and limitations on the term of contracts. The specific procedures and reasons for cancellation vary due to differing laws in the respective jurisdictions, but in each instance, the canceling member is entitled to a refund of unused prepaid amounts. In addition, several states have proposed legislation that would prohibit the automatic rollover of membership once a member's commitment period expires. We are also subject to numerous other types of federal and state regulations governing the sale of memberships. These laws and regulations are subject to varying interpretations by a number of state and federal enforcement agencies and courts. We maintain internal review procedures to comply with these requirements and believe that our activities are in substantial compliance with all applicable statutes, rules and decisions.

The tax treatment of membership dues varies by state. Some states in which we operate require sales tax to be collected on membership dues and personal training sessions. Several others states in which we operate have proposed similar tax legislation. These taxes have the effect of increasing the payments by our members, which could impede our ability to attract new members or induce members to cancel their membership.

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

Employees

On December 31, 2013, we had approximately 7,800 employees, of whom approximately 3,400 were employed full-time. Approximately 430 of those employees were corporate and other club support personnel. We are not a party to any collective bargaining agreement with our employees. We operate with an open door policy and encourage and welcome the communication of our employees' ideas, suggestions and concerns, and believe this strengthens our employee relations. We have never experienced any significant labor shortages or had any difficulty in obtaining adequate replacements for departing employees. We consider our relations with our employees to be good.

Available Information

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

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

Item 1A. ***Risk Factors***

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

Risks Related to Our Business

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

The performance of our clubs is highly dependent on our ability to attract and retain members, and we may not be successful in these efforts. Most of our members hold month-to-month memberships and accordingly, most members can cancel their club membership at any time without penalty. In addition, we experience attrition and must continually engage existing members and attract new members in order to maintain our membership levels and ancillary sales. There are numerous factors that have in the past and could in the future lead to a decline in membership levels or that could prevent us from increasing our membership, including a decline in our ability to deliver quality service at a competitive cost, the presence of direct and indirect competition in the areas in which the clubs are located, the public's interest in fitness clubs and general economic conditions. In order to increase membership levels, we may from time to time offer lower membership rates and joining fees. Any decrease in our average membership rates or reductions in joining fees may adversely impact our results of operations.

Negative economic conditions, including increased unemployment levels and decreased consumer confidence, have in the past contributed to and in the future could lead to significant pressures and declines in economic growth, including reduced consumer spending. In a depressed economic and consumer environment, consumers and businesses may postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a material negative effect on the demand for our services and products and such decline in demand may continue as the economy continues to struggle and disposable income declines. Other factors that could influence demand include increases in fuel and other energy costs, conditions in the residential real estate and mortgage markets, labor and healthcare costs, access to credit, consumer confidence and other macroeconomic factors affecting consumer spending behavior. We believe the challenges to the global economy during the past several years have adversely affected our business and our revenues and profits and continuing challenges may result in additional adverse effects. As a result of these factors, membership levels might not be adequate to maintain our operations at current levels or permit the expansion of our operations.

In addition, to the extent our corporate clients are adversely affected by negative economic conditions, they may decide, as part of expense reduction strategies, to curtail or cancel club membership benefits provided to their respective employees. Any reductions in corporate memberships may lead to membership cancellations as we cannot assure that employees of corporate customers will choose to continue their memberships without employer subsidies. A decline in membership levels may have a material adverse effect on our business, financial condition, results of operations and cash flows.

Low consumer confidence levels, increased competition and decreased spending could negatively impact our financial position and result in club closures and fixed asset and goodwill impairments.

In the year ended December 31, 2013, we closed four clubs, while in 2012 we did not have any club closures. We recognized $714,000 of fixed asset impairments in the year ended December 31, 2013 compared to $3.4 million of fixed asset impairments in the year ended December 31, 2012. The $3.4 million of fixed asset impairments in 2012 included $3.2 million related to fixed asset write-offs at four clubs sustaining damages from Hurricane Sandy. While there were no goodwill impairments in 2013 and 2012, we have experienced goodwill impairments in the past, in part due to decreased membership. Some of our past club closures and impairments were due, in large part, to the economic and consumer environment, and increased competition in areas in which our clubs operate. If the economic and consumer environment were to deteriorate or not improve or if we are unable to improve the overall competitive position of our clubs, our operating performance may experience declines and we may need to recognize additional impairments of our fixed assets and goodwill and may be compelled to close additional clubs. In addition, we cannot ensure that we will be able to replace any of the revenue lost from these closed clubs from our other club operations.

Our geographic concentration heightens our exposure to adverse regional developments.

As of December 31, 2013, we operated 108 fitness clubs in the New York metropolitan market, 29 fitness clubs in the Boston market, 16 fitness clubs in the Washington, D.C. market, six fitness clubs in the Philadelphia market and three fitness clubs in Switzerland. Our geographic concentration in the Northeast and Mid-Atlantic regions and, in particular, the New York metropolitan area, heightens our exposure to adverse developments in these areas, including those related to economic and demographic changes in these regions, competition and severe weather or other unforeseen events, such as hurricanes. For example, in the year ended December 31, 2012, as a result of flooding and power outages caused by Hurricane Sandy, 131 clubs were closed on October 29, 2012, with one club that closed permanently, 16 clubs that remained closed for over a week and one club that was closed for over a year and recently reopened in December 2013. We cannot predict the impact that any future severe weather events will have on our ability to avoid wide-spread or prolonged club closures. Any such events affecting the areas in which we operate might result in a material adverse effect on our business, financial condition, cash flows and results of operations in the future.

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

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

The number of competitor clubs that offer lower pricing and a lower level of service continue to grow in our markets. These clubs have attracted, and may continue to attract, members away from both our fitness-only clubs and our multi-recreational clubs, particularly in the current consumer environment. Furthermore, smaller and less expensive weight loss facilities present a competitive alternative for consumers.

We also face competition from competitors offering comparable or higher pricing with higher levels of service or offerings. Larger outer-suburban, multi-recreational family fitness centers, in areas where suitable real estate is more likely to be available, also compete against our suburban, fitness-only models.

We also face competition from the increased popularity and demand for private studios offering group exercise classes. The prevalence of these smaller studios may compete against our own studio type offerings, such as cycling, Yoga and Pilates, as well as our new BFX Studio, as consumers may opt to use these competing studios to fulfill their fitness needs.

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

Our trademarks and trade names may be infringed, misappropriated or challenged by others.

We believe our brand names and related intellectual property are important to our continued success. We seek to protect our trademarks, trade names and other intellectual property by exercising our rights under

applicable trademark and copyright laws. If we were to fail to successfully protect our intellectual property rights for any reason, it could have an adverse effect on our business, results of operations and financial condition. Any damage to our reputation could cause membership levels to decline and make it more difficult to attract new members.

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

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

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

We currently operate clubs throughout the Northeast and Mid-Atlantic regions of the United States. In the case of existing markets, our experience has been that opening new clubs may attract some memberships away from other clubs already operated by us in those markets and diminish their revenues. In addition, as a result of new club openings in existing markets and because older clubs will represent an increasing proportion of our club base over time, our mature club revenue increases may be lower in future periods than in the past.

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

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

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

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

Our operations and business practices are subject to federal, state and local government regulation in the various jurisdictions in which our clubs are located, including, but not limited to the following:

- general rules and regulations of the Federal Trade Commission;
- rules and regulations of state and local consumer protection agencies;
- state statutes that prescribe certain forms and provisions of membership contracts

- state statutes that govern the advertising, sale, financing and collection of memberships;
- federal and state laws and regulations governing privacy and security of information; and
- state and local health regulations

Any changes in such laws or regulations could have a material adverse effect on our financial condition and results of operations.

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

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

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

Security and privacy breaches may expose us to liability and cause us to lose customers.

Federal and state law requires us to safeguard our customers' financial information, including credit card information. Although we have established security procedures and protocol, including credit card industry compliance procedures, to protect against identity theft and the theft of our customers' financial information, our security and testing measures may not prevent security breaches and breaches of our customers' privacy may occur, which could harm our business. For example, a significant number of our users provide us with credit card and other confidential information and authorize us to bill their credit card accounts directly for our products and services. Typically, we rely on encryption and authentication technology licensed from third parties to enhance transmission security of confidential information. Advances in computer capabilities, new discoveries in the field of cryptography, inadequate facility security or other developments may result in a compromise or breach of the technology used by us to protect customer data. Any compromise of our security or noncompliance with privacy or other laws or requirements could harm our reputation or financial condition and, therefore, our business. In addition, a party who is able to circumvent our security measures or exploit inadequacies in our security measures, could, among other effects, misappropriate proprietary information, cause interruptions in our operations or expose members to computer viruses or other disruptions. Actual or perceived vulnerabilities may lead to claims against us. To the extent the measures we have taken prove to be insufficient or inadequate, we may become subject to litigation or administrative sanctions, which could result in significant fines, penalties or damages and harm to our reputation.

Loss of key personnel and/or failure to attract and retain highly qualified personnel could make it more difficult for us to develop our business and enhance our financial performance.

We are dependent on the continued services of our senior management team, including our Chief Executive Officer, Robert Giardina, our President, Chief Operating Officer and Chief Financial Officer, Daniel Gallagher, and our Senior Vice President, Chief Information Officer, Paul Barron. We believe the loss of such key personnel could have a material adverse effect on us and our financial performance. Currently, we do not have any long-term employment agreements with our executive officers, and we may not be able to attract and retain sufficient qualified personnel to meet our business needs.

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

Terrorist attacks, such as the attacks that occurred in New York City and Washington, D.C. on September 11, 2001, and other acts of violence or war may affect the markets in which we operate, our operating

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

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

The continuing and uninterrupted performance of our information systems is critical to our success. We use a fully-integrated information system to process new memberships, bill members, check-in members and track and analyze sales and membership statistics, the frequency and timing of member workouts, cross-club utilization, member life, value-added services and demographic profiles by member. This system also assists us in evaluating staffing needs and program offerings. We believe that, without investing in enhancements, this system was approaching the end of its life cycle. Thus, in 2011, we began the process of replacing this system with a new system through a multi-year phase in implementation program which is expected to be completed over the next two years. Correcting any disruptions or failures that affect our proprietary system or the new system, as it is implemented, could be difficult, time-consuming and expensive because we would need to use contracted consultants familiar with our system.

Any failure of our current system could also cause us to lose members and adversely affect our business and results of operations. Our members may become dissatisfied by any systems disruption or failure that interrupts our ability to provide our services to them. Disruptions or failures that affect our billing and other administrative functions could have an adverse effect on our operating results.

Infrastructure changes are being undertaken to accommodate our growth, provide network redundancy, better manage telecommunications and data costs, increase efficiencies in operations and improve management of all components of our technical architecture. Fire, floods, earthquakes, power loss, telecommunications failures, break-ins, acts of terrorism and similar events could damage our systems. In addition, computer viruses, electronic break-ins or other similar disruptive problems could also adversely affect our sites. Any system disruption or failure, security breach or other damage that interrupts or delays our operations could cause us to lose members, damage our reputation, and adversely affect our business and results of operations.

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

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

Our cash and cash equivalents are concentrated in a small number of banks.

Our cash and cash equivalents are held, primarily, in a small number of commercial banks. These deposits are not collateralized. In the event these banks become insolvent, we would be unable to recover most of our cash and cash equivalents deposited at the banks. Cash and cash equivalents held in a small number of commercial banks as of December 31, 2013 totaled $72.9 million. During 2013, in any one month, this amount has been as high as approximately $82.0 million.

Regulatory changes in the terms of credit and debit card usage, including any existing or future regulatory requirements, could have an adverse effect on our business.

Our business relies heavily on the use of credit and debit cards in sales transactions. Regulatory changes to existing rules or future regulatory requirements affecting the use of credit and debit cards or the fees charged could impact the consumer and financial institutions who provide card services. This may lead to an adverse impact on our business if the regulatory changes result in unfavorable terms to either the consumer or the banking institutions.

Because of the capital-intensive nature of our business, we may have to incur additional indebtedness or issue new equity securities and, if we are not able to obtain additional capital, our ability to operate or expand our business may be impaired and our results of operations could be adversely affected.

Our business requires significant levels of capital to finance the development of additional sites for new clubs and the construction of our clubs. If cash from available sources is insufficient or unavailable due to restrictive credit markets, or if cash is used for unanticipated needs, we may require additional capital sooner than anticipated. In the event that we are required or choose to raise additional funds, we may be unable to do so on favorable terms or at all. Furthermore, the cost of debt financing could significantly increase, making it cost-prohibitive to borrow, which could force us to issue new equity securities. If we issue new equity securities, existing shareholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of common stock. If we cannot raise funds on acceptable terms, we may not be able to execute our current growth plans, take advantage of future opportunities or respond to competitive pressures. Any inability to raise additional capital when required could have an adverse effect on our business plans and operating results.

We may incur rising costs related to construction of new clubs and maintaining our existing clubs. If we are not able to pass these cost increases through to our members, our returns may be adversely affected.

Our clubs require significant upfront investment. If our investment is higher than we had planned, we may need to outperform our operational plan to achieve our targeted return. We cannot assure that we can offset cost increases by increasing our membership dues and other fees and improving profitability through cost efficiencies.

We may be required to remit unclaimed property to states for unused, expired personal training sessions.

We recognize revenue from personal training sessions as the services are performed (i.e., when the session is trained). Unused personal training sessions expire after a set, disclosed period of time after purchase and are not refundable or redeemable by the member for cash. The State of New York has informed us that it is considering whether we are required to remit the amount received by us for unused, expired personal training sessions to the State of New York as unclaimed property. As of December 31, 2013, we had approximately $14.3 million of unused and expired personal training sessions that had not been recognized as revenue and was recorded as deferred revenue. We do not believe that these amounts are subject to the escheatment or abandoned property laws of any jurisdiction, including the State of New York. However, it is possible that one or more of these jurisdictions may not agree with our position and may claim that we must remit all or a portion of these amounts to such jurisdiction. This could have a material adverse effect on our cash flows.

Our growth and profitability could be negatively impacted if we are unable to renew or replace our current club leases on favorable terms, or at all, and we cannot find suitable alternate locations.

We currently lease substantially all of our fitness club locations pursuant to long-term leases (generally 15 to 20 years, including option periods). During the next five years, or the period from January 1, 2014 through December 31, 2018, we have leases for 24 club locations that are due to expire without any renewal options, two of which expire in 2014, and 48 club locations that are due to expire with renewal options. For leases with renewal options, several of them provide for our unilateral option to renew for additional rental periods at

specific rental rates (for example, based on the consumer price index or stated renewal terms already set in the leases) or based on the fair market rate at the location. Our ability to negotiate favorable terms on an expiring lease or to negotiate favorable terms on leases with renewal options, or conversely for a suitable alternate location, could depend on conditions in the real estate market, competition for desirable properties and our relationships with current and prospective landlords or may depend on other factors that are not within our control. Any or all of these factors and conditions could negatively impact our revenue, growth and profitability.

Failure to complete the sale of the property at East 86th Street in New York may negatively impact the price of our common stock.

We have announced the entry into an agreement to sell our property located at East 86th Street in New York for a price of approximately $82 million, subject to adjustment, and we expect the sale to close on or about March 31, 2014. If we are unable to close the sale of the property on such terms, we may be unable to identify other potential purchasers for such property at a similar price or on terms acceptable to us, which may negatively impact the price of our common stock.

There can be no guarantee that we will continue to declare dividends on our common stock.

In November 2013, we initiated a quarterly cash dividend payment on our common stock. Any determination to continue to declare cash dividends on our common stock will be based primarily upon our financial condition, including availability of cash-on-hand, results of operations, debt repayment requirements and business capital requirements, including capital expenditures and acquisitions, the board of directors' continuing determination that the declaration of dividends are in the best interests of our stockholders and are in compliance with all laws and agreements applicable to dividend programs. For example, the ability of our subsidiaries, including TSI, LLC, to make distributions to us is limited by the terms of our existing senior secured credit facility, as described below. Accordingly, our ability to obtain cash to declare dividends is subject, in part, to such limitation. In the event we do not declare a quarterly dividend, our stock price could be adversely affected.

Risks Related to Our Leverage and Our Indebtedness

On November 15, 2013, TSI, LLC entered into a $370.0 million senior secured credit facility ("2013 Senior Credit Facility"). The 2013 Senior Credit Facility consists of a $325.0 million term loan facility ("2013 Term Loan Facility"), and a $45.0 million revolving loan facility ("2013 Revolving Loan Facility"). The 2013 Term Loan Facility matures on November 15, 2020, and the 2013 Revolving Loan Facility matures on November 15, 2018.

We may be negatively affected by economic conditions in the U.S. and key international markets.

We must maintain liquidity to fund our working capital, service our outstanding indebtedness and finance investment opportunities. Without sufficient liquidity, we could be forced to curtail our operations or we may not be able to pursue new business opportunities. The principal sources of our liquidity are funds generated from operating activities, available cash and cash equivalents and borrowings under our $45.0 million 2013 Revolving Loan Facility. If our current resources do not satisfy our liquidity requirements, we may have to seek additional financing.

Economic conditions, both domestic and foreign, may affect our financial performance. Prevailing economic conditions, including unemployment levels, inflation, availability of credit, energy costs and other macro-economic factors, as well as uncertainty about future economic conditions, adversely affect consumer spending and, consequently, our business and results of operations.

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

We currently have a substantial amount of debt. As of December 31, 2013, our total outstanding consolidated debt was $325.0 million. In addition, as of December 31, 2013, we had $42.0 million of unutilized borrowings, net of $3.0 million of letters of credit, under our 2013 Revolving Loan Facility. Our substantial debt could have important consequences, including:

- making it more difficult for us to satisfy our obligations with respect to our outstanding indebtedness;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions of clubs and other general corporate requirements;
- requiring a substantial portion of our cash flow from operations for the payment of interest on our debt, which is variable on our 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.

If new debt is added to our and our subsidiaries' current debt levels, the related risks that we and they currently face could intensify.

The current debt under the 2013 Senior Credit Facility has a floating interest rate and an increase in interest rates may negatively impact our financial results.

Interest rates applicable to our debt are expected to fluctuate based on economic and market factors that are beyond our control. In particular, the unhedged portion of $165.0 million, of our outstanding debt under our 2013 Senior Credit Facility has a floating interest rate. Any significant increase in market interest rates, and in particular the short-term Eurodollar rates, would result in a significant increase in interest expense on our debt, which could negatively impact our net income and cash flows.

The Company may be unsuccessful in its efforts to effectively hedge against interest rate changes on our variable rate debt .

In its normal operations, the Company is exposed to market risk relating to fluctuations in interest rates. In order to minimize the negative impact of such fluctuations on the Company's cash flows, the Company may enter into derivative financial instruments, such as interest rate swaps. The Company's current interest rate swap arrangement is with one financial institution and covers $160.0 million of our current $325.0 million outstanding term loan principal balance with the swap expiring on May 15, 2018. We are exposed to credit risk if the counterparty to the agreement is not able to perform on its obligations. Additionally, a failure on our part to effectively hedge against interest rate changes may adversely affect our financial condition and results of operations. We are required to record the interest rate swap at its fair value. Changes in interest rates can significantly impact the valuation of the instrument resulting in non-cash changes to our financial position.

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

Our 2013 Senior Credit Facility and the agreements related thereto contain, among other things, covenants that may restrict our ability to finance future operations or capital needs or to engage in other business activities and that may impact our ability and the ability of our restricted subsidiaries to:

- incur debt;
- pay dividends or make distributions;
- purchase or redeem stock;
- make investments and extend credit;
- engage in transactions with affiliates;
- engage in sale-leaseback transactions;
- consummate certain asset sales;
- effect a consolidation or merger or sell, transfer, lease or otherwise dispose of all or substantially all of our assets; and
- create liens on our assets.

The 2013 Senior Credit Facility provides for a financial covenant in the situation where the utilization of the revolving loan commitments (other than letters of credit up to $5,500,000 at any time outstanding) exceeds 25% of the commitment. In such event, our subsidiaries are required to maintain a total leverage ratio of no greater than 4.50:1.00. Our subsidiaries were not subject to this covenant as of December 31, 2013 since their total revolving loan commitments, other than letters of credit outstanding, did not exceed 25% of the total revolver. This covenant may require us to take action to reduce our debt or act in a manner contrary to our business objectives.

Events beyond our control, including changes in general economic and business conditions, may affect our ability to meet certain financial ratios under the 2013 Senior Credit Facility. We may be unable to meet those tests and the lenders may decide not to waive any failure to meet those tests. A failure to satisfy these tests could limit our ability to obtain funds to pay dividends or cause a default under the 2013 Senior Credit Facility. If an event of default under the 2013 Senior Credit Facility occurs, the lenders could elect to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable. If any such event should occur, we might not have sufficient assets to pay our indebtedness and meet our other obligations, which would have a material adverse effect on our business, financial condition and results of operations.

Item 1B. *Unresolved Staff Comments*

None

Item 2. *Properties*

We own our 151 East 86th Street, New York location, which houses a fitness club and a retail tenant that generated approximately $2.0 million of rental income for us for the year ended December 31, 2013.

On December 24, 2013 we announced the entry into an agreement to sell the property located at 151 East 86th Street, New York to an affiliate of Stillman Development International, LLC for a price of $82 million, subject to certain adjustments. The transaction is subject to various closing conditions, and the parties expect the transaction to be completed on or about March 31, 2014. In connection with the sale of the property, we will continue to operate our NYSC health and fitness club at this location under a lease with the purchaser of the

property. After a period of not less than two years, the purchaser, upon prior notice, may exercise its right to terminate the lease in order to commence the demolition of the premises and the currently adjacent property under which the purchaser has entered into a long-term ground lease, and the construction of a new high-rise multi-use property. The parties have agreed to enter into a new lease for a health and fitness club space to be located at the same location as the current fitness club following completion of development of the new high-rise building.

We lease the remainder of our fitness clubs pursuant to long-term leases (generally 15 to 20 years, including options). In the next five years, or the period from January 1, 2014 through December 31, 2018, we have leases for 24 club locations that are due to expire without any renewal options, two which are due to expire in 2014, and 48 club locations that are due to expire with renewal options. Renewal options include terms for rental increases based on the consumer price index, fair market rates or stated renewal terms already set in the lease agreements.

We lease approximately 26,400 square feet of office space in New York City and have smaller regional offices in Fairfax, VA and Boston, MA, for administrative and general corporate purposes.

We lease approximately 82,000 square feet in Elmsford, NY for the operation of a centralized laundry facility for New York Sports Clubs offering towel service, and for construction and equipment storage. This space also serves as corporate office space. Total square footage related to the laundry facility is 42,000 and total square footage related to the corporate office and warehouse space is 40,000.

The following table provides information regarding our club locations:

Location	Address	Date Opened or Management Assumed
New York Sports Clubs:		
Manhattan	151 East 86th Street	January 1977
Manhattan	61 West 62nd Street	July 1983
Manhattan	614 Second Avenue	July 1986
Manhattan	151 Reade Street	January 1990
Manhattan	1601 Broadway	September 1991
Manhattan	349 East 76th Street	April 1994
Manhattan	248 West 80th Street	May 1994
Manhattan	502 Park Avenue	February 1995
Manhattan	117 Seventh Avenue South	March 1995
Manhattan	303 Park Avenue South	December 1995
Manhattan	30 Wall Street	May 1996
Manhattan	1635 Third Avenue	October 1996
Manhattan	575 Lexington Avenue	November 1996
Manhattan	278 Eighth Avenue	December 1996
Manhattan	200 Madison Avenue	February 1997
Manhattan	2162 Broadway	November 1997
Manhattan	633 Third Avenue	April 1998
Manhattan	217 Broadway	March 1999
Manhattan	23 West 73rd Street	April 1999
Manhattan	34 West 14th Street	July 1999
Manhattan	503-511 Broadway	July 1999
Manhattan	1372 Broadway	October 1999
Manhattan	300 West 125th Street	May 2000
Manhattan	19 West 44th Street	August 2000
Manhattan	128 Eighth Avenue	December 2000
Manhattan	2527 Broadway	August 2001

Location	Address	Date Opened or Management Assumed
Manhattan	3 Park Avenue	August 2001
Manhattan	10 Irving Place	November 2001
Manhattan	230 West 41st Street	November 2001
Manhattan	1221 Avenue of the Americas	January 2002
Manhattan	200 Park Avenue	December 2002
Manhattan	232 Mercer Street	September 2004
Manhattan	225 Varick Street	August 2006
Manhattan	885 Second Avenue	February 2007
Manhattan	301 West 145th Street	October 2007
Manhattan	1400 5th Avenue	December 2007
Manhattan	75 West End Avenue	April 2013
Manhattan	28-30 Avenue A	Future opening
Bronx, NY	1601 Bronxdale Avenue	November 2007
Brooklyn, NY	110 Boerum Place	October 1985
Brooklyn, NY	1736 Shore Parkway	June 1998
Brooklyn, NY	179 Remsen Street	May 2001
Brooklyn, NY	324 Ninth Street	August 2003
Brooklyn, NY	1630 E 15th Street	August 2007
Brooklyn, NY	7118 Third Avenue	May 2004
Brooklyn, NY	439 86th Street	April 2008
Brooklyn, NY	242 Bedford Avenue	Future opening
Brooklyn, NY	147 Greenpoint Avenue	Future opening
Queens, NY	69-33 Austin Street	April 1997
Queens, NY	153-67 A Cross Island Parkway	June 1998
Queens, NY	2856-2861 Steinway Street	February 2004
Queens, NY	8000 Cooper Avenue	March 2007
Queens, NY	99-01 Queens Boulevard	June 2007
Queens, NY	39-01 Queens Blvd	December 2007
Staten Island, NY	300 West Service Road	June 1998
Scarsdale, NY	696 White Plains Road	October 1995
Mamaroneck, NY	124 Palmer Avenue	January 1997
Croton-on-Hudson, NY	420 South Riverside Drive	January 1998
Larchmont, NY	15 Madison Avenue	December 1998
Nanuet, NY	58 Demarest Mill Road	May 1998
Great Neck, NY	15 Barstow Road	July 1989
East Meadow, NY	625 Merrick Avenue	January 1999
Commack, NY	6136 Jericho Turnpike	January 1999
Oceanside, NY	2909 Lincoln Avenue	May 1999
Long Beach, NY	265 East Park Avenue	July 1999
Garden City, NY	833 Franklin Avenue	May 2000
Huntington, NY	350 New York Avenue	February 2001
Syosset, NY	49 Ira Road	March 2001
West Nyack, NY	3656 Palisades Center Drive	February 2002
Woodmere, NY	158 Irving Street	March 2002
Hartsdale, NY	208 E. Hartsdale Avenue	September 2004
Somers, NY	Somers Commons, 80 Route 6	February 2005
Port Jefferson Station, NY	200 Wilson Street	July 2005
White Plains, NY	4 City Center	September 2005
Hawthorne, NY	24 Saw Mill River Road	January 2006
Dobbs Ferry, NY	50 Livingstone Avenue	June 2008

Location	Address	Date Opened or Management Assumed
Smithtown, NY	5 Browns Road	December 2007
Carmel, NY	1880 Route 6	July 2007
Hicksville, NY	100 Duffy Avenue	November 2008
New Rochelle, NY	Trump Plaza, Huguenot Street	March 2008
Deer Park, NY	455 Commack Avenue	March 2009
Garnerville, NY	20 W. Ramapo Road	October 2011
Stamford, CT	106 Commerce Road	January 1998
Danbury, CT	38 Mill Plain Road	January 1998
Stamford, CT	1063 Hope Street	November 1998
Greenwich, CT	6 Liberty Way	May 1999
Westport, CT	427 Post Road, East	January 2002
West Hartford, CT	65 Memorial Road	November 2007
Princeton, NJ	301 North Harrison Street	May 1997
Matawan, NJ	450 Route 34	April 1998
Marlboro, NJ	34 Route 9 North	April 1998
Ramsey, NJ	1100 Route 17 North	June 1998
Mahwah, NJ	7 Leighton Place	June 1998
Springfield, NJ	215 Morris Avenue	August 1998
Colonia, NJ	1250 Route 27	August 1998
Somerset, NJ	120 Cedar Grove Lane	August 1998
Hoboken, NJ	59 Newark Street	October 1998
West Caldwell, NJ	913 Bloomfield Avenue	April 1999
Jersey City, NJ	147 Two Harborside Financial Center	June 2002
Newark, NJ	1 Gateway Center	October 2002
Ridgewood, NJ	129 S. Broad Street	June 2003
Westwood, NJ	35 Jefferson Avenue	June 2004
Livingston, NJ	39 W. North Field Rd.	February 2005
Princeton, NJ	4250 Route 1 North	April 2005
Hoboken, NJ	210 14th Street	December 2006
Englewood, NJ	34-36 South Dean Street	December 2006
Clifton, NJ	202 Main Avenue	March 2007
Montclair, NJ	56 Church Street	January 2008
Butler, NJ	1481 Route 23	January 2009
East Brunswick, NJ	300 State Route 18	March 2009
Bayonne, NJ	550 Route 440 North	December 2011
Boston Sports Clubs:		
Boston, MA	1 Bulfinch Place	August 1998
Boston, MA	201 Brookline Avenue	June 2000
Boston, MA	361 Newbury Street	November 2001
Boston, MA	350 Washington Street	February 2002
Boston, MA	505 Boylston Street	January 2006
Boston, MA	560 Harrison Avenue	February 2006
Boston, MA	695 Atlantic Avenue	October 2006
Boston, MA	One Beacon Street	May 2013
Boston, MA	197 Clarendon Street	May 2013
Boston, MA	800 Boylston Street	May 2013
Boston, MA	100 Summer Street	May 2013
Boston, MA	540 Gallivan Road	Future opening
Allston, MA	15 Gorham Street	July 1997
Weymouth, MA	553 Washington Street	May 1999

Location	Address	Date Opened or Management Assumed
Wellesley, MA	140 Great Plain Avenue	July 2000
Andover, MA	307 Lowell Street	July 2000
Lynnfield, MA	425 Walnut Street	July 2000
Lexington, MA	475 Bedford Avenue	July 2000
Franklin, MA	750 Union Street	July 2000
Cambridge, MA	625 Massachusetts Avenue	January 2001
West Newton, MA	1359 Washington Street	November 2001
Waltham, MA	840 Winter Street	November 2002
Watertown, MA	311 Arsenal Street	January 2006
Newton, MA	135 Wells Avenue	August 2006
Somerville, MA	1 Davis Square	December 2007
Medford, MA	70 Station Landing	December 2007
Westborough, MA	1500 Union Street	September 2008
Woburn, MA	300 Presidential Way	December 2008
Wayland, MA	Wayland Town Center	Future opening
Providence, RI	131 Pittman Street	December 2008
Providence, RI	10 Dorrance Street	January 2009
Washington Sports Clubs:		
Washington, D.C.	214 D Street, S.E	January 1980
Washington, D.C.	1835 Connecticut Avenue, N.W .	January 1990
Washington, D.C.	2251 Wisconsin Avenue, N.W	May 1994
Washington, D.C.	1211 Connecticut Avenue, N.W	July 2000
Washington, D.C.	1345 F Street, N.W	August 2002
Washington, D.C.	1990 K Street, N.W	February 2004
Washington, D.C.	783 Seventh Street, N.W	October 2004
Washington, D.C.	3222 M Street, N.W	February 2005
Washington, D.C.	14th Street, N.W	June 2008
North Bethesda, MD	10400 Old Georgetown Road	June 1998
Silver Spring, MD	8506 Fenton Street	November 2005
Bethesda, MD	6800 Wisconsin Avenue	November 2007
Alexandria, VA	3654 King Street	June 1999
Fairfax, VA	11001 Lee Highway	October 1999
West Springfield, VA	8430 Old Keene Mill	September 2000
Clarendon, VA	2700 Clarendon Boulevard	November 2001
Philadelphia Sports Clubs:		
Philadelphia, PA	220 South 5th Street	January 1999
Philadelphia, PA	2000 Hamilton Street	July 1999
Chalfont, PA	One Highpoint Drive	January 2000
Philadelphia, PA	1735 Market Street	October 2000
Ardmore, PA	34 W. Lancaster Avenue	March 2002
Radnor, PA	555 East Lancaster Avenue	December 2006
Swiss Sports Clubs:		
Basel, Switzerland	St. Johanns-Vorstadt 41	August 1987
Zurich, Switzerland	Glarnischstrasse 35	August 1987
Basel, Switzerland	Gellerstrasse 235	August 2001
BFX Studio:		
Manhattan	555 Sixth Avenue	Future opening

Item 3. ***Legal Proceedings***

On or about March 1, 2005, in an action styled Sarah Cruz, et al v. Town Sports International, d/b/a New York Sports Club, plaintiffs commenced a purported class action against TSI, LLC in the Supreme Court, New York County, seeking unpaid wages and alleging that TSI, LLC violated various overtime provisions of the New York State Labor Law with respect to the payment of wages to certain trainers and assistant fitness managers. On or about June 18, 2007, the same plaintiffs commenced a second purported class action against TSI, LLC in the Supreme Court of the State of New York, New York County, seeking unpaid wages and alleging that TSI, LLC violated various wage payment and overtime provisions of the New York State Labor Law with respect to the payment of wages to all New York purported hourly employees. On September 17, 2010, TSI, LLC made motions to dismiss the class action allegations of both lawsuits for plaintiffs' failure to timely file motions to certify the class actions. The court granted the motions on January 29, 2013, dismissing the class action allegations in both lawsuits. On March 4, 2013, plaintiffs served notice of their intent to appeal that dismissal. The court has stayed the remaining, individual claims in each action pending resolution of the plaintiffs' appeal. The appeal has been fully briefed and the parties expect that oral arguments on the motion will be held in April 2014.

On September 22, 2009, in an action styled Town Sports International, LLC v. Ajilon Solutions, a division of Ajilon Professional Staffing LLC (Supreme Court of the State of New York, New York County, 602911-09), TSI, LLC brought an action in the Supreme Court of the State of New York, New York County, against Ajilon for, among other things, breach of contract seeking, among other things, money damages, in connection with Ajilon's failure to design and deliver to TSI, LLC a new sports club enterprise management system known as GIMS. Subsequently, on October 14, 2009, Ajilon brought a counterclaim against TSI, LLC alleging breach of contract, asserting, among other things, failure to pay outstanding invoices in the aggregate amount of approximately $2.9 million. Following a jury trial, a jury verdict was rendered on January 28, 2013, that awarded TSI, LLC damages against Ajilon in the amount of approximately $3.3 million, plus interest, and also awarded Ajilon damages against TSI, LLC in the amount of approximately $214,000, plus interest. After the Court granted Ajilon's motion to set aside the part of the jury verdict that had rejected the bulk of Ajilon's counterclaim, the Court increased the award of damages against TSI, LLC from approximately $214,000 to approximately $2.9 million, plus interest. The result is a net amount owed to TSI, LLC in the amount of approximately $400,000, plus interest. On April 8, 2013, TSI, LLC filed a notice of appeal, appealing the Court's decision to set aside the jury verdict, and on May 6, 2013, Ajilon filed its notice of appeal, appealing the verdict. On December 3, 2013, the Appellate Division issued its opinion, which vacated the judgments for damages both for and against TSI, LLC but let stand the jury's verdict that Ajilon is liable to TSI, LLC for damages to be determined at a new trial against Ajilon. The new trial, which has not yet been scheduled, will be limited to the damages suffered by TSI, LLC. On January 2, 2014, Ajilon filed a motion to the Appellate Division to both reargue the Appellate Division's decision to deny Ajilon damages as well as appeal the Appellate Division's decision to the New York State Court of Appeals. On February 25, 2014, the Appellate Division denied Ajilon's motion.

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, and take additional space in the nearby facility leased by another subsidiary of TSI, LLC. The trial court granted the landlord damages against its tenant in the amount of approximately $700,000, including interest and costs ("Initial Award"). TSI, LLC was held to be jointly liable with the tenant for the amount of approximately $488,000, under a limited guarantee of the tenant's lease obligations. The landlord subsequently appealed the trial court's award of damages, and on December 21, 2010, the appellate court reversed, in part, the trial court's decision and ordered the case remanded to the trial court for an assessment of additional damages, of approximately $750,000 plus interest and costs (the "Additional Award"). On February 7, 2011, the landlord moved for re-argument of the appellate court's decision, seeking additional damages plus attorneys' fees. On April 8, 2011, the appellate court denied the landlord's motion. On August 29, 2011, the Additional Award (amounting to approximately $900,000), was entered against the tenant. TSI, LLC does not believe it is probable that TSI, LLC will be held liable to pay for any amount of the Additional

Award. 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. In connection with the Initial Award (and in furtherance of the indemnification agreement), TSI, LLC and the developer have entered into an agreement pursuant to which the developer has agreed to pay the amount of the Initial Award in installments over time. The indemnification agreement also covers the Additional Award. The developer did not pay the amount of the Additional Award to the landlord, and on October 13, 2011 the landlord commenced a special proceeding in the Supreme Court of the State of New York, Westchester County, to collect the Additional Award directly from the developer. A motion to dismiss the special proceeding made by the developer was denied by the court on March 13, 2012. An appeal of that decision by the developer was rejected. On March 14, 2013, the landlord moved for summary judgment on its claim to recover the Additional Award directly from the developer and on March 25, 2013, the developer cross-moved for summary judgment to dismiss the special proceeding. In May 2013, the court granted summary judgment to the landlord and denied the cross-motion for summary judgment of the developer. Judgment was entered against the developer on June 5, 2013 in the amount of $1.0 million, plus interest. On June 13, 2013, the developer filed a notice of its intent to appeal the judgment. The appeal remains pending.

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. On December 18, 2012, TSI, LLC filed a motion to stay the class action pending a decision on class certification in the Cruz case and to dismiss the Labbe action if the Cruz case is certified. On January 29, 2013, Labbe responded to the motion to stay and filed a cross-motion to consolidate the Labbe case with the Cruz case. On February 11, 2013, following the dismissal of the class claims in Cruz, Labbe withdrew the cross-motion to consolidate. Oral argument to stay the action until a decision is made on the appeal in the Cruz case was heard on April 10, 2013. On December 17, 2013, the Court granted TSI, LLC's motion to stay the Labbe action pending a resolution of the Cruz appeal. By the terms of the order, the stay lasts as long as the appeal of the dismissal of the class claims in the Cruz case remains pending.

In addition to the litigation discussed above, we are involved in various other lawsuits, claims and proceedings incidental to the ordinary course of business, including personal injury and employee relations claims. The results of litigation are inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources. The results of these other lawsuits, claims and proceedings cannot be predicted with certainty. While it is not feasible to predict the outcome of such proceedings, in the opinion of the Company, either the likelihood of loss is remote or any reasonably possible loss associated with the resolution of such proceedings is not expected to be material either individually or in the aggregate.

Item 4. ***Mine Safety Disclosures***

Not applicable.

PART II

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

Price Range of Common Stock

Our common stock currently trades on The NASDAQ Global Market, under the symbol CLUB. The following table sets forth, for each quarterly period in the last two fiscal years, the high and low sales prices (in dollars per share) of our common stock as quoted or reported on The NASDAQ Global Market:

	High	Low
Year ended December 31, 2013:		
First Quarter	$11.11	$ 8.91
Second Quarter	$11.37	$ 9.31
Third Quarter	$13.03	$10.83
Fourth Quarter	$14.96	$11.50
Year ended December 31, 2012:		
First Quarter	$13.44	$ 7.37
Second Quarter	$13.48	$10.63
Third Quarter	$13.88	$ 9.31
Fourth Quarter(a)	$13.55	$ 9.32

(a) Pursuant to NASDAQ Exchange rules, the "ex-dividend" date with respect to the $3.00 per share special cash dividend was set as November 28, 2012. Accordingly, prior to the commencement of trading on November 28, 2012, the Company's stock price was reduced by $3.00 to reflect the payment of the cash dividend. The closing price per share on November 27, 2012 and November 28, 2012 was $12.39 and $9.85, respectively.

Holders

As of February 27, 2014, there were approximately 101 holders of record of our common stock. There are additional holders who are not "holders of record" but who beneficially own stock through nominee holders such as brokers and benefit plan trustees.

Dividends Policy

Prior to December 11, 2012, we had not paid dividends since becoming a publicly traded company. On November 16, 2012, as a means of returning value to our shareholders, the board of directors declared a special cash dividend of $3.00 per share to common stock holders of record as of November 30, 2012, paid on December 11, 2012. The special dividend was funded by borrowings of $60.0 million under our 2011 Senior Credit Facility (as defined below), as amended, together with available cash on hand. Actual dividends paid on December 11, 2012 were $70.3 million with an additional $1.1 million of dividends to be paid as restricted shares vest.

On November 15, 2013, the board of directors declared a regular quarterly cash dividend of $0.16 per share to common stock holders of record as of November 26, 2013, paid on December 5, 2013. The regular cash dividend was funded by available cash on hand. Actual dividends paid on December 5, 2013 were $3.8 million with an additional $58,000 of dividends to be paid as restricted shares vest. On February 12, 2014, the board of directors declared the second quarterly cash dividend of $0.16 per share payable on March 5, 2014 to common stock holders of record as of February 24, 2014. The aggregate amount to be paid will be approximately $3.9 million.

The board of directors currently intends to pay a quarterly cash dividend as a means of returning value to our stockholders. The declaration and payment of dividends to holders of our common stock by us, if any, are subject to the discretion of our board of directors. Our board of directors will take into account such matters as general economic and business conditions, our strategic plans, our financial results and condition, contractual, legal and regulatory restrictions on the payment of dividends by us and our subsidiaries and such other factors as our board of directors may consider to be relevant. We will rely on cash on hand at TSI Holdings, which was $43.6 million at December 31, 2013, and distributions received from our subsidiaries to provide the funds necessary to pay dividends on our common stock. The existing credit agreement of TSI, LLC restricts the ability of our subsidiaries to pay cash distributions to TSI Holdings in order for TSI Holdings to pay cash dividends except (a) in an amount, when combined with certain prepayments of indebtedness, of up to $35.0 million, subject to pro forma compliance with a total leverage ratio of no greater than 4.50:1.00 and no default or event of default existing or continuing under the credit agreement, and (b) an additional amount based on excess cash flow, such additional amounts subject to pro forma compliance with a total leverage ratio of less than 4.00:1.00 and no default or event of default existing or continuing under the credit agreement.

Issuer Purchases of Equity Securities

We did not purchase any equity securities during the fourth quarter ended December 31, 2013.

Recent Sales of Unregistered Securities

We did not sell any securities during the year ended December 31, 2013 that were not registered under the Securities Act of 1933, as amended.

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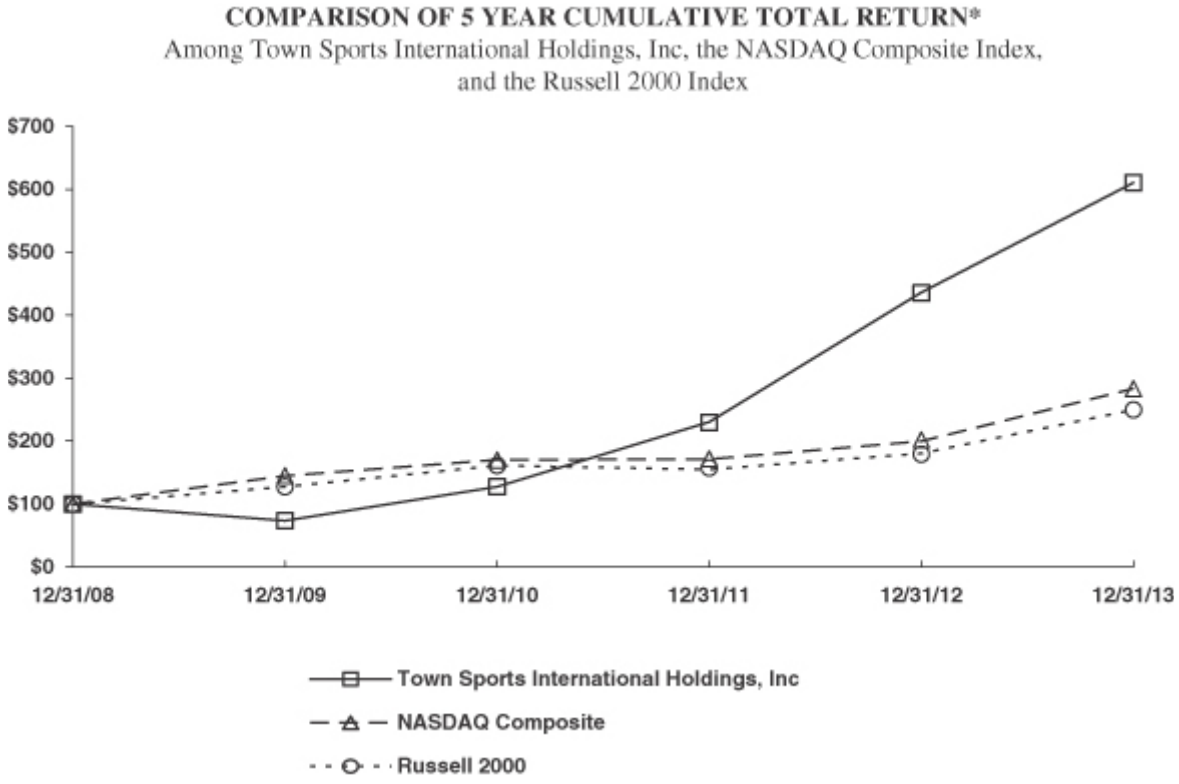
Stock Performance Graph

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



* $100 invested on 12/31/08 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

	December 31,					
	2008	2009	2010	2011	2012	2013
Town Sports International Holdings, Inc	$100.00	$ 73.04	$127.27	$230.41	$435.90	$610.51
NASDAQ Composite	$100.00	$144.88	$170.58	$171.30	$199.99	$283.39
Russell 2000	$100.00	$127.17	$161.32	$154.59	$179.86	$249.69

Notes :

(1) The graph covers the period from December 31, 2008 to December 31, 2013.

(2) The graph assumes that $100 was invested at the market close on December 31, 2008 in our common stock, in the Russell 2000 and in the NASDAQ composite indexes and that all dividends were reinvested.

(3) A special cash dividend of $3.00 per share of common stock was declared by our board of directors on November 16, 2012 to shareholders of record on November 30, 2012, paid on December 11, 2012. A quarterly cash dividend of $0.16 per share was declared by our board of directors on November 15, 2013 to shareholders of record on November 26, 2013, paid on December 5, 2013.

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

(5) We include a comparison against the Russell 2000 because there is no published industry or line-of-business index for our industry and we do not have a readily definable peer group that is publicly traded.

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

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

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

The selected consolidated balance sheet data as of December 31, 2013 and 2012 and the selected consolidated statement of operations and cash flow data for the years ended December 31, 2013, 2012 and 2011 have been derived from our audited consolidated financial statements included elsewhere herein. The selected consolidated balance sheet data as of December 31, 2011, 2010 and 2009 and the selected consolidated statement of operations and cash flow data for the years ended December 31, 2010 and 2009 have been derived from our audited consolidated financial statements not included herein. Other data and club and membership data for all periods presented have been derived from our unaudited books and records. Our historical results are not necessarily indicative of results for any future period. You should read these selected consolidated financial and other data, together with the accompanying notes, in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this Annual Report and our consolidated financial statements and the related notes appearing at the end of this Annual Report.

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Statement of Operations Data:					
Revenues	$470,225	$478,981	$466,941	$462,387	$485,392
Operating expenses:					
Payroll and related(1)	174,894	181,632	177,528	185,583	193,891
Club operating	179,683	178,950	176,463	174,135	178,854
General and administrative	28,431	24,139	25,799	28,773	31,587
Depreciation and amortization	49,099	49,391	51,536	52,202	56,533
Insurance recovery related to damaged property(2)	(3,194)	—	—	—	—
Impairment of fixed assets	714	3,436	—	3,254	6,708
Impairment of internal-use software	—	—	—	—	10,194
Operating income	40,598	41,433	35,615	18,440	7,625
Loss on extinguishment of debt(3)	750	1,010	4,865	—	—
Interest expense, net of interest income	22,616	24,597	24,127	21,013	20,969
Equity in the earnings of investees and rental income	(2,459)	(2,461)	(2,391)	(2,139)	(1,876)
Net income before provision (benefit) for corporate income taxes	19,691	18,287	9,014	(434)	(11,468)
Provision (benefit) for corporate income taxes(4)	7,367	6,321	2,699	(144)	(5,800)
Net income (loss)	$ 12,324	$ 11,966	$ 6,315	$ (290)	$ (5,668)
Earnings (loss) per weighted average number of shares:					
Basic	$ 0.51	$ 0.51	$ 0.28	$ (0.01)	$ (0.25)
Diluted	$ 0.50	$ 0.50	$ 0.27	$ (0.01)	$ (0.25)
Dividends declared per common share(5)	$ 0.16	$ 3.00	$ —	$ —	$ —

	As of December 31,				
	2013	2012	2011	2010	2009
Balance Sheet Data:					
Cash and cash equivalents	$ 73,598	$ 37,758	$ 47,880	$ 38,803	$ 10,758
Working capital surplus (deficit)(6)	27,830	(11,825)	(18,311)	(11,926)	(35,166)
Total assets(7)	413,792	404,770	450,402	474,693	467,466
Long-term debt, including current installments	314,909	310,339	288,994	316,513	318,363
Total stockholders' (deficit) equity	(43,516)	(55,496)	354	(6,945)	(8,233)
Net debt(8)	251,402	277,985	243,870	277,710	307,605

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Cash Flow Data:					
Cash provided by (used in):					
Operating activities	$ 67,388	$ 60,053	$ 74,885	$ 51,238	$ 76,241
Investing activities	(30,606)	(22,490)	(30,907)	(22,035)	(49,277)
Financing activities	(975)	(47,722)	(35,349)	(1,765)	(26,763)
Other Data:					
Non-cash rental expense, net of non-cash rental income	(5,692)	(4,037)	(3,663)	(5,552)	(2,494)
Non-cash share-based compensation expense	2,204	1,306	1,412	1,336	1,704

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Club and Membership Data:					
New clubs opened	—	—	2	—	4
Clubs acquired	6	—	—	—	—
Clubs closed	(4)	—	(2)	(1)	(9)
Wholly-owned clubs operated at end of period	160	158	158	158	159
Total clubs operated at end of period(9)	162	160	160	160	161
Total members at end of period(10)	497,000	510,000	523,000	493,000	486,000
Restricted members at end of period(11)	41,000	38,000	38,000	17,000	—
Comparable club revenue (decrease) increase(12)	(1.8)%	1.6%	1.8%	(4.3)%	(5.6)%
Revenue per weighted average club (in thousands)(13)	$ 2,971	$ 3,032	$ 2,934	$ 2,881	$ 2,957
Average revenue per member(14)	$ 934	$ 922	$ 915	$ 947	$ 969
Average joining fees collected per member(15)	$ 59	$ 57	$ 55	$ 37	$ 19
Annual attrition(16)	41.9%	41.0%	39.9%	41.9%	45.2%

(1) In the year ended December 31, 2009, Payroll and related includes a correction of an accounting error of $751 related to deferred membership costs which was previously disclosed in the Company's Form 10-K for the year ended December 31, 2009.

(2) The $3,194 of insurance recovery related to damaged property in the year ended December 31, 2013 was primarily in connection with property damaged by Hurricane Sandy.

(3) The $750 loss on extinguishment of debt recorded for the year ended December 31, 2013 is comprised of the write-off of net deferred financing costs and debt discount in connection with the November 15, 2013 debt refinancing. The proceeds from the 2013 Senior Credit Facility were used to repay the remaining outstanding principal amounts of the 2011 Senior Credit Facility of $315,743 plus accrued and unpaid interest.

The $1,010 loss on extinguishment of debt recorded for the year ended December 31, 2012 is comprised of a $464 write-off of net deferred financing costs and debt discount related to the August 22, 2012 debt

repricing and a write-off of $546 of net deferred financing costs and debt discount in connection with the August 28, 2012 voluntary prepayment of $15.0 million on our term loan facility.

The $4,865 loss on extinguishment of debt recorded for the year ended December 31, 2011 resulted from the debt refinancing on May 11, 2011. The proceeds from the 2011 Senior Credit Facility were used to repay the remaining outstanding principal amount of the 2007 Senior Credit Facility (as defined below) of $164,000 and the remaining outstanding principal amount of the Senior Discount Notes of $138,450. We incurred $2,538 of call premium on the Senior Discount Notes together with the write-off of $2,327 of net deferred financing costs related to the debt extinguishment.

(4) Corporate income taxes for the year ended December 31, 2013, 2012 and 2011 includes income tax benefits totaling $16, $483 and $343, respectively, related to the correction of accounting errors. See Note 14 — Corporate Income Taxes to the Company's consolidated financial statements in this Annual Report for further details.

(5) In the fourth quarter of the year ended December 31, 2013, the board of directors of the Company declared a quarterly cash dividend of $0.16 per share, payable on December 5, 2013 to common stockholders of record at the close of business on November 26, 2013. The aggregate amount of the dividends paid totaled $3,792 with another $58 payable as restricted shares vest. In the year ended December 31, 2012, the board of directors of the Company declared a special cash dividend of $3.00 per share, payable on December 11, 2012 to common stockholders of record at the close of business on November 30, 2012. The aggregate amount of the dividends paid totaled $70,296 with another $1,104 payable as restricted shares vest.

(6) The working capital deficit reflects a revision to reclassify deferred promotion amounts of $1,569, $1,466, $1,185 and $1,581 from long-term assets to current assets as of December 31, 2012, 2011, 2010 and 2009, respectively.

The working capital deficit reflects a revision to reclassify amounts between current deferred tax assets and long-term deferred tax assets and long-term tax liability of ($5,572) and ($1,660) as of December 31, 2012 and 2011, respectively.

(7) Total assets reflects revisions of $860, $860 and $10,527 as of December 31, 2012, 2011 and 2010, respectively, related to revisions to reclassify amounts between deferred tax assets and long-term tax liability.

(8) Net debt represents the total principal balance of long-term debt outstanding, net of cash and cash equivalents.

(9) Includes wholly-owned and partly-owned clubs. Not included in the total club count are locations that are managed by us in which we do not have an equity interest. These managed sites include three managed university locations and four additional managed locations acquired on May 2013 as part of the Fitcorp acquisition as well as one new managed location added during the fourth quarter of 2013.

(10) Represents members at wholly-owned and partly-owned clubs.

(11) Restricted members primarily include students and teachers at our wholly-owned and partly-owned clubs. This membership allows for club usage at restricted times, at a discount to other memberships offered.

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

(13) Revenue per weighted average club is calculated as total revenue divided by the product of the total number of clubs and their weighted average months in operation as a percentage of the period.

(14) Average revenue per member is total revenue from wholly-owned clubs for the period divided by the average number of memberships from wholly-owned clubs for the period, including restricted memberships, summer student and summer pool memberships, where average number of memberships for the period is

derived by dividing the sum of the total memberships at the end of each month during the period by the total number of months in the period.

(15) Average joining fees collected per member is calculated as total initiation and processing fees divided by the number of new members, excluding pre-sold, summer student and summer pool memberships and including restricted memberships that began in April 2010, during each respective year.

(16) Annual attrition is calculated as total member losses for the year divided by the average monthly member count over the year excluding pre-sold, summer student and summer pool memberships and including our restricted memberships that began in April 2010, during each respective year.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

You should read the following discussion and analysis of our financial condition and consolidated results of operations in conjunction with the "Selected Consolidated Financial and Other Data" section of this Annual Report and our consolidated financial statements and the related notes appearing at the end of this Annual Report. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions (see " FORWARD-LOOKING STATEMENTS *" discussion). Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth in "Item 1A. Risk Factors" of this Annual Report.*

Overview

We are the largest owner and operator of fitness clubs in the Northeast and Mid-Atlantic regions of the U.S. As of December 31, 2013, we operated 162 clubs that collectively served approximately 497,000 members. 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. Our members generally have annual income levels of between $50,000 and $150,000.

Our goal is to be the most recognized health club network in each of the four major metropolitan regions that we serve. We believe that our strategy of clustering clubs provides significant benefits to our members and allows us to achieve strategic operating advantages. In each of our markets, we have developed clusters by initially opening or acquiring clubs located in the more central urban markets of the region and then branching out from these urban centers to suburbs and neighboring communities. Capitalizing on this clustering of clubs, as of December 31, 2013, approximately 45% of our members participated in our Passport Membership which allows unlimited access to all of our clubs in our clusters within one, or all of, our regions, respectively, for a higher monthly membership dues, while approximately 31% of our members participate in our Core membership, which allows unlimited access to the member's home club. Approximately 16% of our members participate in our previously offered Gold membership which allows unlimited access to a designated club and access to all other clubs during off-peak hours. Our Restricted Membership, which is a favorably-priced, restricted-use month-to-month membership was held by approximately 8% of our members.

We have executed our clustering strategy successfully in the New York region, our most mature region, through the network of fitness clubs we operate under our New York Sports Clubs brand name. We are the largest fitness club operator in Manhattan with 37 locations and operated a total of 108 clubs under the New York Sports Clubs brand name within a 120-mile radius of New York City as of December 31, 2013. As of December 31, 2013, we owned and operated 29 clubs in the Boston region under our Boston Sports Clubs brand name, 16 clubs (two of which are partly-owned) in the Washington, D.C. region under our Washington Sports Clubs brand name, six clubs in the Philadelphia region under our Philadelphia Sports Clubs brand name and three clubs in Switzerland. We employ localized brand names for our clubs to create an image and atmosphere

consistent with the local community and to foster recognition as a local network of quality fitness clubs rather than a national chain.

As the fitness industry continues to see a rise in popularity of private studio offerings, we have used our extensive industry experience to offer our own private studio brand called the Boutique Fitness Experience ("BFX Studio") with our first unit opening in the first half of 2014. This three-dimension luxury studio brand will take advantage of the rise in consumer demand for studio experiences. Our BFX Studio will include three unique offerings: Ride Republic, which is indoor cycling, Private Sessions for personal training and Master Class for certain group exercise classes. Our BFX Studio will be staffed with high caliber instructors in each of the three core offerings and the studios will be designed to appeal to all ages and all experience levels of metropolitan, active healthy lifestylers. We estimate that this studio concept will require approximately 7,500 to 10,000 square feet of space per studio which compares to the approximately 26,000 square feet aggregate average size of our traditional clubs.

Revenue and Operating Expenses

We have two principal sources of revenue:

- *Membership revenue:* Our largest sources of revenue are dues inclusive of maintenance fees and joining fees paid by our members. In addition, we collect usage fees on a per visit basis subject to peak and off-peak hourly restrictions depending on membership type. These dues and fees comprised 79.4% of our total revenue for the year ended December 31, 2013. We recognize revenue from membership dues in the month when the services are rendered. Approximately 97% of our members pay their monthly dues by Electronic Funds Transfer, or EFT, while the balance is paid annually in advance. We recognize revenue from joining fees over the estimated average membership life.
- *Ancillary club revenue:* For the year ended December 31, 2013, we generated 14.1% of our revenue from personal training and 5.3% of our revenue from other ancillary programs and services consisting of programming for children, signature classes, Small Group Training and other member activities, 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 1.3% of our total revenue for the year ended December 31, 2013) 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.

We currently own our 151 East 86th Street, New York location, which houses our New York Sports Clubs on East 86th Street, New York as well as a retail tenant that generates rental income for us. In December 2013, we announced the entry into an agreement to sell this property, which sale is expected to close on or about March 31, 2014. As part of the sale, we are also selling the leasehold interest in the retail tenant at this location. Upon completion of the sale, we will no longer be entitled to the rental income from this retail tenant. Rental income from this retail tenant was approximately $2.0 million in both the years ended December 31, 2013 and 2012.

Our performance is dependent on our ability to continually attract and retain members at our clubs. We experience attrition at our clubs and must attract new members in order to maintain our membership and revenue levels. In the years ended December 31, 2013 and 2012, our attrition rate, including restricted members, was 41.9% and 41.0%, respectively.

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 consolidated statement of operations and are not included in general and administrative expenses.

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.

Our primary capital expenditures relate to the construction or acquisition of new club facilities and upgrading and expanding our existing clubs. The construction and equipment costs vary based on the costs of construction labor, as well as the planned service offerings and size and configuration of the facility. We perform routine improvements at our clubs and partial replacement of the fitness equipment each year for which we are currently budgeting approximately 3% to 5% of projected annual revenue. Expansions of certain facilities are also performed from time to time, when incremental space becomes available on acceptable terms and utilization and demand for the facility dictate. In this regard, facility remodeling is also considered where appropriate.

From 2012 to 2013, operating income decreased 2.1%. 2013 operating income included benefits of $3.2 million resulting from insurance proceeds collected primarily in connection with property damaged by Hurricane Sandy and $424,000 related to the recognition of out of period non-cash rental income, partially offset by fixed asset impairment charges totaling $714,000. In 2012, we recorded fixed asset impairment charges totaling $3.4 million, of which $3.2 million related to write-offs of fixed assets for four clubs that sustained damages from Hurricane Sandy during the fourth quarter of 2012. In 2011, we did not incur any fixed asset impairment charges or one-time transactions.

	Year Ended December 31,		
	2013	2012	2011
	($ amounts in thousands)		
Operating income	$40,598	$41,433	$ 35,615
(Decrease) increase over prior period	(2.0)%	16.3%	93.1%
Net income	$12,324	$11,966	$ 6,315
(Decrease) increase over prior period	3.0%	89.5%	2,277.6%
Cash flows provided by operating activities	$67,388	$60,053	$ 74,885
Increase (decrease) over prior period	12.2%	(19.8)%	46.2%

Historically, we have focused on building or acquiring clubs in areas where we believe the market is underserved or where new clubs are intended to replace existing clubs at their lease expiration. Based on our experience, a new club tends to experience a significant increase in revenues during its first three years of operation as it reaches maturity. Because there is relatively little incremental cost associated with such increasing revenue, there is a greater proportionate increase in profitability. We believe that the revenues and operating income of our immature clubs will increase as they mature. In contrast, operating income margins may be negatively impacted in the near term by our planned new club openings. In most cases, we are able to transfer many of the members of closed clubs to other clubs thereby enhancing overall profitability. During 2013, we completed the acquisition of the Fitcorp clubs in Boston, which included five clubs and four managed sites. We also completed an acquisition of a single club in Manhattan. We will continue to pursue club acquisition opportunities as well as assess club relocations and closures of underperforming clubs. We currently are targeting to open a combined four to six NYSC and BSC clubs in 2014 and two to four BFX Studio units.

As of December 31, 2013, 160 of our fitness clubs were wholly-owned by us and our consolidated financial statements include the operating results of all such clubs. Two locations in Washington, D.C. were partly-owned by us, with our profit sharing percentages approximating 20% (after priority distributions) and 45%, respectively, and are treated as unconsolidated affiliates for which we apply the equity method of accounting. 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, four managed sites acquired in connection with our Fitcorp acquisition in May 2013 and one new managed site added during the fourth quarter of 2013.

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.

	Comparable Club Revenue Increase (Decrease)	
	Quarter	Full-Year
2011		
First Quarter	(0.5)%	
Second Quarter	1.5%	
Third Quarter	3.0%	
Fourth Quarter	3.4%	1.8%
2012(a)		
First Quarter	4.5%	
Second Quarter	2.1%	
Third Quarter	1.0%	
Fourth Quarter	(1.1)%	1.6%
2013		
First Quarter	(2.4)%	
Second Quarter	(1.7)%	
Third Quarter	(1.7)%	
Fourth Quarter	(1.3)%	(1.8)%

(a) Comparable club revenue for the third quarter of 2012 excludes $1.2 million of additional fees and other revenue realized in connection with the termination of a long-term marketing arrangement with a third party in-club advertiser. Comparable club revenue for the fourth quarter of 2013 excludes $424,000 of out of period rental income recognized resulting from the correction of an accounting error.

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

The decline in the comparable club revenue in the fourth quarter of 2012 was in part due to the impact of Hurricane Sandy on our business, including decreases in personal training and ancillary revenues and a net loss of members. We experienced an overall member loss of 12,000 during the fourth quarter of 2012. The lower member base as we started 2013 combined with the additional loss of 13,000 members during 2013 largely contributed to the 1.8% decline in comparable club revenue for the year ended December 31, 2013. For the year ended December 31, 2013 compared to the year ended December 31, 2012, comparable club revenue declined by 1.8%. Memberships at our comparable clubs were down 2.8% and the combined effect of ancillary club revenue, initiation fees and other revenue decreased 0.1% which was partially offset by a 1.1% increase in the price of our dues and fees.

Historical Club Count

	Year Ended December 31,		
	2013	2012	2011
Wholly-owned clubs operated at beginning of period	158	158	158
New clubs opened	—	—	2
Clubs acquired	6	—	—
Clubs closed	(4)	—	(2)
Wholly-owned clubs operated at end of period	160	158	158
Partly-owned clubs operated at end of period	2	2	2
Total clubs operated at end of period(1)	162	160	160

(1) Includes wholly-owned and partly-owned clubs. Not included in the total club count are locations that are managed by us in which we do not have an equity interest. These managed sites include three managed university locations and four additional managed locations acquired in May 2013 as part of the Fitcorp acquisition as well as one new managed location added during the fourth quarter of 2013.

Results of Operations

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

	Year Ended December 31,		
	2013	2012	2011
Revenues	100.0%	100.0%	100.0%
Operating expenses:			
Payroll and related	37.2	37.9	38.0
Club operating	38.2	37.4	37.8
General and administrative	6.0	5.0	5.6
Depreciation and amortization	10.3	10.3	11.0
Insurance recovery related to damaged property	(0.7)	—	—
Impairment of fixed assets	0.2	0.7	—
Operating income	8.6	8.7	7.6
Loss on extinguishment of debt	0.1	0.2	1.0
Interest expense	4.8	5.2	5.2
Equity in the earnings of investees and rental income	(0.5)	(0.5)	(0.5)
Income before provision for corporate income taxes	4.2	3.8	1.9
Provision for corporate income taxes	1.6	1.3	0.6
Net income	2.6%	2.5%	1.3%

Year ended December 31, 2013 compared to year ended December 31, 2012

Revenue

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

	Year Ended December 31,				
	2013		2012		
	Revenue	% Revenue	Revenue	% Revenue	% Variance
Membership dues	$358,761	76.3%	$366,044	76.4%	(2.0)%
Joining fees	14,392	3.0%	11,595	2.4%	24.1%
Membership revenue	373,153	79.4%	377,639	78.8%	(1.2)%
Personal training revenue	66,367	14.1%	65,641	13.7%	1.1%
Other ancillary club revenue	24,720	5.3%	29,897	6.3%	(17.3)%
Ancillary club revenue	91,087	19.4%	95,538	20.0%	(4.7)%
Fees and other revenue	5,985	1.3%	5,804	1.2%	3.1%
Total revenue	$470,225	100.0%	$478,981	100.0%	(1.8)%

Total revenue decreased $8.8 million, or 1.8%, for the year ended December 31, 2013 compared to the year ended December 31, 2012 as a result of decreases in both membership revenue and ancillary club revenue.

The prior year revenue for 2012 was impacted by the effects of Hurricane Sandy on our business during the fourth quarter of 2012 as a result of lost operating days. At the height of the storm, 131 of our 160 clubs were closed with 16 clubs that remained closed for over a week, one club that permanently closed and one club that recently reopened in December 2013. While it is very difficult to estimate the impact of the storm given the prolonged disruption in most of our markets, we estimate that revenue for 2012 was negatively impacted by approximately $1.0 million as a result of the hurricane.

For the year ended December 31, 2013, revenue decreased $8.5 million as a result of a decrease in comparable club revenue and $3.9 million related to the closure of four clubs and the temporary closure of one club due to damages from Hurricane Sandy (club reopened in late December 2013). Revenue for 2012 also included a benefit from an acceleration of in-club advertising revenue which added approximately $1.2 million to fees and other revenue, while 2013 revenue did not have such a benefit. The effect of these revenue decreases were partially offset by a $4.5 million increase in revenue resulting from the acquisition of new clubs during 2013.

Membership dues revenue decreased $7.3 million in the year ended December 31, 2013 compared to the year ended December 31, 2012 driven primarily by the decline in membership levels which accounts for approximately $12.0 million of the decrease. Increased pricing offset the decrease in membership levels for approximately $4.7 million. The impact of Hurricane Sandy contributed to an overall member loss of 12,000 during the fourth quarter of 2012. The lower member base as we started 2013 combined with the additional loss of 13,000 members during 2013 largely contributed to the decline in membership and membership dues.

Joining fees revenue increased $2.8 million in the year ended December 31, 2013 compared to the year ended December 31, 2012. The increase in joining fees was, in part, due to the effect of the lower estimated weighted average membership life of 24 months for unrestricted members during the year ended December 31, 2013, compared to 28 months during the year ended December 31, 2012. The lower amortizable life in effect during 2013 resulted in higher joining fees revenue recognition as joining fees were amortized over a shorter estimated average membership life.

Personal training revenue increased $726,000 in the year ended December 31, 2013 compared to the year ended December 31, 2012. This increase was driven, in part, by the effect of a price increase effective

September 1, 2013 coupled with the success of our personal training membership product which was launched in June 2011 with single session membership product offerings and further expanded in 2012 and 2013 with multi-session personal training membership products. After experiencing a 3.4% year-over-year decline in personal training revenue during the first half of 2013, personal training revenue increased 6.3% in the second half of 2013 with third and fourth quarter personal training revenue year-over-year increases of 5.0% and 7.8%, respectively.

Other ancillary club revenue decreased $5.2 million in the year ended December 31, 2013 compared to the year ended December 31, 2012 driven primarily by a decline in revenue from our Sports Club for Kids programs and Small Group Training.

Fees and other revenue increased $181,000 in the year ended December 31, 2013 compared to the year ended December 31, 2013. Excluding the $424,000 out of period revision increasing 2013 rental revenue and the $1.2 million benefit from the acceleration of in in-club advertising revenue in the year ended December 31, 2012, fees and other revenue for the year ended December 31, 2013 increased approximately $957,000 driven by higher laundry service revenue and increases in club management fees.

Comparable club revenue decreased 1.8% in the year ended December 31, 2013, excluding the $1.2 million accelerated in-club advertising revenue recognized in the third quarter of 2012. Memberships at our comparable clubs were down 2.8% and the combined effect of ancillary club revenue, initiation fees and other revenue decreased 0.1% which was partially offset by a 1.1% increase in the price of our dues and fees.

Operating Expenses

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

	Year Ended December 31,			
	2013	2012	$ Variance	% Variance
Payroll and related	$174,894	$181,632	$ (6,738)	(3.7)%
Club operating	179,683	178,950	733	0.4%
General and administrative	28,431	24,139	4,292	17.8%
Depreciation and amortization	49,099	49,391	(292)	(0.6)%
Insurance recovery related to damaged property	(3,194)	—	(3,194)	n/a%
Impairment of fixed assets	714	3,436	(2,722)	(79.2)%
Operating expenses	$429,627	$437,548	$ (7,921)	(1.8)%

Operating expenses decreased $7.9 million, or 1.8%, in the year ended December 31, 2013 compared to the prior year. Total months of club operation increased 0.3%, remaining relatively flat compared to last year. The principal drivers of the decrease in operating expenses are described below:

Payroll and related . Payroll and related expenses for the year ended December 31, 2013 decreased $6.7 million, or 3.7%, compared to the year ended December 31, 2012. The prior year payroll and related expenses included a $2.5 million payroll bonus payment made during the fourth quarter of 2012 in connection with a special dividend payment in December 2012 compared to a payroll bonus payment of $126,000 made during the fourth quarter of 2013 in connection with a regular dividend payment in December 2013. The decrease in payroll and related expenses was also due to decreases in club commissions and bonuses related to the decline in revenue and decreases in management incentive bonuses.

As a percentage of total revenue, payroll and related expenses decreased to 37.2% in the year ended December 31, 2013 from 37.9% in the year ended December 31, 2012.

Club operating . Club operating expenses increased $733,000 or 0.4% compared to the year ended December 31, 2012 primarily due to the $782,000 increase in rent and occupancy expenses. Rent and occupancy increased $1.8 million increase from the acquisition of new clubs and one club scheduled to open in 2014 where the lease period commenced in October 2013. Rent and occupancy expenses also increased $1.2 million at our existing clubs, net of a $254,000 decrease related to the reduction of rental space at one location. These increases were offset by a decrease of $2.3 million from the closure of four clubs and one club that was temporarily closed due to Hurricane Sandy that recently reopened in December 2013.

As a percentage of total revenue, club operating expenses increased to 38.3% in the year ended December 31, 2013 from 37.4% in the year ended December 31, 2012.

General and administrative . General and administrative expense increased $4.3 million, or 17.8%, in the year ended December 31, 2013 compared to the year ended December 31, 2012. There was a $2.0 million increase in insurance expense, due in part to favorable loss reserve adjustments in the prior year, as well as an $853,000 increase in consulting and computer maintenance expense related to the implementation of our new club operating system. Phone and data line related expenses also increased by $492,000 due primarily to transition costs related to the conversion of our communication lines to a VOIP based system. General and administrative expenses in the year ended December 31, 2013 also includes $326,000 of fees related to our club acquisitions in Manhattan and Boston and includes approximately $216,000 of consulting expenses related to our new BFX Studio concept.

Depreciation and amortization . In the year ended December 31, 2013 compared to the year ended December 31, 2012, depreciation and amortization expense was relatively flat.

Insurance recovery related to damaged property . In the year ended December 31, 2013, the Company collected $3.2 million of insurance cash proceeds related primarily due to property damaged by Hurricane Sandy. There were no such proceeds collected in the year ended December 31, 2012.

Impairment of fixed assets . In the year ended December 31, 2013, we recorded fixed asset impairment charges totaling $714,000 related to three underperforming clubs. In the year ended December 31, 2012, we recorded fixed asset impairment charges totaling $3.4 million, comprised of a $239,000 impairment charge related to one underperforming club and $3.2 million of additional impairments related to the write-down of fixed assets at four clubs that sustained severe damages from Hurricane Sandy.

Loss on Extinguishment of Debt

In the year ended December 31, 2013, loss on extinguishment of debt was $750,000 comprised of the write-off of net deferred financing costs and debt discount related to the debt refinancing in November 2013. In the year ended December 31, 2012, loss on extinguishment of debt was $1.0 million. The loss on extinguishment of debt was comprised of a $464,000 write-off of net deferred financing costs and debt discount related to the August 2012 debt repricing and a write-off of $546,000 of net deferred financing costs and debt discount in connection with the August 28, 2012 voluntary prepayment of $15.0 million on our term loan facility.

Interest Expense

Interest expense decreased by $2.0 million in the year ended December 31, 2013 compared to the year ended December 31, 2012 primarily due to the lower additional interest expense recognized in 2013 compared to 2012. In 2013, we incurred additional interest expense of $1.2 million related to the fees incurred in the debt refinancing in November 2013 as described below. In 2012, we incurred additional interest expense of $3.0 million related to the repricing amendment in August 2012 and a further amendment in November 2012.

Provision for Corporate Income Taxes

We recorded a provision for corporate income taxes of $7.4 million and $6.3 million for the years ended December 31, 2013 and 2012, respectively. Our 2013 and 2012 effective tax rates of 37% and 35% in the years ended December 31, 2013 and 2012, respectively, were favorably impacted by the expected benefits from our captive insurance arrangement.

The State of New York has, for the past several years, been conducting an audit of our income tax returns for the tax years 2006 through 2012. The State issued a proposed assessment dated, January 13, 2014 for $3.8 million, inclusive of $1.2 million of interest. A meeting has been requested with the State of New York to discuss this assessment. We are also under audit for the same period by the City of New York and that audit continues to remain in discovery phase. The years from 2010 through 2012 remain open for the City of New York. We continue to evaluate the merits of the proposed assessment as new information becomes available when we meet the state authorities. The Company has not recorded a tax reserve related to the proposed assessment. Due to the limited availability of information at this time, an estimate of the reasonably possible change to unrecognized tax benefits within the next 12 months of the reporting date cannot be made.

The results for the year ended December 31, 2013 also include the correction of errors that resulted in an increase in tax benefits for corporate income taxes and a related increase in deferred tax assets in our consolidated statement of operations and consolidated balance sheet, respectively. In the fourth quarter of 2013, we identified corrections related to temporary differences in fixed assets for state depreciation resulting in the recognition of an income tax benefit of $225,000. Also, in the fourth quarter of 2013, we identified corrections related to temporary differences in landlord allowances resulting in the recognition of out of period expense of $209,000 for a net benefit to the Provision for corporate income taxes of $16,000 in the year ended December 31, 2013. We also made out-of period balance sheet revisions as of December 31, 2012. The balance sheet revisions relate to a reclassification of the deferred tax asset associated with deferred membership costs and the corrections related to temporary differences in landlord allowances. As of December 31, 2012, the net effect of the balance sheet adjustments was a decrease in current deferred tax assets of $5.6 million, and increases in long-term deferred tax assets of $6.4 million and long-term income tax liability (included within Other liabilities) of $860,000.

The results for the year ended December 31, 2012 include the correction of temporary differences that resulted in an increase in benefit for corporate income taxes and a related increase in deferred tax assets in the Company’s consolidated statement of operations and consolidated balance sheet, respectively. In the fourth quarter of 2012, the Company identified corrections related to temporary differences in fixed assets, intangible assets and deferred revenue resulting in the recognition of an income tax benefit of $483,000.

In September 2013, the Internal Revenue Service issued new regulations relating to the treatment of repairs effective for tax years beginning after December 31, 2013 with early adoption permissible. We have opted for early adoption in the year ended December 31, 2013, which has created a timing difference for the accelerated tax deduction for repairs in excess of the book deduction.

As of December 31, 2013, we had net deferred tax assets of $28.4 million. On a quarterly basis, we assess the weight of all available positive and negative evidence to determine whether the net deferred tax asset is realizable. We have historically been a taxpayer and are in a three year cumulative income position as of December 31, 2013 for federal as well certain state jurisdictions. In addition, based on recent trends, we project future income sufficient to realize the deferred tax assets during the periods when the temporary tax deductible differences reverse. With the exception of the deductions related to our captive insurance company for state taxes, state taxable income has been and is projected to be the same as federal taxable income. Because we expect the captive insurance company to be discontinued in 2014, the assessment of the realizability of the state deferred tax assets is consistent with the federal tax analysis above. We have state net operating loss carry-forwards, which we believe will be realized within the available carry-forward period, except for a small net operating loss carry-forward in Rhode Island due to the short carry-forward period in that state. Accordingly, we

concluded that it is more likely than not that the deferred tax assets will be realized. If actual results do not meet our forecasts and we incur lower than expected income or losses in 2014 and beyond, then a valuation allowance against the deferred tax assets may be required in the future. In 2014, we expect our effective tax rate to approximate 36% to 39% and will be favorably impacted from tax benefits derived from the captive insurance arrangement. Upon the completion of the pending sale of our East 86 th Street building, the effective tax rate will range from 42% to 44%.

Year ended December 31, 2012 compared to year ended December 31, 2011

Revenue

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

	Year Ended December 31,				
	2012		2011		
	Revenue	% Revenue	Revenue	% Revenue	% Variance
Membership dues	$366,044	76.4%	$364,536	78.1%	0.4%
Joining fees	11,595	2.4%	6,824	1.4%	69.9%
Membership revenue	377,639	78.8%	371,360	79.5%	1.7%
Personal training revenue	65,641	13.7%	62,394	13.4%	5.2%
Other ancillary club revenue	29,897	6.3%	28,297	6.1%	5.7%
Ancillary club revenue	95,538	20.0%	90,691	19.5%	5.3%
Fees and other revenue	5,804	1.2%	4,890	1.0%	18.7%
Total revenue	$478,981	100.0%	$466,941	100.0%	2.6%

Total revenue increased $12.0 million, or 2.6%, for the year ended December 31, 2012 compared to the year ended December 31, 2011. Revenue for 2012 included a benefit from an acceleration of in-club advertising revenue which added approximately $1.2 million to fees and other revenue. For the year ended December 31, 2012, revenue increased $4.4 million at the two clubs opened or acquired subsequent to December 31, 2010 (both opened in the fourth quarter of 2011) and $7.1 million at our clubs opened or acquired prior to December 31, 2010. Revenue decreased $640,000 at the two clubs that were closed subsequent to December 31, 2010.

Revenue for 2012 was impacted by the effects of Hurricane Sandy on our business during the fourth quarter of 2012 as a result of lost operating days. At the height of the storm, 131 of our 160 clubs were closed with 16 clubs that remained closed for over a week, one club that permanently closed and one club that recently reopened in December 2013. While it is very difficult to estimate the impact of the storm given the prolonged disruption in most of our markets, we estimate that revenue for 2012 was negatively impacted by approximately $1.0 million as a result of the hurricane.

Personal training revenue increased $3.2 million in the year ended December 31, 2012 compared to the year ended December 31, 2011. This increase was primarily due to increased member interest in personal training sessions, increases in products offered and improvements in the selling process.

Joining fees revenue in 2012 increased $4.8 million compared to 2011 due to the increasing rate of joining fees collected over the past four years. Joining fees collected in the year ended December 31, 2012, 2011, 2010 and 2009 were $11.4 million, $12.9 million, $7.9 million, and $4.0 million, respectively. Joining fees are recognized into revenue over the estimated average membership life

Fees and other revenue increased $914,000 in the year ended December 31, 2012 compared to the year ended December 31, 2011, primarily due to an increase in in-club advertising revenue related to the acceleration of deferred revenue recognized on a terminated arrangement.

Comparable club revenue increased 1.6% for the year ended December 31, 2012, excluding the $1.2 million accelerated in-club advertising revenue recognized in the third quarter of 2012. There was a 0.8% increase due to an increase in average membership and a 1.8% increase due to a collective increase in ancillary club revenue, initiation fees and other revenue. These increases were partially offset by a 1.0% decrease in the average price of our dues and fees.

Operating Expenses

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

	Year Ended December 31,			
	2012	2011	$ Variance	% Variance
Payroll and related	$ 181,632	$ 177,528	$ 4,104	2.3%
Club operating	178,950	176,463	2,487	1.4%
General and administrative	24,139	25,799	(1,660)	(6.4)%
Depreciation and amortization	49,391	51,536	(2,145)	(4.2)%
Impairment of fixed assets	3,436	—	3,436	n/a%
Operating expenses	$ 437,548	$ 431,326	$ 6,222	1.4%

Operating expenses for the year ended December 31, 2012 were impacted by a 0.5% increase in the total months of club operation from 1,886 to 1,896, the effects of which are included in the additional descriptions of changes in operating expenses below.

Payroll and related . This change was primarily impacted by the following factors:

- A $2.5 million payroll bonus payment was made during the fourth quarter of 2012 in connection with the special dividend payment in December 2012. Certain option holders with vested in-the-money options as of December 11, 2012 were paid a dividend equivalent cash bonus of $3.00 per option. No such charges were recorded in the year ended December 31, 2011.
- Payroll overhead costs increased by $1.1 million for the year ended December 31, 2012 compared to the year ended December 31, 2011. There was a $1.3 million increase in overhead costs primarily attributable to increases in full-time employment levels and higher overhead salaries resulting from the hiring of several new senior management and corporate sales personnel.

As a percentage of total revenue, payroll and related expenses decreased to 37.9% in the year ended December 31, 2012 from 38.0% in the year ended December 31, 2011.

Club operating . This change was primarily impacted by the following factors:

- Rent and occupancy expenses increased $3.5 million in the year ended December 31, 2012 compared to the year ended December 31, 2011. Rent and occupancy expenses increased $565,000 at our two clubs that opened after December 31, 2010 and increased $2.7 million at our clubs that opened prior to December 31, 2010. Rent and occupancy expenses decreased $212,000 related to two clubs that were closed after December 31, 2010, excluding $275,000 received in 2011 as an incentive payment from a landlord in connection with a lease termination.
- The increase in rent and occupancy expenses were partially offset by lower credit and debit card transaction fees of $1.0 million compared to the prior year due to changes to laws affecting the debit card processing fees that banks can charge.

As a percentage of total revenue, club operating expenses decreased slightly to 37.4% in the year ended December 31, 2012 from 37.8% in the year ended December 31, 2011.

General and administrative . The decrease in general and administrative expenses for the year ended December 31, 2012 when compared to the year ended December 31, 2011 was principally attributable to the cost reductions within various general and administrative expense accounts including a reduction in general liability insurance, consulting and legal expenses, and office related procurement costs. As a percentage of total revenue, general and administrative expenses decreased to 5.0% in the year ended December 31, 2012 from 5.6% in the year ended December 31, 2011.

Depreciation and amortization . In the year ended December 31, 2012 compared to the year ended December 31, 2011, depreciation and amortization decreased due to a decline in our depreciable fixed asset base. Contributing to this is our limited number of club openings over the past five years. The Company has opened only two clubs over the past three years and the asset base at the remaining 158 clubs is declining as certain clubs move beyond their original lease terms, and other fixed assets become fully amortized. As a percentage of total revenue, depreciation and amortization expenses decreased to 10.3% in the year ended December 31, 2012 from 11.0% in year ended December 31, 2011.

Impairment of fixed assets . In the year ended December 31, 2012, we recorded fixed asset impairment charges totaling $3.4 million, comprised of a $239,000 impairment charge related to one underperforming club and $3.2 million of additional impairments related to the write-down of fixed assets at four clubs that sustained severe damages from Hurricane Sandy. There were no fixed asset impairment charges in the year ended December 31, 2011.

Loss on Extinguishment of Debt

In the year ended December 31, 2012, loss on extinguishment of debt was $1.0 million. The loss on extinguishment of debt was comprised of a $464,000 write-off of net deferred financing costs and debt discount related to the August 22, 2012 debt repricing and a write-off of $546,000 of net deferred financing costs and debt discount in connection with the August 28, 2012 voluntary prepayment of $15.0 million on our term loan facility.

In the year ended December 31, 2011, loss on extinguishment of debt was $4.9 million. The proceeds from the 2011 Senior Credit Facility obtained on May 11, 2011 were used to repay the remaining outstanding principal amount of the 2007 Senior Credit Facility of $164.0 million and the remaining outstanding principal amount of the Senior Discount Notes of $138.45 million. We incurred $2.5 million of call premium on the Senior Discount Notes together with the write-off of $2.4 million of net deferred financing costs related to the debt extinguishment.

Interest Expense

In the year ended December 31, 2012, interest expense was $24.6 million compared to $24.3 million in the year ended December 31, 2011. In 2012, we incurred additional interest expense of $3.0 million related to the repricing amendment in August 2012 and a further amendment in November 2012 to allow for an additional borrowing under our 2011 Senior Credit Facility. This increase in interest expense was partially offset by interest savings recognized from the lower interest rates resulting from the May 11, 2011 refinancing as well as a further interest rate reduction in August 2012 combined with a lower average principal balance of debt outstanding for the majority of 2012.

Provision for Corporate Income Taxes

We recorded a provision for corporate income taxes of $6.3 million for the year ended December 31, 2012 compared to a provision of $2.7 million for the year ended December 31, 2011. Our effective tax rate was 35% in the year ended December 31, 2012 compared to 30% in the year ended December 31, 2011. The expected benefits from our captive insurance arrangement decreased our effective tax rate on our pre-tax income in the year ended December 31, 2012 and 2011.

The results for the year ended December 31, 2012 and December 31, 2011 include error corrections that resulted in an increase in benefit for corporate income taxes and a related increase in deferred tax assets in our consolidated statement of operations and consolidated balance sheet, respectively. In the fourth quarter of 2012, we identified corrections related to temporary differences in fixed assets, intangible assets and deferred revenue resulting in the recognition of an income tax benefit of $483,000. In the fourth quarter of 2011, we identified adjustments related to the tax effect of net operating loss carry-forwards resulting in the recognition of an income tax benefit of $343,000. We do not believe that these error corrections are material to the current or prior reporting periods.

As of December 31, 2012, we had net deferred tax assets of $35.1 million. Quarterly, we assess the weight of all available positive and negative evidence to determine whether the net deferred tax asset is realizable. In 2011, the Company returned to profitability after sustaining losses in 2009 and 2010. We have historically been a taxpayer and are in a three year cumulative income position for federal purposes as of December 31, 2012. In addition, based on recent trends, we project future income sufficient to realize the deferred tax assets during the periods when the temporary tax deductible differences reverse. With the exception of the deductions related to our captive insurance company for state taxes, state taxable income has been and is projected to be the same as federal taxable income. Because we expect the captive insurance company to be discontinued in 2014, the assessment of the realizability of the state deferred tax assets is consistent with the federal tax analysis above. We have federal and state net operating loss and tax credit carry-forwards, which we believe will be realized within the available carry-forward period, except for a small net operating loss carry-forward in Rhode Island due to the short carry-forward period in that state. Accordingly, we concluded that it is more likely than not that the deferred tax assets will be realized. If actual results do not meet our forecasts and we incur lower than expected income or losses in 2013 and beyond, then a valuation allowance against the deferred tax assets may be required in the future.

Liquidity and Capital Resources

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, and other capital expenditures necessary to upgrade, expand and renovate existing clubs. In December 2012, we also paid a special cash dividend of $3.00 per share and in December 2013 we instituted what we intend to be a regular quarterly cash dividend of $0.16 per share, with the initial quarterly dividend paid in December 2013 and the second announced in February 2014, which will be paid in March 2014, of $0.16 per share. While it is our intention to pay a quarterly cash dividend in the future, any determination to pay such future dividends will be made by the board of directors and will take into account such matters as cash on hand, general economic and business conditions, our strategic plans, our financial results and condition, contractual, legal and regulatory restrictions on the payment of dividends by us and our subsidiaries and such other factors as our board of directors may consider to be relevant. 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, dividend payments, 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 year ended December 31, 2013 was $67.4 million compared to $60.1 million for the year ended December 31, 2012, an increase of 12.2%. This increase was driven by a decrease in cash paid for interest of $4.0 million and cash flows from the timing of certain payments and collections made associated with our accounts payable, accrued expenses, accounts receivable and deferred membership costs. The decrease in accounts receivable was primarily due to a change in our billing policy effective January 1, 2013 related mainly to personal training session sales that were previously sold “on account.” These cash increases were offset by an overall decrease in overall operating results.

Net cash provided by operating activities for the year ended December 31, 2012 was $60.1 million compared to $74.9 million for the year ended December 31, 2011, a decrease of 19.8%. Cash flow related to

income taxes decreased operating cash flows as 2011 cash flows benefitted from a net tax refund of $6.6 million while in 2012 net taxes of $836,000 were paid. This decrease was also driven by reductions in cash flows resulting from the timing of payments and collections made associated with prepaid expenses, accounts payable and accrued expenses and deferred revenues.

Investing Activities. Net cash used in investing activities increased 36.1% to $30.6 million in the year ended December 31, 2013 compared to the year ended December 31, 2012. Investing activities in the year ended December 31, 2013 consisted of capital expenditures for the remodeling of existing clubs, the purchase of new fitness equipment and capital investment in information technology. The 2013 amount includes approximately $16.2 million to continue to upgrade existing clubs, $8.0 million principally related to major renovations at clubs with recent lease renewals and upgrading certain clubs for our UXF zones and our in-club entertainment system network, and $1.1 million related to our planned 2014 club openings. In addition, we invested $3.8 million to enhance our management information and communication systems and approximately $195,000 related to our warehouse and laundry facility. Investing activities in the year ended December 31, 2013 also consisted of $2.9 million of net cash paid for the acquisition of clubs and approximately $1.4 million related to renovations at these clubs. These capital investments were partially offset by $3.2 million of insurance proceeds primarily in connection with insurance recoveries related to property damages from Hurricane Sandy.

Net cash used in investing activities decreased 27.2% to $22.5 million in the year ended December 31, 2012 compared to the year ended December 31, 2011. Investing activities in the year ended December 31, 2012 consisted primarily of remodeling existing clubs, the purchase of new fitness equipment and capital investment in information technology. The 2012 amount includes approximately $17.2 million to continue to upgrade existing clubs and $1.6 million principally related to major renovations at clubs with recent lease renewals and upgrading certain clubs for our UXF zones and our in-club entertainment system network. In addition, we invested $2.9 million to enhance our management information and communication systems and approximately $800,000 related to our warehouse and laundry facility.

For the year ending December 31, 2014, we currently plan to invest between $45.0 million and $50.0 million in capital expenditures. This amount includes approximately $20.0 million to $22.0 million related to potential 2014 and 2015 club openings inclusive of amounts for our planned openings of our new BFX Studios. Total capital expenditures also includes approximately $18.0 million to $20.0 million to continue to upgrade existing clubs and $4.0 million to $4.5 million principally related to major renovations at clubs with recent lease renewals and upgrading our in-club entertainment system network. We also expect to invest $3.0 million to $3.2 million to enhance our management information and communication systems. We expect these capital expenditures to be funded by cash flow provided by operations and available cash on hand and the after-tax proceeds from the sale of the East 86 th Street property. If such proceeds are not reinvested in our business, we may be required to pay such amounts to pay down our outstanding debt, as provided under the terms of our 2013 Senior Credit Facility.

Financing Activities. Net cash used in financing activities decreased $46.7 million for the year ended December 31, 2013 compared to the year ended December 31, 2012. In the year ended December 31, 2013, we were not required to make the regularly scheduled quarterly principal payments pursuant to our previous 2011 Term Loan Facility (defined below) as a result of a voluntary prepayment made in August 2012 of $15.0 million. In addition, the second amendment to our previous 2011 Senior Credit Facility (defined below) in November 2012 waived the requirement to pay the excess cash flow payment that was due on March 31, 2013. On November 15, 2013, we refinanced our long-term debt. In connection with the refinancing, we repaid the remaining principal amounts of the 2011 Term Loan Facility of $315.7 million received $323.4 million under the 2013 Term Loan Facility (defined below), net of original issue discount ("OID") of $1.6 million. In connection with the debt refinancing, we paid $5.1 million in debt issuance costs. We also received $600,000 related to proceeds from stock option exercises in the year ended December 31, 2013, while in the year ended December 31, 2012 we received $2.4 million. In the year ended December 31, 2013, we also paid $4.0 million of dividends comprised of a quarterly dividend of $3.8 million and $296,000 of dividends paid on the vesting of restricted stock. This compares the special dividends paid totaling $70.3 million in the year ended December 31, 2012.

Net cash used in financing activities increased $12.4 million for the year ended December 31, 2012 compared to the year ended December 31, 2011. In the year ended December 31, 2012, we made principal payments of $36.0 million on the 2011 Term Loan Facility, of which $15.0 million was related to a voluntary prepayment made in August 2012. In connection with the repricing amendment in August 2012, we paid related financing costs of $2.7 million. On November 14, 2012, we made further amendments to the 2011 Senior Credit Facility to, among other things, allow for the borrowing of an incremental term loan of $60.0 million which was used together with cash-on-hand to pay a special dividend in December 2012 of $70.3 million. The net proceeds from the incremental term loan were $59.7 million, net of OID of 0.50% or $300,000. In connection with the execution of this additional amendment, we paid additional financing costs of $640,000 related to a 0.25% amendment fee and incurred debt issuance costs of $125,000. We also received $2.4 million related to proceeds from stock option exercises in the year ended December 31, 2012. In the year ended December 31, 2011, we made principal payments of $14.1 million on the 2007 Term Loan Facility (defined below). On May 11, 2011, we refinanced our long-term debt. In connection with the May 11, 2011 refinancing, we repaid the remaining principal amounts of the 2007 Term Loan Facility of $164.0 million and the Senior Discount Notes (defined below) of $138.5 million and received $297.0 million under the 2011 Term Loan Facility, net of the OID of $3.0 million. We also paid $8.1 million in debt issuance costs in connection with this refinancing. In addition, we repaid $8.3 million in principal on the 2011 Term Loan Facility. We also received $479,000 related to proceeds from stock options exercises in the year ended December 31, 2011.

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 was issued, net of an OID of 0.5%, or $1.6 million. Debt issuance costs recorded in connection with the 2013 Senior Credit Facility was $5.1 million and will be amortized as interest expense and are included in other assets in the accompanying consolidated balance sheets. The proceeds from the 2013 Term Loan Facility were used to pay off amounts outstanding under our previously outstanding long-term debt 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, but 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 collateralized 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 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 fiscal quarter ending 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.

The terms of the 2013 Senior Credit Facility provide for a financial covenant in the situation where the utilization of the revolving loan commitments (other than letters of credit up to $5.5 million at any time outstanding) exceeds 25% of the commitment. 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. 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. 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 except that a premium of 1.0% is payable for any prepayments made prior to May 15, 2014 in connection with a repricing transaction that reduces the effective yield of the initial term loans. 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. 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 commencing with the fiscal year ending December 31, 2014 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 2.50:1.00; 25% when the total leverage ratio is greater than 2.00:1.00 but less than or equal to 2.50:1.00 and 0% when the total leverage ratio is less than or equal to 2.00:1.00. The total leverage ratio as of December 31, 2013 was 3.07:1.00. There will be no excess cash flow payment required until April 2015.

As of December 31, 2013, the 2013 Term Loan Facility has a gross principal balance of $325.0 million and a balance of $314.9 million, net of unamortized debt discount of $10.1 million which is comprised of the unamortized portions of the OID recorded in connection with the May 11, 2011 debt issuance and the unamortized balance of the additional debt discounts recorded in connection with the First Amendment and Second Amendment to the 2011 Senior Credit Facility, described below. The unamortized debt discount balance is recorded as a contra-liability to long-term debt on the accompanying consolidated balance sheet and is being amortized as interest expense using the effective interest method. As of December 31, 2013, the unamortized balance of debt issuance costs of $4.4 million is being amortized as interest expense, and is included in other assets in the accompanying consolidated balance sheets.

As of December 31, 2013, there were no outstanding 2013 Revolving Loan Facility borrowings and outstanding letters of credit issued totaled $3.0 million. The unutilized portion of the 2013 Revolving Loan Facility as of December 31, 2013 was $42.0 million.

2011 Senior Credit Facility

TSI, LLC's previously outstanding senior secured credit facility was originally entered into on May 11, 2011 (as amended from time to time) and consisted of a $350.0 million senior secured credit facility ("2011 Senior Credit Facility") comprised of a $300.0 million term loan facility ("2011 Term Loan Facility") scheduled to mature on May 11, 2018 and a $50.0 million revolving loan facility scheduled to mature on May 11, 2016 ("2011 Revolving Loan Facility"). The 2011 Term Loan Facility was issued at an OID of 1.0% or $3.0 million and debt issuance costs recorded in connection with the 2011 Senior Credit Facility were $8.1 million. The proceeds from the 2011 Term Loan Facility were used to pay off amounts outstanding under a previously outstanding long-term debt facility entered into in 2007 ("2007 Senior Credit Facility), to pay the redemption price on outstanding 11% senior discount notes due in 2014 ("Senior Discount Notes"), and to pay related fees and expenses. In the year ended December 31, 2011, loss on extinguishment of debt totaling $4.9 million was recorded in connection with the debt refinancing on May 11, 2011 and consisted of the write-off of unamortized debt costs of $1.6 million related to the 2007 Senior Credit Facility and the Senior Discount Notes, $777,000 of

costs related to the 2011 Senior Credit Facility and a call premium of $2.5 million related to the early redemption of the Senior Discount Notes.

The 2011 Senior Credit Facility was first amended on August 22, 2012 ("First Amendment") to reduce the then-current interest rates on the 2011 Term Loan Facility by 125 basis points and also convert the existing voluntary prepayment penalty provision from a "101 hard call" provision (which required the payment of a 1% fee on the amount of any term loans that are voluntarily prepaid), originally scheduled to end in May 2013, to a "101 soft call" provision (which required the payment of a 1% fee on the amount of any term loans repaid in connection with a refinancing or repricing transaction) ending in August 2013, and subsequently extended by the November 14, 2012 amendment to November 2013. All other principal provisions, including maturity and covenants under the then-existing 2011 Senior Credit Facility remained unchanged in all material respects. The First Amendment was subject to the consent of term loan lenders. Non-consenting term loan lenders with term loan principal outstanding totaling $13.8 million were replaced with replacement term loan lenders in order to execute the First Amendment. In connection with the pay off of non-consenting term loan lenders, during the year ended December 31, 2012, we recorded a loss on extinguishment of debt of $464,000 consisting of the write-offs of the related portions of unamortized debt issuance costs and OID of $260,000 and $204,000, respectively. In addition, we recorded additional debt discount of $2.7 million related to a 1.00% amendment fee paid to consenting lenders and recognized additional interest expense totaling $1.4 million related primarily to bank and legal related fees paid to third parties to execute the First Amendment.

Subsequent to the effective date of the First Amendment, we made a voluntary prepayment of $15.0 million on the 2011 Term Loan Facility. In connection with this voluntary prepayment, during the year ended December 31, 2012, we recorded loss on extinguishment of debt of $546,000, consisting of the write-offs of the related portions of unamortized debt issuance costs and debt discount of $269,000 and $277,000, respectively.

On November 16, 2012, TSI, LLC entered into a Second Amendment ("Second Amendment") to the 2011 Senior Credit Facility. Under the Second Amendment, TSI, LLC borrowed an additional $60.0 million incremental term loan issued at an OID of 0.50% or $300,000. The new borrowings were used, together with cash on hand, to pay a special cash dividend to our stockholders, including an equivalent cash bonus payment to certain option holders, on December 11, 2012. In addition, the Second Amendment provided for a waiver of any prepayment required to be paid using our excess cash flow for the period ended December 31, 2012, amended the restricted payments covenant to permit the payment of the dividend and cash bonus payments and permitted adjustments to our calculation of consolidated EBITDA with respect to the cash bonus payment and with respect to fees and expenses associated with certain permitted transactions. In connection with the execution of the Second Amendment, we recorded additional debt discount of $639,000 related to a 0.25% amendment fee, debt issuance costs of $125,000 and additional interest expense totaling $1.6 million related primarily to bank, arrangement and legal fees paid to third parties.

Repayment of 2011 Senior Credit Facility

Contemporaneously with entry into the 2013 Senior Credit Facility, TSI, LLC repaid the outstanding principal amount of the 2011 Term Loan Facility of $315.7 million. The 2011 Term Loan Facility was set to expire on May 11, 2018. There were no outstanding amounts under the 2011 Revolving Loan Facility as of November 15, 2013, the date of the initial borrowing under the 2013 Senior Credit Facility. The 2011 Term Loan Facility was repaid at face value of $315.7 million plus accrued and unpaid interest of $807,000 and letter of credit fees and commitment fees of $67,000. The total cash paid in connection with this repayment was $316.6 million as of November 15, 2013 with no early repayment penalty. We determined that the 2013 Senior Credit Facility was not substantially different than the 2011 Senior Credit Facility for certain lenders based on the less than 10% difference in cash flows of the respective debt instruments. A portion of the transaction was therefore accounted for as a modification of the 2011 Senior Credit Facility and a portion was accounted for as an extinguishment. As of November 15, 2013, we recorded loss on extinguishment of debt of approximately $750,000, representing the write-off of the remaining unamortized debt costs and debt discount related to the

portion of the 2011 Senior Credit Facility that was accounted for as an extinguishment, and is included in loss on extinguishment of debt in the accompanying consolidated statements of operations for the year ended December 31, 2013.

Repayment of 2007 Senior Credit Facility

Contemporaneously with entry into the 2011 Senior Credit Facility, TSI, LLC repaid the outstanding principal amount of the 2007 Term Loan Facility of $164.0 million. The 2007 Term Loan Facility was set to expire on the earlier of February 27, 2014, or August 1, 2013, if the Senior Discount Notes were still outstanding. There were no outstanding amounts under the 2007 Revolving Loan Facility as of such date. The 2007 Term Loan Facility was repaid at face value plus accrued and unpaid interest of $447,000 and fees related to the letters of credit of $27,000. The total cash paid in connection with this repayment was $164.5 million as of May 11, 2011 with no early repayment penalty. We determined that the 2011 Senior Credit Facility was not substantially different than the 2007 Senior Credit Facility for certain lenders based on the less than 10% difference in cash flows of the respective debt instruments. A portion of the transaction was therefore accounted for as a modification of the 2007 Senior Credit Facility and a portion was accounted for as an extinguishment. As of May 11, 2011, we recorded refinancing charges of approximately $634,000, representing the write-off of the remaining unamortized debt costs related to the 2007 Senior Credit Facility, which is included in loss on extinguishment of debt in the accompanying consolidated statements of operations for the year ended December 31, 2011.

Redemption of Senior Discount Notes

A portion of the proceeds from the 2011 Senior Credit Facility were also used to pay the remaining principal amount on the Senior Discount Notes of $138.5 million plus a call premium of 1.833% of the principal amount thereof totaling approximately $2.5 million and accrued interest of $5.5 million. The accrued interest included interest through May 11, 2011 of $4.2 million, plus 30 days of additional interest of $1.3 million, representing the interest charge during the 30 day notification period. We determined that the 2011 Senior Credit Facility was substantially different than the Senior Discount Notes. As of May 11, 2011, we wrote-off unamortized deferred financing costs of approximately $916,000 related to the redemption of the Senior Discount Notes, which is included in loss on extinguishment of debt in the accompanying consolidated statements of operations for the year ended December 31, 2011.

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. Any instruments 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. We entered into an interest rate swap arrangement which effectively converted $150.0 million of our variable-rate debt based on a one-month Eurodollar rate to a fixed rate of 1.983%, or a total fixed rate of 7.483%, on this $150.0 million when including the applicable 5.50% margin that was in effect under the 2011 Senior Credit Facility at that time. In August 2012, we amended the terms of the 2011 Senior Credit Facility to, among other things, reduce the applicable margin on Eurodollar rate loans from 5.50% to 4.50% and reduce the interest rate floor on Eurodollar rate loans from 1.50% to 1.25%. In conjunction with the First Amendment to the 2011 Senior Credit Facility in August 2012, the interest rate swap arrangement was amended to reduce the one-month Eurodollar fixed rate from 1.983% to 1.783%, or a total fixed rate of 6.283% when including the applicable 4.50% margin on Eurodollar rate loans in effect under the 2011 Senior Credit Facility at that time. On November 14, 2012, we further amended the terms of the 2011 Senior Credit Facility to, among

other things, allow for the borrowing of a $60.0 million incremental term loan. In connection with the Second Amendment to the 2011 Credit Facility, we further amended the interest rate swap to increase the notional amount to $160.0 million and extended the maturity of the swap to from July 13, 2014 to May 13, 2015. In addition, the one-month Eurodollar fixed rate was lowered from 1.783% to 1.693%, or a total of 6.193% when including the applicable 4.50% margin on Eurodollar rate loans in effect under the 2011 Senior Credit Facility at that time. In connection with entering into the 2013 Senior Credit Facility, we amended and restated the interest rate swap arrangement it initially entered into on July 13, 2011 (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 will continue to have a notional amount of $160.0 million and will mature on May 15, 2018. The swap effectively converts $160.0 million of the $325.0 million 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 consolidated financial statements as of and for the years ended December 31, 2013, 2012 and 2011. 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 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 consolidated statements of operations. For the years ended December 31, 2013, 2012 and 2011, hedge ineffectiveness was evaluated using the hypothetical derivative method. There was no hedge ineffectiveness in the years ended December 31, 2013 and 2011, and the amount related to hedge ineffectiveness for the year ended December 31, 2012 was de minimis.

Counterparties to our derivatives are major banking institutions with credit ratings 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.

As of December 31, 2013, we were in compliance with our debt covenants in the 2013 Senior Credit Facility. These covenants may limit TSI, LLC's ability to incur additional debt. As of December 31, 2013, permitted borrowing capacity of $45.0 million was not restricted by the covenants.

As of December 31, 2013, we had $73.6 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 December 31, 2013, $54.2 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.

Consolidated Debt

As of December 31, 2013, our total principal amount of debt outstanding was $325.0 million. This substantial amount of debt could have significant consequences, including:

- making it more difficult to satisfy our obligations with respect to our outstanding indebtedness;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions of 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 and growth 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 prior to the end of 2014. There can be no assurance that such financing will be available, or that it will be available on acceptable terms.

Contractual Obligations and Commitments

The aggregate long-term debt and operating lease obligations as of December 31, 2013 were as follows:

	Payments Due by Period (in thousands)				
Contractual Obligations(4)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-term debt(1)	$ 325,000	$ 3,250	$ 6,500	$ 6,500	$308,750
Interest payments on long-term debt(2)	104,548	16,200	31,954	30,223	26,171
Operating lease obligations(3)	654,839	88,983	169,500	138,007	258,349
Total contractual cash obligations	$1,084,387	$108,433	$207,954	$174,730	$593,270

Notes:

(1) Principal amounts paid each year will increase as annual excess cash flow amounts are required (as described above). There are no excess cash flow payments required until April 2015.

(2) Based on interest rates pursuant to the 2013 Term Loan Facility and the interest swap agreement as of December 31, 2013.

(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 the operating results of the lessee.

(4) The table above does not include any future obligations that would result in connection with the sale agreement that was entered in December 2013 related to the sale of our property located on East 86th Street in New York as this sale is subject to adjustment, and is expected to close on or about March 31, 2014.

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

In recent years, we have typically operated with a working capital deficit. We had working capital of $27.8 million at December 31, 2013, as compared with a working capital deficit of $11.8 million at December 31, 2012. Major components of our working capital on the current liability side are deferred revenues, accounts payable, accrued expenses (including, among others, accrued construction in progress and equipment, payroll and occupancy costs) and the current portion of long-term debt. As of December 31, 2012, these current liabilities more than offset the main current assets, which consist of cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, and the current portion of deferred tax assets. Payments underlying the current liability for deferred revenue are generally not held as cash and cash equivalents, but rather are used for our business needs, including financing and investing commitments, which use contributes to the working capital deficit. The deferred revenue liability relates to dues and services paid-in-full in advance and joining fees paid at the time of enrollment and totaled $33.9 million and $37.1 million at December 31, 2013 and 2012, respectively. Joining fees received are deferred and amortized over the estimated average membership life of a club member. Prepaid dues are generally realized over a period of up to twelve months, while fees for prepaid services normally are realized over a period of one to nine months. In periods when we increase the number of clubs open 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 joining 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. These costs are recorded as a long-term asset and as such do not offset working capital. Should we record a working capital deficit in future periods, as in the past, we will fund such deficit using cash flows from operations and borrowings under our 2013 Senior Credit Facility. We believe that these sources will be sufficient to cover such deficit.

Recent Changes in or Recently Issued Accounting Standards

For details of applicable new accounting standards, please, see Note 4 — Recent Accounting Pronouncements to our consolidated financial statements in this Annual Report.

Use of Estimates and Critical Accounting Policies

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

Our most significant assumptions and estimates relate to estimated average membership life, the allocation and fair value ascribed to fixed and intangible assets, the useful lives of long-term assets, recoverability and impairment of fixed and intangible assets, valuation of and expense incurred in connection with stock options, valuation of interest-rate swap arrangements, legal contingencies, estimated self-insurance reserves, and valuation of deferred income taxes.

Estimated average membership life. Our one-time member joining fees and a portion of related direct expenses, up to the amount of total deferred joining fees, are deferred and recognized on a straight-line basis in operations over our current estimated average membership life of 23 months for our unrestricted members and 28 months for our restricted members. We monitor 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 adjust the estimate on a quarterly basis. The estimated average membership life could increase or decrease in future periods. Consequently, deferred initiation fees and direct expenses would increase or decrease accordingly.

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, flooring 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 lease. Expenditures for maintenance and repairs are charged to operations as incurred. The cost and related accumulated depreciation, or amortization of assets retired or sold, are removed from the respective accounts and any gain or loss is recognized in operations. The costs related to developing web applications, developing web pages and installing developed applications on the web servers are capitalized and classified as computer software. Web site hosting fees and maintenance costs are expensed as incurred.

Long-lived assets, such as fixed assets and intangible assets are reviewed for impairment when events or circumstances indicate that the carrying value may not be recoverable. Our long-lived assets are grouped at the individual club level which is the lowest level for which there are identifiable cash flows. Estimated undiscounted expected future cash flows are used to determine if an asset group is impaired, in which case the asset's carrying value would be reduced to its fair value, calculated using discounted cash flows. Projected cash flows are based on internal budgets and forecasts through the end of each respective lease. The most significant assumptions in those budgets and forecasts relate to estimated membership and ancillary revenue, attrition rates, and maintenance capital expenditures, which are generally estimated at approximately 3% to 5% of total revenue. Actual cash flows realized could differ from those estimated and could result in asset impairments in the future. See Note 5 — Fixed Assets to our consolidated financial statements in this Annual Report. Due unforeseen to poor performance and lower than expected membership results experienced in January 2014, the Company anticipates having fixed asset impairment in the first quarter of 2014.

Goodwill has been allocated to reporting units that closely reflect the regions served by our 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 our three clubs located in Switzerland ("SSC"). We have one Outlier Club with goodwill. The BSC, WSC and PSC regions do not have any goodwill as of December 31, 2013. The carrying value of goodwill was allocated to our reporting units pursuant to FASB guidance.

As of February 28, 2013 and February 29, 2012, we performed our annual impairment test of goodwill. These impairment tests supported the recorded goodwill balances and as such no impairment of goodwill was required. The valuation of intangible assets requires assumptions and estimates of many critical factors, including revenue and market growth, operating cash flows and discount rates. We will complete an interim evaluation of the goodwill by reporting unit if a triggering event exists. The determination as to whether a triggering event exists that would warrant an interim review of goodwill and whether a write-down of goodwill is necessary involves significant judgment based on short-term and long-term projections of the Company.

Legal contingencies. In accordance with FASB guidance, we determine whether to disclose and accrue for loss contingencies based on an assessment of whether the risk of loss is remote, reasonably possible or probable. Our assessment is developed in consultation with our outside counsel and other advisors and is based on an analysis of possible outcomes under various strategies. Loss contingency assumptions involve judgments that are inherently subjective and can involve matters that are in litigation, which, by its nature are unpredictable. We believe that our assessment of the probability of loss contingencies is reasonable, but because of the subjectivity involved and the unpredictable nature of the subject matter at issue, our assessment may prove ultimately to be incorrect, which could materially impact the consolidated financial statements.

Self-insurance reserves. We limit our exposure to casualty losses on insurance claims by maintaining liability coverage subject to specific and aggregate liability deductibles. Self-insurance losses for claims filed and claims incurred but not reported are accrued based upon a number of factors including sales estimates for each insurance year, claim amounts, claim settlements and number of claims, our historical loss experience and valuations provided by independent third-party consultants. To the extent that estimated self-insurance losses

differ from actual losses realized, our insurance reserves could differ significantly and may result in either higher or lower insurance expense in future periods.

Deferred income taxes. As of December 31, 2013, our net deferred tax assets totaled $28.4 million. These net assets represent cumulative net "temporary differences" that will result in tax deductions in future years. Quarterly, we assess whether a valuation allowance is required based on the weight of all positive and negative evidence to determine whether it is more likely than not that the net deferred tax asset will be realized. We have historically been a taxpayer and are in a three year cumulative income position as of December 31, 2013 for both federal and certain state jurisdictions. In addition, based on recent trends, we project future income sufficient to realize the deferred tax assets during the periods when the temporary tax deductible differences reverse. With the exception of the deductions related to our captive insurance company for state taxes, taxable income has been and is projected to be the same as federal taxable income. Because we expect to discontinue the captive insurance company as of December 31, 2014, the assessment of realizability of the state deferred tax assets is consistent with the federal tax analysis above. We have state net operating loss carry-forwards which we believe will be realized within the available carry-forward period, except for a small net operating loss forward in Rhode Island due to the short carry forward period in that state. Accordingly, we concluded that it is more likely than not that the deferred tax assets will be realized. If actual results do not meet our forecasts and we incur losses in 2014 and beyond, a valuation allowance against the deferred tax assets may be required in the future.

FASB guidance related to accounting for uncertain tax positions prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We recognize interest and penalties accrued related to unrecognized tax benefits in income tax expense.

Inflation

Although we cannot accurately anticipate the effect of inflation on our operations, we believe that inflation has not had a material impact on our results of operations or financial condition. Should there be periods of high inflation in the future, our results of operations or financial condition would be exposed to the effects of inflation, such as higher rents for our leases under escalation terms based on the consumer price index and higher interest expense on the variable rate portion of our debt.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

Our debt is effectively at both 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.

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 December 31, 2013, we had $325.0 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 December 31, 2013, a hypothetical 100 basis point interest increase would have increased our interest cost by approximately $285,000.

For additional information concerning the terms of our 2013 Term Loan Facility, see Note 9 — Long-Term Debt to our consolidated financial statements in this Annual Report.

Item 8. ***Statements and Supplementary Data Financial***

Our Financial Statements appear following the signature page hereto, are incorporated herein by reference and are listed in the index appearing under Item 15.

Item 9. ***in and Disagreements with Accountants on Accounting and Financial Disclosure Changes***

None

Item 9A. ***and Procedures Controls***

Evaluation of Disclosure Controls and Procedures: Disclosure controls and procedures are designed to ensure that the information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired controls.

As of December 31, 2013, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2013, our disclosure controls and procedures were not effective at the reasonable assurance level, because of the material weakness in the Company's internal control over financial reporting described below. This material weakness did not result in any audit adjustments or misstatements.

Management's Annual Report on Internal Control Over Financial Reporting: Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

Internal control over financial reporting is defined as a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework* (1992 Framework) . Based on our management's assessment using those criteria, our management concluded that a material weakness in internal control over financial reporting existed as of December 31, 2013 as described below, and that as a result, our internal control over financial reporting was not effective as of December 31, 2013. A material weakness is defined as "a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis."

The material weakness is that certain accounting personnel have system access to both create and post journal entries to substantially all of the key accounts as of December 31, 2013 which are not subject to an independent review process.

The material weakness did not result in any adjustments or misstatements. However, this material weakness could result in a material misstatement of the annual or interim consolidated financial statements that would not have been prevented or detected.

PricewaterhouseCoopers LLP, our independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2013, as stated in their report included following the signature page hereto, included in Item 15.

Remediation : We are in the process of addressing the access of these accounting personnel and will establish access limitations specific to job functions and roles that we believe will address the risks described above. This will include removing the ability for any member of the accounting department to both create and post journal entries without independent review. We believe that the design, implementation and testing of this control, which we expect to be implemented during the first and second quarters of 2014, should remediate the material weakness. Until such time as such procedures have been completed and verified, we will continue to perform manual reviews of all journal entries posted by accounting personnel with this access.

Changes in Internal Control Over Financial Reporting: As described below, there have been changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Prior to December 31, 2013, we had maintained an independent review process for any manual journal entries initiated by accounting personnel with the ability to both create and post such entries. Following December 31, 2013, we removed the independent review process and sought to limit the access of such individuals such that they no longer could both create and post manual journal entries. However, certain accounting personnel continued to have system access to both create and post such entries to substantially all of the key accounts as of December 31, 2013, which were then no longer subject to the independent review process. We have been able to determine that there were no journal entries actually created and posted by these accounting personnel during the time when there was no independent review process.

Item 9B. Other Information

None.

PART III

Item 10. ***Executive Officers and Corporate Governance***
Directors,

The information with respect to directors, executive officers and corporate governance of the Company is incorporated herein by reference to the following sections of the Company's definitive Proxy Statement relating to the Company's 2014 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the Company's fiscal year ended December 31, 2013 (the "Proxy Statement"): "Matters to be Considered at Annual Meeting — Proposal One — Election of Directors," "Corporate Governance and Board Matters — Corporate Governance Documents," "Corporate Governance and Board Matters — Committee Membership — Audit Committee," "Section 16 (A) Beneficial Ownership Reporting Compliance," "Executive Officers," and "Deadline for Receipt of Stockholder Proposals."

The following are the members of our Board of Directors and our Executive Officers:

Board of Directors:	
Robert Giardina	Chief Executive Officer, Town Sports International Holdings, Inc.
Paul N. Arnold	Former Chairman of the Board and Chief Executive Officer, Cort Business Services, Inc.
Bruce C. Bruckmann	Managing Director, Bruckmann, Rosser, Sherrill & Co., LP
J. Rice Edmonds	Managing Director, Edmonds Capital, LLC
John H. Flood III	Chief Executive Officer, Synergy Global Outsourcing, LLC
Thomas J. Galligan III	Former Executive Chairman, Papa Gino's Holdings Corp.
Kevin McCall	Chief Executive Officer and President, Paradigm Properties, LLC
Executive Officers:	
Robert Giardina	Chief Executive Officer
Daniel Gallagher	President, Chief Operating Officer and Chief Financial Officer
Paul Barron	Senior Vice President — Chief Information Officer
David M. Kastin	Senior Vice President — General Counsel and Corporate Secretary
Scott Milford	Senior Vice President — Human Resources

Item 11. ***Compensation***
Executive

The information with respect to executive compensation is incorporated herein by reference to the following sections of the Proxy Statement: "Executive Compensation" and "Corporate Governance and Board Matters — Compensation Committee Interlocks and Insider Participation."

The information with respect to compensation of directors is incorporated herein by reference to the following section of the Proxy Statement: "Corporate Governance and Board Matters — Directors' Compensation for the 2013 Fiscal Year."

Item 12. ***Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters Security***

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information with respect to compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance to employees as of December 31, 2013:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a)) (c)
Equity compensation plans approved by security holders	1,140,231	$ 5.29	423,239
Equity compensation plans not approved by security holders	—	—	—
Total	1,140,231	$ 5.29	423,239

The information with respect to security ownership of certain beneficial owners and management is incorporated herein by reference to the following section of the Proxy Statement: “Ownership of Securities.”

Item 13. ***Relationships and Related Transactions, and Director Independence Certain***

The information with respect to certain relationships and related transactions and director independence is incorporated herein by reference to the following sections of the Proxy Statement: “Certain Relationships and Related Transactions” and “Corporate Governance and Board Matters — Director Independence.”

Item 14. ***Accountant Fees and Services Principal***

The information with respect to principal accountant fees and services is incorporated herein by reference to the following section of the Proxy Statement: “Matters to be Considered at Annual Meeting — Proposal Two — Ratification of Independent Registered Public Accounting Firm.”

PART IV

Item 15. ***And Financial Statements Exhibits***

(a) *Financial Statements*

(1) Financial statements filed as part of this report:

(2) Financial Statements Schedules:

The schedules have been omitted because they are not applicable or the required information has been included in the financial statements or notes thereto.

(3) Exhibits. See Item 15(b) below.

(b) *Exhibits required by Item 601 of Regulation S-K*

The information required by this item is incorporated herein by reference from the Index to Exhibits immediately following page F-41 of this Annual Report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 14, 2014.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC.

By: /s/ ROBERT GIARDINA

Chief Executive Officer
(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
By: /s/ ROBERT GIARDINA Robert Giardina	Chief Executive Officer (principal executive officer) and Director	March 14, 2014
By: /s/ DANIEL GALLAGHER Daniel Gallagher	President, Chief Operating Officer and Chief Financial Officer (principal financial and accounting officer)	March 14, 2014
By: /s/ PAUL ARNOLD Paul Arnold	Director	March 14, 2014
By: /s/ BRUCE BRUCKMANN Bruce Bruckmann	Director	March 14, 2014
By: /s/ J. RICE EDMONDS J. Rice Edmonds	Director	March 14, 2014
By: /s/ JOHN H. FLOOD III John H. Flood III	Director	March 14, 2014
By: /s/ THOMAS J. GALLIGAN III Thomas J. Galligan III	Director	March 14, 2014
By: /s/ KEVIN MCCALL Kevin McCall	Director	March 14, 2014

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INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Town Sports International Holdings, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, stockholders' (deficit) equity and cash flows present fairly, in all material respects, the financial position of Town Sports International Holdings, Inc. and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control — Integrated Framework* (1992 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting related to the ability of certain accounting personnel to create and post journal entries without an independent review existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. We considered this material weakness in determining the nature, timing and extent of audit tests applied in our audit of the 2013 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those financial statements. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in management's report referred to above. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

New York, New York
March 14, 2014

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
As of December 31, 2013 and 2012
(All figures in thousands except share data)

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 73,598	$ 37,758
Accounts receivable, net	3,704	6,508
Inventory	473	438
Deferred tax assets, net	17,010	19,325
Prepaid corporate income taxes	6	550
Prepaid expenses and other current assets	10,850	11,435
Total current assets	105,641	76,014
Fixed assets, net	243,992	256,871
Goodwill	32,870	32,824
Intangible assets, net	908	—
Deferred tax assets, net	11,340	15,728
Deferred membership costs	8,725	10,811
Other assets	10,316	12,522
Total assets	$413,792	$404,770
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current portion of long-term debt	$ 3,250	$ 15,787
Accounts payable	8,116	7,467
Accrued expenses	31,536	27,053
Accrued interest	737	89
Dividends payable	259	305
Deferred revenue	33,913	37,138
Total current liabilities	77,811	87,839
Long-term debt	311,659	294,552
Dividends payable	407	799
Deferred lease liabilities	56,882	61,732
Deferred revenue	2,460	3,889
Other liabilities	8,089	11,455
Total liabilities	457,308	460,266
Contingencies (Note 15)		
Stockholders' (deficit) equity:		
Common stock, $.001 par value; issued and outstanding 24,072,705 and 23,813,106 shares at December 31, 2013 and December 31, 2012, respectively	24	24
Additional paid-in capital	(13,846)	(16,326)
Accumulated other comprehensive income	2,052	1,226
Accumulated deficit	(31,746)	(40,420)
Total stockholders' deficit	(43,516)	(55,496)
Total liabilities and stockholders' deficit	$413,792	$404,770

See notes to consolidated financial statements.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2013, 2012 and 2011
(All figures in thousands except share and per share data)

	2013	2012	2011
Revenues:			
Club operations	$ 464,240	$ 473,177	$ 462,051
Fees and other	5,985	5,804	4,890
	470,225	478,981	466,941
Operating Expenses:			
Payroll and related	174,894	181,632	177,528
Club operating	179,683	178,950	176,463
General and administrative	28,431	24,139	25,799
Depreciation and amortization	49,099	49,391	51,536
Insurance recovery related to damaged property	(3,194)	—	—
Impairment of fixed assets	714	3,436	—
	429,627	437,548	431,326
Operating income	40,598	41,433	35,615
Loss on extinguishment of debt	750	1,010	4,865
Interest expense	22,617	24,640	24,274
Interest income	(1)	(43)	(147)
Equity in the earnings of investees and rental income	(2,459)	(2,461)	(2,391)
Income before provision for corporate income taxes	19,691	18,287	9,014
Provision for corporate income taxes	7,367	6,321	2,699
Net income	$ 12,324	$ 11,966	$ 6,315
Earnings per share:			
Basic	$ 0.51	$ 0.51	$ 0.28
Diluted	$ 0.50	$ 0.50	$ 0.27
Weighted average number of shares used in calculating earnings per share:			
Basic	24,031,533	23,436,393	22,828,031
Diluted	24,736,961	24,114,540	23,423,797
Dividends declared per common share	$ 0.16	$ 3.00	$ —

See notes to consolidated financial statements.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2013, 2012 and 2011
(All figures in thousands)

	2013	2012	2011
Net income	$12,324	$11,966	$6,315
Other comprehensive (loss) income, net of tax:			
Foreign currency translation adjustments, net of tax of ($49), $0 and $777 for the years ended December 31, 2013, 2012 and 2011, respectively	68	95	(129)
Interest rate swap, net of tax of ($583), $61 and $601 for the years ended December 31, 2013, 2012 and 2011, respectively	758	(120)	(741)
Total other comprehensive income (loss), net of tax	826	(25)	(870)
Total comprehensive income	$13,150	$11,941	$5,445

See notes to consolidated financial statements.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) EQUITY
Years Ended December 31, 2013, 2012 and 2011
(All figures in thousands except share and per share data)

	Common Stock ($.001 par)		Additional	Accumulated Other	Retained	Total
	Shares	Amount	Paid-in Capital	Comprehensive Income	Earnings (Deficit)	Stockholders' (Deficit) Equity
Balance at December 31, 2010	22,667,650	$ 23	$(21,788)	$ 2,121	$ 12,699	$ (6,945)
Stock option exercises	164,435	—	479	—	—	479
Common stock grants	27,297	—	151	—	—	151
Restricted stock grants	188,999	—	—	—	—	—
Cancellation of options	—	—	(37)	—	—	(37)
Forfeiture of restricted stock	(7,500)	—	—	—	—	—
Compensation related to stock options and restricted stock grants	—	—	1,261	—	—	1,261
Net income	—	—	—	—	6,315	6,315
Derivative financial instruments	—	—	—	(741)	—	(741)
Foreign currency translation adjustment	—	—	—	(129)	—	(129)
Balance at December 31, 2011	23,040,881	23	(19,934)	1,251	19,014	354
Stock option exercises	534,514	1	2,351	—	—	2,352
Common stock grants	12,502	—	116	—	—	116
Restricted stock grants	251,500	—	—	—	—	—
Cancellation of options	—	—	(49)	—	—	(49)
Forfeiture of restricted stock	(26,291)	—	—	—	—	—
Compensation related to stock options and restricted stock grants	—	—	1,190	—	—	1,190
Dividends declared on common stock	—	—	—	—	(71,400)	(71,400)
Net income	—	—	—	—	11,966	11,966
Derivative financial instruments	—	—	—	(120)	—	(120)
Foreign currency translation adjustment	—	—	—	95	—	95
Balance at December 31, 2012	23,813,106	24	(16,326)	1,226	(40,420)	(55,496)
Stock option exercises	135,786	—	600	—	—	600
Common stock grants	29,562	—	305	—	—	305
Restricted stock grants	178,500	—	—	—	—	—
Cancellation of options	—	—	(80)	—	—	(80)
Forfeiture of restricted stock	(84,249)	—	—	—	—	—
Compensation related to stock options and restricted stock grants	—	—	1,899	—	—	1,899
Tax shortfall from stock option exercises	—	—	(244)	—	—	(244)
Dividends declared on common stock	—	—	—	—	(3,850)	(3,850)
Dividend forfeitures	—	—	—	—	200	200
Net income	—	—	—	—	12,324	12,324
Derivative financial instruments	—	—	—	758	—	758
Foreign currency translation adjustment	—	—	—	68	—	68
Balance at December 31, 2013	24,072,705	$ 24	$(13,846)	$ 2,052	$(31,746)	$ (43,516)

See notes to consolidated financial statements.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013, 2012 and 2011
(All figures in thousands)

	2013	2012	2011
Cash flows from operating activities:			
Net income	$ 12,324	$ 11,966	$ 6,315
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	49,099	49,391	51,536
Impairment of fixed assets	714	3,436	—
Loss on extinguishment of debt	750	1,010	4,865
Insurance recovery related to damaged property	(3,194)	—	—
Call premium on redemption of Senior Discount Notes	—	—	(2,538)
Amortization of debt discount	996	517	244
Amortization of debt issuance costs	1,153	1,135	1,127
Noncash rental expense, net of non-cash rental income	(5,692)	(4,037)	(3,663)
Share-based compensation expense	2,204	1,306	1,412
Decrease in deferred tax asset	6,120	5,865	11,553
Net change in certain operating assets and liabilities, net of acquisitions	898	(8,967)	9,181
Decrease (increase) in deferred membership costs	2,086	(694)	(4,183)
Landlord contributions to tenant improvements	1,472	1,345	711
Decrease in insurance reserves	(929)	(2,071)	(1,679)
Other	(613)	(149)	4
Total adjustments	55,064	48,087	68,570
Net cash provided by operating activities	67,388	60,053	74,885
Cash flows from investing activities:			
Capital expenditures	(30,861)	(22,490)	(30,907)
Acquisition of businesses	(2,939)	—	—
Insurance recovery related to damaged property	3,194	—	—
Net cash used in investing activities	(30,606)	(22,490)	(30,907)
Cash flows from financing activities:			
Cash dividends paid	(4,088)	(70,296)	—
Proceeds from 2013 Senior Credit Facility, net of original issue discount	323,375	—	—
Proceeds from incremental term loan, net of original issue discount	—	59,700	—
Proceeds from replacement 2011 Term Loan Facility lenders	—	13,796	—
Proceeds from 2011 Senior Credit Facility, net of original issue discount	—	—	297,000
Principal payments to non-consenting 2011 Term Loan Facility lenders	—	(13,796)	—
Principal payments on 2011 Term Loan Facility	—	(36,007)	(8,250)
Term loan issuance and amendment related financing costs	(4,356)	(3,346)	—
Debt issuance costs	(763)	(125)	(8,065)
Proceeds from stock option exercises	600	2,352	479
Repayment of 2011 Senior Credit Facility	(315,743)	—	—
Repayment of 2007 Term Loan Facility	—	—	(178,063)
Repayment of Senior Discount Notes	—	—	(138,450)
Net cash used in financing activities	(975)	(47,722)	(35,349)
Effect of exchange rate changes on cash	33	37	448
Net increase (decrease) in cash and cash equivalents	35,840	(10,122)	9,077
Cash and cash equivalents beginning of period	37,758	47,880	38,803
Cash and cash equivalents end of period	$ 73,598	$ 37,758	$ 47,880
Summary of the change in certain operating assets and liabilities:			
Decrease (increase) in accounts receivable	$ 2,859	$ (645)	$ (591)
Increase in inventory	(36)	(148)	(74)
(Increase) decrease in prepaid expenses and other current assets	(1,278)	(432)	3,212
Increase (decrease) in accounts payable, accrued expenses and accrued interest	3,089	(3,094)	864
Change in prepaid corporate income taxes and corporate income taxes payable	1,604	(427)	(2,347)
(Decrease) increase in deferred revenue	(5,340)	(4,221)	8,117
Net change in certain working capital components	$ 898	$ (8,967)	$ 9,181

See notes to consolidated financial statements.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013, 2012 and 2011
(In thousands except share and per share data)

1. Basis of Presentation

As of December 31, 2013, Town Sports International Holdings, Inc. (the "Company" or "TSI Holdings"), through its wholly-owned subsidiary, Town Sports International, LLC ("TSI, LLC"), operated 162 fitness clubs ("clubs") comprised of 108 clubs in the New York metropolitan market under the "New York Sports Clubs" brand name, 29 clubs in the Boston market under the "Boston Sports Clubs" brand name, 16 clubs (two of which are partly-owned) in the Washington, D.C. market under the "Washington Sports Clubs" brand name, six clubs in the Philadelphia market under the "Philadelphia Sports Clubs" brand name and three clubs in Switzerland. The Company's operating segments are New York Sports Clubs, Boston Sports Clubs, Philadelphia Sports Clubs, Washington Sports Clubs and Swiss Sports Clubs which is the level at which the chief operating decision maker reviews discrete financial information and makes decisions about segment profitability based on earnings before income tax depreciation and amortization. The Company has determined that our operating segments have similar economic characteristics and meet the criteria which permit them to be aggregated into one reportable segment.

2. Correction of Accounting Errors

The results for the year ended December 31, 2013 include the correction of deferred lease receivables and rental income resulting in an increase in rental income from subtenants and a related increase in deferred lease receivable in the Company's consolidated statement of operations and consolidated balance sheet, respectively. This correction resulted in the recognition of Fees and other revenue in the year ended December 31, 2013 of $424 that relates to 2012. The Company does not believe that this error correction is material to 2013 or prior reporting periods.

The results for the year ended December 31, 2013 also include the correction of errors that resulted in an increase in tax benefits for corporate income taxes and a related increase in deferred tax assets in our consolidated statement of operations and consolidated balance sheet, respectively. In the fourth quarter of 2013, the Company identified corrections related to temporary differences in fixed assets for state depreciation resulting in the recognition of an income tax benefit of $225. Also, in the fourth quarter of 2013, the Company identified corrections related to temporary differences in landlord allowances resulting in the recognition of out of period expense of $209 for a net benefit to the Provision for corporate income taxes of $16 in the year ended December 31, 2013. The Company also made out-of period balance sheet adjustments as of December 31, 2012. The balance sheet adjustments relate to a reclassification of the deferred tax asset associated with deferred membership costs and the corrections related to temporary differences in landlord allowances. As of December 31, 2012, the net effect of the balance sheet adjustments was a decrease in current deferred tax assets of $5,572, and increases in long-term deferred tax assets of $6,432 and long-term income tax liability (included within Other liabilities) of $860. The Company does not believe that either error correction is material to 2013 or prior reporting periods.

The Company also made revisions to the consolidated balance sheet as of December 31, 2012 related to the classification of deferred promotions from long term Other assets to current Prepaid expenses and other current assets for $1,569 The Company does not believe that the error correction is material to 2013 or prior reporting periods.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company has revised its consolidated balance sheet as of December 31, 2012 and consolidated statements of cash flows for the years ended December 31, 2012 and 2011to correct the classification errors described above. The consolidated effects are shown in the chart below.

	As of December 31, 2012	
	As Previously Reported	As Revised
Consolidated Balance Sheet:		
Current deferred tax assets, net	$ 24,897	$ 19,325
Prepaid expenses and other current assets	$ 9,866	$ 11,435
Total current assets	$ 80,017	$ 76,014
Long-term deferred tax assets, net	$ 9,296	$ 15,728
Other assets	$ 14,091	$ 12,522
Total assets	$403,910	$404,770
Other liabilities	$ 10,595	$ 11,455
Total liabilities	$459,406	$460,266
Total liabilities and stockholder's (deficit) equity	$403,910	$404,770

	For the year ended			
	December 31, 2012		December 31, 2011	
	As Previously Reported	As Revised	As Previously Reported	As Revised
Consolidated Statements of Cash Flows:				
Net change in certain operating assets and liabilities	$ (8,864)	$(8,967)	$ 19,129	$ 9,181
Decrease in deferred tax asset	$ 5,865	$ 5,865	$ 1,886	$11,553
Other	$ (252)	$ (149)	$ (277)	$ 4
Summary of the changes in certain operating assets and liabilities:				
(Increase) decrease in prepaid expenses and other current assets	$ (329)	$ (432)	$ 3,493	$ 3,212
Change in prepaid corporate income taxes and corporate income taxes payable	$ (427)	$ (427)	$ 7,320	$ (2,347)

These adjustments were not considered material individually or in the aggregate to previously issued financial statements. However, because of the significance of these adjustments, the Company revised the respective balance sheets and statements of cash flows. These revisions had no impact on the Company's results of previously reported operations or total cash flows.

The results for the year ended December 31, 2012 include the correction of temporary differences that resulted in an increase in benefit for corporate income taxes and a related increase in deferred tax assets in the Company's consolidated statement of operations and consolidated balance sheet, respectively. In the fourth quarter of 2012, the Company identified corrections related to temporary differences in fixed assets, intangible assets and deferred revenue resulting in the recognition of an income tax benefit of $483. The Company does not believe that this error correction is material to 2012 or prior reporting periods.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of TSI Holdings and all wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Revenue Recognition

The Company generally receives one-time non-refundable joining fees and monthly dues from its members. The Company's members have the option to join on a month-to-month basis or to commit to a one-year membership. Month-to-month members can cancel their membership at any time with 30 days notice. Membership dues for members who pay annual dues upfront are amortized on a straight-line basis over a 12-month period commencing with the first month of the new member contract. Membership dues for members who pay monthly are recognized in the period in which access to the club is provided.

Joining fees and related direct and incremental expenses of membership acquisition, which include sales commissions, bonuses and related taxes and benefits, are currently deferred and recognized, on a straight-line basis, in operations over the estimated average membership life. Deferred membership costs were $8,725 and $9,242 at December 31, 2013 and 2012, respectively.

The Company tracks the estimated average membership life of restricted members separately from unrestricted members. The restricted membership base currently includes student memberships introduced in April 2010, teacher memberships introduced in April 2011 and first responder memberships, a one-time promotional offer in September 2011. As of December 31, 2013, the estimated average membership life of an unrestricted member and a restricted member is 23 months and 28 months, respectively. The Company monitors factors that might affect the estimated average membership life including retention trends, attrition trends, membership sales volume, membership composition, competition, and general economic conditions, and adjusts the estimate on a quarterly basis. The table below summarizes the estimated average membership life of restricted members and unrestricted members that were in effect for each quarter during the past three year period from 2011 through 2013.

	Estimated Average Membership Life of an Unrestricted Member			Estimated Average Membership Life of a Restricted Member		
Period	2013	2012	2011	2013	2012	2011
Three months ended March 31	25 months	28 months	27 months	27 months	25 months	27 months
Three months ended June 30	24 months	28 months	27 months	28 months	27 months	27 months
Three months ended September 30	23 months	28 months	28 months	28 months	28 months	28 months
Three months ended December 31	23 months	27 months	29 months	28 months	27 months	24 months

The Company monitors factors that might affect the estimated average membership life including historical and forecasted retention trends, attrition trends, membership sales volumes, membership composition, competition, and general economic conditions, and adjusts the estimate on a quarterly basis.

Dues that are received in advance are recognized on a pro-rata basis over the periods in which services are to be provided. Revenues from ancillary services, such as personal training sessions, are recognized as services are performed. Unused personal training sessions expire after a set, disclosed period of time after purchase and are not refundable or redeemable by the member for cash. The State of New York has informed the Company that it is considering whether the Company is required to remit the amount collected for unused, expired personal training sessions to the State of New York as unclaimed property. As of December 31, 2013 and 2012, the Company had approximately $14,309 and $13,442, respectively, of unused and expired personal training sessions. We have not recognized any revenue from these sessions and have recorded the amounts as deferred revenue. The Company does not believe that these amounts are subject to the escheatment or abandoned property laws of any jurisdiction, including the State of New York. However, it is possible that one or more of these jurisdictions may not agree with the Company's position and may claim that the Company must remit all or a portion of these amounts to such jurisdiction.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In addition to the prepaid personal training sessions the Company also offers a personal training membership product which consists of single or multi-session packages ranging from one, four, eight or twelve sessions per month. These sessions provided by the membership product are at a discount to our stand-alone session pricing and the sessions offered by the membership product must be used in each respective month they are issued. Members who purchase this product commit to a six month period and revenue is recognized ratably over the six month commitment period.

The Company's membership base is under four basic types of memberships plans that have various levels of facility privileges. We have a Passport Membership which allows members to use any club at any time, a Core Membership which allows members unlimited use of a single "home club" with access to use other non-home clubs for an additional usage fee, a Gold Membership (no longer offered to new members) allows unlimited access to a home club and use of non-home clubs during off-peak hours with access during peak hours but for a usage fee, a Restricted Membership which is generally sold to students and teachers and provides for access to all clubs except during the peak hours of 4:30pm to 7:30pm, Monday through Thursday. Restricted members have access to our facilities during peak hours, but a usage fee is charged. Usage fees are recorded to membership revenue in the month the usage occurs. Total usage fees recorded were $2,126, $2,166 and $2,035 for the years ended December 31, 2013, 2012 and 2011, respectively.

The Company generates management fees from certain club facilities that are not wholly-owned. Management fees earned for services rendered are recognized at the time the related services are performed.

When a revenue agreement involves multiple elements, such as sales of both memberships and services in one arrangement or potentially multiple arrangements, the entire fee from the arrangement is allocated to each respective element based on its relative fair value and recognized when the revenue recognition criteria for each element is met.

The Company recognizes revenue from merchandise sales upon delivery to the member.

In connection with advance receipts of fees or dues, the Company was required to maintain bonds totaling $3,375 and $3,425 as of December 31, 2013 and 2012, respectively, pursuant to various state consumer protection laws.

Advertising and Club Pre-opening Costs

Advertising costs and club pre-opening costs are charged to operations during the period in which they are incurred, except for production costs related to television and radio advertisements, which are expensed when the related commercials are first aired. Total advertising costs incurred by the Company for the years ended December 31, 2013, 2012 and 2011 totaled $5,943, $6,158 and $5,999, respectively and are included in Club operating expenses.

Cash and Cash Equivalents

The Company considers all highly liquid instruments which have original maturities of three months or less when acquired to be cash equivalents. The carrying amounts reported in the balance sheets for cash and cash equivalents approximate fair value. The Company owns and operates a captive insurance company in the State of New York. Under the insurance laws of the State of New York, this captive insurance company is required to maintain a cash balance of at least $250. At December 31, 2013 and 2012, $274 of cash related to this wholly-owned subsidiary was included in cash and cash equivalents.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Deferred Lease Liabilities, Non-cash Rental Expense and Additional Rent

The Company recognizes rental expense for leases with scheduled rent increases and inclusive of rental concessions, on the straight-line basis over the life of the lease beginning upon the commencement date of the lease. Rent concessions, primarily received in the form of free rental periods, are also deferred and amortized on a straight-line basis over the life of the lease.

The Company leases office, warehouse and multi-recreational facilities and certain equipment under non-cancelable operating leases. In addition to base rent, the facility leases generally provide for additional rent to cover common area maintenance charges incurred and to pass along increases in real estate taxes. The Company accrues for any unpaid common area maintenance charges and real estate taxes on a club-by-club basis.

Upon entering into certain leases, the Company receives construction allowances from the landlord. These construction allowances are recorded as deferred lease liability credits on the consolidated balance sheet when the requirements for these allowances are met as stated in the respective lease and are amortized as a reduction of rent expense over the term of the lease. Amortization of deferred construction allowances were $3,310, $2,955 and $2,791 as of December 31, 2013, December 31, 2012 and December 31, 2011, respectively.

Certain leases provide for contingent rent based upon defined formulas of revenue, cash flows or operating results for the respective facilities. These contingent rent payments typically call for additional rent payments calculated as a percentage of the respective club's revenue or a percentage of revenue in excess of defined break-points during a specified year. The Company records contingent rent expense over the related contingent rental period at the time the respective contingent targets are probable of being met.

Lease termination penalties are recognized using the undiscounted cash flow method. The Company did not incur any lease termination penalties in the years ended December 31, 2013, 2012 or 2011.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consists of amounts due from the Company's membership base and was $6,013 and $9,757 at December 31, 2013 and 2012, respectively, before the allowance for doubtful accounts. The decrease in accounts receivable was primarily due to a change in our billing policy effective January 1, 2013, where cash sales proceeds, primarily related to personal training sessions, are required to be collected at the point of sale rather than giving members the option to bill "on account" which is recorded as a receivable due from the member. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of the Company's members to make required payments. The Company considers factors such as: historical collection experience, the age of the receivable balance and general economic conditions that may affect a member's ability to pay.

Following are the changes in the allowance for doubtful accounts for the years December 31, 2013, 2012 and 2011:

	Balance Beginning of the Year	Additions	Write-offs Net of Recoveries	Balance at End of Year
December 31, 2013	$ 3,249	$ 8,335	$ (9,275)	$ 2,309
December 31, 2012	$ 2,440	$ 9,711	$ (8,902)	$ 3,249
December 31, 2011	$ 2,565	$ 6,698	$ (6,823)	$ 2,440

Inventory

Inventory consists of supplies, headsets for the club entertainment system and clothing for sale to members. Inventories are valued at the lower of cost or market by the first-in, first-out method.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fixed 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 club base 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 developed applications on the web servers are capitalized and classified as computer software. Web site hosting fees and maintenance costs are expensed as incurred.

Intangible Assets and Debt Issuance Costs

Intangible assets are stated at cost and amortized by the straight-line method over their respective estimated lives. Intangible assets currently consist of membership lists, management contracts and trade names. Historically, intangible assets also included covenants-not-to-compete and a beneficial lease. Covenants-not-to-compete are amortized over the contractual life, generally one to five years, and beneficial leases are amortized over the remaining life of the underlying club lease. Membership lists are amortized over the estimated average membership life, currently at 23 months, management contracts are amortized over their current contractual lives of between nine and 11 years and trade names are amortized over their estimated useful lives of between 10 and 20 years.

Debt issuance costs are classified within other assets and are being amortized as additional interest expense over the life of the underlying debt, five to seven years, using the interest method. Amortization of debt issue costs was $1,153, $1,135 and $1,127, for the years ended December 31, 2013, 2012 and 2011, respectively.

Accounting for the Impairment of Long-Lived Assets and Goodwill

Long-lived assets, such as fixed assets and intangible assets are reviewed for impairment when events or circumstances indicate that their carrying value may not be recoverable. Estimated undiscounted expected future cash flows are used to determine if an asset is impaired in which case the asset's carrying value would be reduced to fair value calculated using discounted cash flows, which is based on internal budgets and forecasts through the end of each respective lease. The most significant assumptions in those budgets and forecasts relate to estimated membership and ancillary revenue, attrition rates, and maintenance capital expenditures, which are estimated at approximately 3% to 5% of total revenues.

Goodwill represents the excess of consideration paid over the fair value of the net identifiable business assets acquired in the acquisition of a club or group of clubs. Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350-20, Intangibles – Goodwill and Other, requires goodwill to be tested for impairment on an annual basis and between annual tests in certain circumstances, and written down when impaired. The Company's impairment review process compares the fair value of the reporting unit in which the goodwill resides to its carrying value.

Goodwill impairment testing is a two-step process. Prior to performing this two-step process, companies also have the option to apply a qualitative approach to assess goodwill for impairment pursuant to updated accounting rules issued by the FASB in September 2011 and adopted by the Company beginning with its annual impairment test on February 29, 2012. Under the new rules, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or

circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. Companies that do not elect to perform the qualitative approach may proceed directly to the two-step process. Step 1 involves comparing the fair value of the Company's reporting units to their carrying amounts. If the fair value of the reporting unit is greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount is greater than the 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 fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the 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 loss is recognized equal to the difference. The Company performs this analysis annually as of the last day of February. The Company's goodwill impairment test as of February 28, 2013 was performed using the two-step goodwill impairment analysis.

Insurance

The Company obtains insurance coverage for significant exposures as well as those risks required to be insured by law or contract. The Company retains a portion of risk internally related to general liability losses. Where the Company retains risk, provisions are recorded based upon the Company's estimates of its ultimate exposure for claims. The provisions are estimated using actuarial analysis based on claims experience, an estimate of claims incurred but not yet reported and other relevant factors. In this connection, under the provision of the deductible agreement related to the payment and administration of the Company's insurance claims, we are required to maintain irrevocable letters of credit, totaling $615 as of December 31, 2013.

Use of Estimates

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

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

Income Taxes

Deferred tax liabilities and assets are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns. The Company also recognizes deferred tax in relation to the U.S. taxes on the total cumulative earnings of our Swiss clubs. Deferred tax liabilities and assets are determined on the basis of the difference between the financial statement and tax basis of assets and liabilities ("temporary differences") at enacted tax rates in effect for the years in which the temporary differences are expected to reverse. A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized. FASB guidance related to accounting for uncertain tax positions prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Statements of Cash Flows

Supplemental disclosure of cash flow information:

	Year Ended December 31,		
	2013	2012	2011
Cash paid			
Interest (net of amounts capitalized)	$19,744	$23,738	$28,953
Income taxes	$ 390	$ 924	$ 617
Noncash investing and financing activities			
Acquisition of fixed assets included in accounts payable and accrued expenses	$ 5,789	$ 2,797	$ 1,645

See Note 9 for additional noncash financing activities.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, including changes in the fair value of the Company's derivative financial instrument and foreign currency translation adjustments. The Company presents accumulated other comprehensive income in its consolidated statements of comprehensive income.

The Company uses a derivative financial instrument to limit exposure to changes in interest rates on the Company's existing term loan facility. The derivative financial instrument is recorded at fair value on the balance sheet and changes in the fair value are either recognized in accumulated other comprehensive income (a component of shareholders' equity) or net income depending on the nature of the underlying exposure, whether the hedge is formally designated as a hedge, and if designated, the extent to which the hedge is effective. The Company's derivative financial instrument has been designated as a cash flow hedge. See Note 10 — Derivative Financial Instruments for more information on the Company's risk management program and derivatives.

At December 31, 2013, the Company owned three Swiss clubs, which use the Swiss Franc, their local currency, as their functional currency. Assets and liabilities are translated into U.S. dollars at year-end exchange rates, while income and expense items are translated into U.S. dollars at the average exchange rate for the period. For all periods presented, foreign exchange transaction gains and losses were not material. Adjustments resulting from the translation of foreign functional currency financial statements into U.S. dollars are included in the currency translation adjustment in the consolidated statements of stockholders' (deficit) equity and the consolidated statements of comprehensive income. The effect of foreign exchange translation adjustments was $68, net of tax of $49; $95, net of tax of $0 and $(129), net of tax of ($777), for the years ended December 31, 2013, 2012 and 2011, respectively.

Concentrations 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 December 31, 2013, $54,184 of the cash balance of $73,598 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.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

Earnings Per Share

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

The following table summarizes the weighted average common shares for basic and diluted earnings per share ("EPS") computations.

	For The Year Ended December 31,		
	2013	2012	2011
Weighted average number of common share outstanding — basic	24,031,533	23,436,393	22,828,031
Effect of dilutive share-based awards	705,428	678,147	595,766
Weighted average number of common shares outstanding — diluted	24,736,961	24,114,540	23,423,797
Earnings per share:			
Basic	$ 0.51	$ 0.51	$ 0.28
Diluted	$ 0.50	$ 0.50	$ 0.27

For the years ended December 31, 2013, 2012 and 2011, we did not include options to purchase 269,992, 306,904 and 672,589 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 their inclusion would be anti-dilutive.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718, Compensation — Stock Compensation ("ASC 718"). ASC 718 requires that the cost resulting from all share-based payment transactions be treated as compensation and recognized in the consolidated financial statements. We record share-based payment awards at fair value on the grant date of the awards, based on the estimated number of awards that are expected to vest. The fair value of stock options is determined using the Black-Scholes option-pricing model. The fair value of the restricted stock awards is based on the closing price of the Company's common stock on the date of the grant.

On December 11, 2012, adjustments were made to certain stock options which were modified in order to maintain the intrinsic value of the options in connection with the Company's special dividend payment of $3.00 per share paid on December 11, 2012. The modifications in most cases reduced the exercise price of the options and in certain other cases also increased the number of options. The option modification impacted 67 plan participants. The other existing terms and conditions of the options were not modified. The modification of these options resulted in incremental compensation expense of $148 which was recognized on the modification date on December 11, 2012 for options that were modified which had been fully expensed as of the modification date. Additional incremental compensation expense of approximately $609 will be recognized ratably over the remaining vesting periods related to unvested options that were modified. The incremental compensation expense

was determined by measuring the fair market value, using the Black-Scholes methodology, of the modified options immediately before and immediately after the dividend payment transaction.

The fair value of the option awards for the periods presented below was determined using a Black-Scholes methodology using the following weighted average assumptions:

Common	Risk-Free Interest Rate	Expected Life	Expected Volatility	Expected Dividend Yield	Fair Value at Date of Grant
2011 Grants	2.6 %	6 years	79 %	—	$ 2.74
2012 option modification incremental expense	0.4 %	3 years	50 %	—	—

The weighted average expected option term for 2011 reflects the application of the simplified method set out in the FASB ASC 718-10-S99, topic 14 issued by the Securities and Exchange Commission ("SEC"), which defines the term as the average of the contractual term of the options and the weighted average vesting period for all option tranches. The weighted average expected option term for 2012 was based on actual past historical data of employee exercise behavior and vesting data. Expected volatility percentages for grant years 2011 and 2012 were based on the daily historical volatility of the Company's stock price. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury implied yield at the time of grant.

4. Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued guidance on disclosure requirements for items reclassified out of Accumulated Other Comprehensive Income ("AOCI"). This new guidance requires entities to present (either on the face of the statement of operations or in the notes hereto) the effects on the line items of the statement of operations for amounts reclassified out of AOCI. The guidance was effective for the Company beginning January 1, 2013. Other than requiring additional disclosures, the adoption of this guidance did not impact the Company's financial statements.

In July 2013, the FASB issued updated guidance on the presentation of unrecognized tax benefits when a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward exists. The update clarifies that an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward. In situations where the tax benefit is not available at the reporting date under the governing tax law or if the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented as a liability and not combined with deferred tax assets. The updated guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments are to be applied to all unrecognized tax benefits that exist as of the effective date and may be applied retrospectively to each prior reporting period presented. The guidance was early adopted for the Company for the year ended December 31, 2013 and it did not have a material impact on its financial statements upon adoption.

In July 2013, the FASB issued updated guidance permitting the Federal Funds Effective Swap Rate (or Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to the U.S. government rate and LIBOR. Prior to the amendment, only U.S. Treasury and the LIBOR swap rates were considered benchmark interest rates. Including the Federal Funds Effective Swap Rate as an acceptable U.S. benchmark interest rate in addition to U.S. Treasury and LIBOR rates provides a more comprehensive spectrum of interest rates to be utilized as the designated benchmark interest rate risk component under the hedge accounting guidance. The updated guidance is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this guidance did not impact the Company since the current interest rate swap is LIBOR based.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

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In December 2011, the FASB issued authoritative guidance regarding the offsetting of assets and liabilities on the balance sheet. The standard is intended to provide more comparable guidance between the GAAP and international accounting standards by requiring entities to disclose both gross and net amounts for assets and liabilities offset on the balance sheet as well as other disclosures concerning their enforceable master netting arrangements. This guidance was effective for annual reporting periods beginning on or after January 1, 2013. The adoption of this standard did not have a material effect on the Company's financial statement disclosures.

5. Fixed Assets

Fixed assets as of December 31, 2013 and 2012 are shown at cost, less accumulated depreciation and amortization and are summarized below:

	December 31,	
	2013	2012
Leasehold improvements	$ 503,174	$ 496,692
Club equipment	99,461	98,306
Furniture, fixtures and computer equipment	61,481	54,585
Computer software	20,229	18,056
Building and improvements	4,995	4,995
Land	986	986
Construction in progress	9,907	5,978
	700,233	679,598
Less: Accumulated depreciation and amortization	(456,241)	(422,727)
	$ 243,992	$ 256,871

Depreciation and leasehold amortization expense for the years ended December 31, 2013, 2012 and 2011, was $48,785, $49,391 and $51,491, respectively.

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 released 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 its fair value, calculated using discounted cash flows, is recognized. In the year ended December 31, 2013, the Company tested 13 underperforming clubs and recorded an impairment loss of $714 on leasehold improvements and furniture and fixtures at three of these clubs that experienced decreased profitability and sales levels below expectations. The 10 other clubs tested that did not have impairment charges had an aggregate of $22,393 of net leasehold improvements and furniture and fixtures remaining as of December 31, 2013.

The Company will continue to monitor the results and changes in expectations of these clubs closely in the year ending December 31, 2014 to determine if fixed asset impairment is necessary. In the year ended December 31, 2012, the Company recorded impairment charges totaling $3,197 related to the write-off of fixed assets at four clubs that sustained severe damages in the aftermath of Hurricane Sandy and $239 related to one underperforming club. In the year ended December 31, 2011, the Company did not record any fixed asset impairment charges.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The fair values of fixed assets evaluated for impairment were calculated using Level 3 inputs using discounted cash flows, which are based on internal budgets and forecasts through the end of each respective lease. The most significant assumptions in those budgets and forecasts relate to estimated membership and ancillary revenue, attrition rates, and maintenance capital expenditures, which are estimated at approximately 3% to 5% of total revenues depending upon the condition and needs of a given club.

The following table presents the long-lived assets measured at fair value on a nonrecurring basis for the period ended December 31, 2013:

		Basis of Fair Value Measurements		
	Fair Value of Assets (Liabilities)	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2013	$ 714	$ —	$ —	$ 714
December 31, 2012	$ 3,436	$ —	$ —	$ 3,436

6. Goodwill and Intangible Assets

Goodwill has been 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"). The Company has one Outlier Club with goodwill. As of December 31, 2013, the BSC, WSC and PSC regions did not have goodwill balances.

The Company's annual goodwill impairment tests are 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 28, 2013 was performed using the two-step goodwill impairment analysis. Under this approach, goodwill impairment testing is a two-step process. Step 1 involves comparing the fair value of the Company's reporting units to their carrying amounts. If the fair value of the reporting unit is greater than its carrying amount, there is no requirement to perform step two of the impairment test, and there is no impairment. If the reporting unit's carrying amount is greater than the 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 fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the 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 loss is recognized equal to the difference. The Company concluded that it did not have a goodwill impairment charge in the reporting units with remaining goodwill.

For the February 28, 2013 impairment test, fair value was determined by using a weighted combination of two market-based approaches (weighted 50% collectively) and an income approach (weighted 50%), as this combination was deemed to be the most indicative of the Company's fair value in an orderly transaction between market participants. Under the market-based approaches, the Company utilized information regarding the Company, the Company's industry as well as publicly available industry information to determine earnings multiples and sales multiples that are used to value the Company's reporting units. Under the income approach, the Company determined fair value based on estimated future cash flows of each 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. 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 28, 2013 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 as of February 28, 2014 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. As of February 28, 2013, the estimated fair value of NYSC was 127% greater than book value and the estimated fair value of SSC was 120% greater than book value.

The Company's next annual impairment test will be performed as of February 28, 2014 or earlier, if any such change constitutes a triggering event outside the quarter when the annual goodwill impairment test is performed. There have been no triggering events since the annual impairment test as of February 28, 2013.

The changes in the carrying amount of goodwill from December 31, 2012 through December 31, 2013 are detailed in the charts below.

	NYSC	BSC	SSC	Outlier Clubs	Total
Goodwill, net of accumulated amortization	$31,403	$ 15,766	$1,284	$ 3,982	$ 52,435
Less: accumulated impairment of goodwill	—	(15,766)	—	(3,845)	(19,611)
Balance as of December 31, 2012	31,403	—	1,284	137	32,824
Acquired goodwill (Refer to Note 7, Acquisitions)	—	9	—	—	9
Changes due to foreign currency exchange rate fluctuations	—	—	37	—	37
Balance as of December 31, 2013	$31,403	$ 9	$1,321	$ 137	$ 32,870

Intangible assets as of December 31, 2013 and 2012 are as follows:

	As of December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Intangibles
Membership lists	$ 11,344	$ (10,696)	$ 648
Non compete agreements	1,508	(1,508)	—
Management contracts	250	(28)	222
Trade names	40	(2)	38
Other	23	(23)	—
	$ 13,165	$ (12,257)	$ 908

	As of December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Intangibles
Membership lists	$ 10,412	$ (10,412)	$ —
Non compete agreements	1,508	(1,508)	—
Other	23	(23)	—
	$ 11,943	$ (11,943)	$ —

During the year ended December 31, 2013, intangible assets consisting of membership lists, management contracts and trade names were acquired in connection with the Company's acquisitions of the Fitcorp clubs in Massachusetts and an existing club in Manhattan, New York. Amortization expense of intangible assets for the years ended December 31, 2013, 2012 and 2011 was $314, $0, and $44, respectively.

The aggregate amortization expense for the next five years and thereafter of the acquired intangible assets is as follows:

Year Ending December 31,	
2014	$513
2015	223
2016	36
2017	30
2018	24
Thereafter	82
	$908

7. Acquisitions

The following acquisitions were completed in the year ended December 31, 2013 and were accounted for using the acquisition method of accounting in accordance with FASB guidance. Under the acquisition method, the purchase price was allocated to the assets acquired and the liabilities assumed based on their respective estimated fair values as of the acquisition date. Any excess of the purchase price over the fair values of the assets acquired and liabilities assumed was allocated to goodwill. None of the acquisitions individually or in the aggregate were material to the financial position, results of operations or cash flows of the Company; therefore pro forma financial information has not been presented. The results of operations of the clubs acquired have been included in the Company's consolidated financial statements from the respective dates of acquisition.

Acquisition on March 15, 2013

On March 15, 2013, the Company acquired an existing fitness club in Manhattan, New York for a purchase price of $560. The purchase price allocation resulted in fixed assets related to leasehold improvements of $458, definite lived intangible assets related to member lists of $102 and a deferred revenue liability of $56, for a net cash purchase price of $504. Acquisition costs incurred in connection with this acquisition in the year ended December 31, 2013 were approximately $95 and are included in general and administrative expenses in the accompanying consolidated statements of operations.

Acquisition on May 17, 2013

On May 17, 2013, the Company acquired all of the Fitcorp clubs in Massachusetts, which includes five clubs and four managed sites for a purchase price of $3,175 and a net cash purchase price of $2,435. Acquisition costs incurred in connection with the Fitcorp acquisition in the year ended December 31, 2013 were approximately $231 and are included in general and administrative expenses in the accompanying consolidated

statements of operations. The following table summarizes the allocation of the purchase price to the fair value of the assets and liabilities acquired.

Allocation of purchase price:	Acquisition on May 17, 2013
Other assets	$ 90
Fixed assets related to leasehold improvements	2,289
Goodwill	9
Definite lived intangible assets:	
Membership lists	830
Management contracts	250
Trade names	40
Deferred revenue	(630)
Other liabilities	(443)
Total allocation of purchase price	**$ 2,435**

The goodwill recognized represents the excess of the purchase price over the fair values of the assets acquired and liabilities assumed. The definite lived intangible assets acquired will be amortized in accordance with the Company's accounting policy with the membership lists amortized over the estimated average membership life of 23 months, management contracts amortized over their estimated contractual lives of between nine to 11 years and trade names amortized over their estimated useful lives.

8. Accrued Expenses

Accrued expenses as of December 31, 2013 and 2012 consisted of the following:

	December 31, 2013	December 31, 2012
Accrued payroll	$ 8,904	$ 9,249
Accrued construction in progress and equipment	5,789	2,797
Accrued occupancy costs	6,741	6,743
Accrued insurance claims	1,863	2,619
Accrued other	8,239	5,645
	$31,536	$27,053

9. Long-Term Debt

Long-term debt as of December 31, 2013 and 2012 consisted of the following:

	December 31, 2013	December 31, 2012
2013 Term Loan Facility	$325,000	$ —
2011 Term Loan Facility	—	315,743
Less: Unamortized discount	(10,091)	(5,404)
Less: Current portion due within one year	(3,250)	(15,787)
Long-term portion	$311,659	$294,552

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

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The aggregate long-term debt obligations maturing during the next five years and thereafter are as follows:

	Amount Due
Year Ending December 31,	
2014	$ 3,250
2015	3,250
2016	3,250
2017	3,250
2018	3,250
Thereafter	308,750
	$ 325,000

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 was 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 was $5,119 and will be amortized as interest expense and are included in other assets in the accompanying consolidated balance sheets. 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 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, but 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 fiscal quarter ending 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.

The terms of the 2013 Senior Credit Facility provide for a financial covenant in the situation where the utilization of the revolving loan commitments (other than letters of credit up to $5,500 at any time outstanding) exceeds 25% of the commitment. 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. 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. 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 except that a premium of 1.0% is payable for any prepayments made prior to May 15, 2014 in connection with a repricing transaction that reduces the effective yield of the initial term loans. 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. 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 commencing with the fiscal year ending December 31, 2014 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 2.50:1.00; 25% when the total leverage ratio is greater than 2.00:1.00 but less than or equal to 2.50:1.00 and 0% when the total leverage ratio is less than or equal to 2.00:1.00. The total leverage ratio as of December 31, 2013 was 3.07:1.00. There will be no excess cash flow payment required until April 2015.

As of December 31, 2013, the 2013 Term Loan Facility has a gross principal balance of $325,000 and a balance of $314,909 net of unamortized debt discount of $10,091 which is comprised of the unamortized portions of the OID recorded in connection with the May 11, 2011 debt issuance and the unamortized balance of the additional debt discounts recorded in connection with the First Amendment and Second Amendment to the 2011 Senior Credit Facility, described below. The unamortized debt discount balance is recorded as a contra-liability to long-term debt on the accompanying consolidated balance sheet and is being amortized as interest expense using the effective interest method. As of December 31, 2013, the unamortized balance of debt issuance costs of $4,413 is being amortized as interest expense, and is included in other assets in the accompanying consolidated balance sheets.

As of December 31, 2013, there were no outstanding 2013 Revolving Loan Facility borrowings and outstanding letters of credit issued totaled $2,979. The unutilized portion of the 2013 Revolving Loan Facility as of December 31, 2013 was $42,021.

2011 Senior Credit Facility

TSI, LLC's previously outstanding senior secured credit facility was originally entered into on May 11, 2011 (as amended from time to time) and consisted of a $350,000 senior secured credit facility ("2011 Senior Credit Facility") comprised of a $300,000 term loan facility ("2011 Term Loan Facility") scheduled to mature on May 11, 2018 and a $50,000 revolving loan facility scheduled to mature on May 11, 2016 ("2011 Revolving Loan Facility"). The 2011 Term Loan Facility was issued at an OID of 1.0% or $3,000 and debt issuance costs recorded in connection with the 2011 Senior Credit Facility were $8,065. The proceeds from the 2011 Term Loan Facility were used to pay off amounts outstanding under a previously outstanding long-term debt facility entered into in 2007 ("2007 Senior Credit Facility), to pay the redemption price on outstanding 11% senior discount notes due in 2014 ("Senior Discount Notes"), and to pay related fees and expenses. In the year ended December 31, 2011, loss on extinguishment of debt totaling $4,865 was recorded in connection with the debt

refinancing on May 11, 2011 and consisted of the write-off of unamortized debt costs of $1,550 related to the 2007 Senior Credit Facility and the Senior Discount Notes, $777 of costs related to the 2011 Senior Credit Facility and a call premium of $2,538 related to the early redemption of the Senior Discount Notes.

The 2011 Senior Credit Facility was first amended on August 22, 2012 ("First Amendment") to reduce the then-current interest rates on the 2011 Term Loan Facility by 125 basis points and also convert the existing voluntary prepayment penalty provision from a "101 hard call" provision (which required the payment of a 1% fee on the amount of any term loans that are voluntarily prepaid), originally scheduled to end in May 2013, to a "101 soft call" provision (which required the payment of a 1% fee on the amount of any term loans repaid in connection with a refinancing or repricing transaction) ending in August 2013, and subsequently extended by the November 14, 2012 amendment to November 2013. All other principal provisions, including maturity and covenants under the then-existing 2011 Senior Credit Facility remained unchanged in all material respects. The First Amendment was subject to the consent of term loan lenders. Non-consenting term loan lenders with term loan principal outstanding totaling $13,796 were replaced with replacement term loan lenders in order to execute the First Amendment. In connection with the pay off of non-consenting term loan lenders, during the year ended December 31, 2012, we recorded a loss on extinguishment of debt of $464 consisting of the write-offs of the related portions of unamortized debt issuance costs and OID of $260 and $204, respectively. In addition, the Company recorded additional debt discount of $2,707 related to a 1.00% amendment fee paid to consenting lenders and recognized additional interest expense totaling $1,390 related primarily to bank and legal related fees paid to third parties to execute the First Amendment.

Subsequent to the effective date of the First Amendment, the Company made a voluntary prepayment of $15,000 on the 2011 Term Loan Facility. In connection with this voluntary prepayment, during the year ended December 31, 2012, the Company recorded loss on extinguishment of debt of $546, consisting of the write-offs of the related portions of unamortized debt issuance costs and debt discount of $269 and $277, respectively.

On November 16, 2012, TSI, LLC entered into a Second Amendment ("Second Amendment") to the 2011 Senior Credit Facility. Under the Second Amendment, TSI, LLC borrowed an additional $60,000 incremental term loan issued at an OID of 0.50% or $300. The new borrowings were used, together with cash on hand, to pay a special cash dividend to the Company's stockholders, including an equivalent cash bonus payment to certain option holders, on December 11, 2012. In addition, the Second Amendment provided for a waiver of any prepayment required to be paid using the Company's excess cash flow for the period ended December 31, 2012, amended the restricted payments covenant to permit the payment of the dividend and cash bonus payments and permitted adjustments to the Company's calculation of consolidated EBITDA with respect to the cash bonus payment and with respect to fees and expenses associated with certain permitted transactions. In connection with the execution of the Second Amendment, the Company recorded additional debt discount of $639 related to a 0.25% amendment fee, debt issuance costs of $125 and additional interest expense totaling $1,569 related primarily to bank, arrangement and legal fees paid to third parties.

Repayment of 2011 Senior Credit Facility

Contemporaneously with entry into the 2013 Senior Credit Facility, TSI, LLC repaid the outstanding principal amount of the 2011 Term Loan Facility of $315,743. The 2011 Term Loan Facility was set to expire on May 11, 2018. There were no outstanding amounts under the 2011 Revolving Loan Facility as of November 15, 2013, the date of the initial borrowing under the 2013 Senior Credit Facility. The 2011 Term Loan Facility was repaid at face value of $315,743 plus accrued and unpaid interest of $807 and letter of credit fees and commitment fees of $67. The total cash paid in connection with this repayment was $316,617 million as of November 15, 2013 with no early repayment penalty. The Company determined that the 2013 Senior Credit Facility was not substantially different than the 2011 Senior Credit Facility for certain lenders based on the less

than 10% difference in cash flows of the respective debt instruments. A portion of the transaction was therefore accounted for as a modification of the 2011 Senior Credit Facility and a portion was accounted for as an extinguishment. As of November 15, 2013, the Company recorded loss on extinguishment of debt of approximately $750, representing the write-off of the remaining unamortized debt costs and debt discount related to the portion of the 2011 Senior Credit Facility that was accounted for as an extinguishment, and is included in loss on extinguishment of debt in the accompanying consolidated statements of operations for the year ended December 31, 2013.

Repayment of 2007 Senior Credit Facility

Contemporaneously with entry into the 2011 Senior Credit Facility, TSI, LLC repaid the outstanding principal amount of the 2007 Term Loan Facility of $164,001. The 2007 Term Loan Facility was set to expire on the earlier of February 27, 2014, or August 1, 2013, if the Senior Discount Notes were still outstanding. There were no outstanding amounts under the 2007 Revolving Loan Facility as of such date. The 2007 Term Loan Facility was repaid at face value plus accrued and unpaid interest of $447 and fees related to the letters of credit of $27. The total cash paid in connection with this repayment was $164,475 as of May 11, 2011 with no early repayment penalty. The Company determined that the 2011 Senior Credit Facility was not substantially different than the 2007 Senior Credit Facility for certain lenders based on the less than 10% difference in cash flows of the respective debt instruments. A portion of the transaction was therefore accounted for as a modification of the 2007 Senior Credit Facility and a portion was accounted for as an extinguishment. As of May 11, 2011, the Company recorded refinancing charges of approximately $634, representing the write-off of the remaining unamortized debt costs related to the 2007 Senior Credit Facility, which is included in loss on extinguishment of debt in the accompanying consolidated statements of operations for the year ended December 31, 2011.

Redemption of Senior Discount Notes

A portion of the proceeds from the 2011 Senior Credit Facility were also used to pay the remaining principal amount on the Senior Discount Notes of $138,450 plus a call premium of 1.833% of the principal amount thereof totaling approximately $2,538 and accrued interest of $5,457. The accrued interest included interest through May 11, 2011 of $4,188, plus 30 days of additional interest of $1,269, representing the interest charge during the 30 day notification period. The Company determined that the 2011 Senior Credit Facility was substantially different than the Senior Discount Notes. As of May 11, 2011, the Company wrote-off unamortized deferred financing costs of approximately $916 related to the redemption of the Senior Discount Notes, which is included in loss on extinguishment of debt in the accompanying consolidated statements of operations for the year ended December 31, 2011.

Fair Market Value

Based on quoted market prices, the 2013 Term Loan Facility and the 2011 Term Loan Facility had a fair value of approximately $327,438 and $322,058, respectively, at December 31, 2013 and December 31, 2012, respectively, and is classified within level 2 of the fair value hierarchy.

For the fair market value of the Company’s interest rate swap instrument refer to Note 10 — Derivative Financial Instruments.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Interest Expense

The Company's interest expense and capitalized interest related to funds borrowed to finance club facilities under construction for the years ended December 31, 2013, 2012 and 2011 were as follows:

	Year Ended December 31,		
	2013	2012	2011
Interest costs expensed	$22,617	$24,640	$24,274
Interest costs capitalized	32	—	176
Total interest expense and amounts capitalized	$22,649	$24,640	$24,450

10. 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 our cash flows the Company may enter into derivative financial instruments ("derivatives"), such as interest-rate swaps. Any instruments 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. This interest rate swap arrangement effectively converted $150,000 of the Company's variable-rate debt based on a one-month Eurodollar rate to a fixed rate of 1.983%, or a total fixed rate of 7.483%, on this $150,000 when including the applicable 5.50% margin that was in effect under the 2011 Senior Credit Facility at that time. In August 2012, the Company amended the terms of the 2011 Senior Credit Facility to, among other things, reduce the applicable margin on Eurodollar rate loans from 5.50% to 4.50% and reduce the interest rate floor on Eurodollar rate loans from 1.50% to 1.25%. In conjunction with the First Amendment to the 2011 Senior Credit Facility in August 2012, the interest rate swap arrangement was amended to reduce the one-month Eurodollar fixed rate from 1.983% to 1.783%, or a total fixed rate of 6.283% when including the applicable 4.50% margin on Eurodollar rate loans in effect under the 2011 Senior Credit Facility at that time. On November 14, 2012, the Company further amended the terms of the 2011 Senior Credit Facility to, among other things, allow for the borrowing of a $60,000 incremental term loan. In connection with the Second Amendment to the 2011 Credit Facility, the Company further amended the interest rate swap to increase the notional amount to $160,000 and extended the maturity of the swap to from July 13, 2014 to May 13, 2015. In addition, the one-month Eurodollar fixed rate was lowered from 1.783% to 1.693%, or a total of 6.193% when including the applicable 4.50% margin on Eurodollar rate loans in effect under the 2011 Senior Credit Facility at that time. In connection with entering into the 2013 Senior Credit Facility, the Company amended and restated the interest rate swap arrangement it initially entered into on July 13, 2011 (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 will continue to have a notional amount of $160,000 and will mature on May 15, 2018. The swap effectively converts $160,000 of the $325,000 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 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 accompanying consolidated financial statements as of and for the years ended December 31, 2013, 2012 and 2011. 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 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 consolidated statements of operations. For the years ended December 31, 2013, 2012 and 2011, hedge ineffectiveness was evaluated using the hypothetical derivative method. There was no hedge ineffectiveness in the years ended December 31, 2013 and 2011, and the amount related to hedge ineffectiveness for the year ended December 31, 2012 was de minimis.

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 us 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 December 31, 2013	$ 182	$ —	$ 182	$ —
Interest rate swap liability as of December 31, 2012	$ 1,523	$ —	$ 1,523	$ —

The swap contract liability of $182 and $1,523 was recorded as a component of other liabilities as of December 31, 2013 and 2012, respectively, with the offset to accumulated other comprehensive income ($103 and $861, net of taxes, as of December 31, 2013 and 2012, respectively) on the accompanying consolidated balance sheets.

The Company does not expect that any derivative losses included in accumulated other comprehensive income at December 31, 2013 will be reclassified into earnings within the next 12 months.

11. Leases

The Company leases office, warehouse and multi-recreational facilities and certain equipment under non-cancelable operating leases. In addition to base rent, the facility leases generally provide for additional rent based on operating results, increases in real estate taxes and other costs. Certain leases provide for additional rent based upon defined formulas of revenue, cash flow or operating results of the respective facilities. Under the provisions of certain of these leases, the Company is required to maintain irrevocable letters of credit, which amounted to $1,264 as of December 31, 2013.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The leases expire at various times through November 30, 2029 and certain leases may be extended at the Company's option. Escalation terms on these leases generally include fixed rent escalations, escalations based on an inflation index such as CPI, and fair market value adjustments. In the next five years, or the period from January 1, 2014 through December 31, 2018, the Company has leases for 24 club locations that are due to expire without any renewal options, two of which are due to expire in 2014, and 48 club locations that are due to expire with renewal options.

Future minimum rental payments under non-cancelable operating leases are as follows:

	Minimum Annual Rental
Year Ending December 31,	
2014	$ 88,983
2015	87,201
2016	82,299
2017	72,262
2018	65,745
Aggregate thereafter	258,349

Rent expense, including the effect of deferred lease liabilities, for the years ended December 31, 2013, 2012 and 2011 was $118,811, $117,229 and $112,055, respectively. Such amounts include non-base rent items of $23,539, $23,291 and $20,788, respectively.

The Company, as landlord, leases space to third party tenants under non-cancelable operating leases and licenses. In addition to base rent, certain leases provide for additional rent based on increases in real estate taxes, indexation, utilities and defined amounts based on the operating results of the lessee. The sub-leases expire at various times through December 31, 2020. Future minimum rentals receivable under noncancelable leases are shown in the chart below. These amounts include approximately $2,000 per year through March 2028 related to the tenant currently leasing space in the Company's East 86 th Street building in Manhattan.

	Minimum Annual Rental
Year Ending December 31,	
2014	$ 4,275
2015	4,114
2016	3,380
2017	2,945
2018	2,360
Aggregate thereafter	21,951

Rental income, including non-cash rental income, for the years ended December 31, 2013, 2012 and 2011 was $5,161, $4,363 and $4,612, respectively. Such amounts include additional rental charges above the base rent of $242, $59 and $488, respectively. As stated above, the Company owns the building at the 86 th Street club location which houses a rental tenant that generated $1,968 of rental income for each of the years ended December 31, 2013, 2012 and 2011. Refer to Note 18 for information about the Company's entry into an agreement to sell this property.

For the year ended December 31, 2013, rental income includes non-cash revenue of $424 related to an out of period adjustment for subtenants at certain locations.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

12. Stockholders' (Deficit) Equity

a. Capitalization

The Company's certificate of incorporation adopted in connection with the IPO provides for 105,000,000 shares of capital stock, consisting of 5,000,000 shares of Preferred Stock, par value $0.001 per share (the "Preferred Stock") and 100,000,000 shares of Common Stock, par value $0.001 per share (the "Common Stock").

b. Common Stock Options

The outstanding Common Stock options as of December 31, 2013 vest in full at various dates between January 1, 2014 and April 30, 2015. The vesting of certain grants will be accelerated in the event that certain defined events occur including the sale of the Company. The term of each grant is generally ten years.

As of December 31, 2013, 2012 and 2011, a total of 1,029,416, 982,464 and 1,180,004 Common Stock options were exercisable, respectively.

At December 31, 2013, the Company had 9,100 and 1,131,131 stock options outstanding under its 2004 Stock Option Plan and 2006 Stock Incentive Plan, respectively.

The Company recognizes stock option expense equal to the grant date fair value of a stock option on a straight-line basis over the requisite service period, which is generally the vesting period, net of estimated forfeitures. The total compensation expense related to options, classified within payroll and related on the consolidated statements of operations, related to these plans was $843, $657, and $1,122 for the years ended December 31, 2013, 2012 and 2011, respectively, and the related tax benefit was $362, $286 and $418 for the years ended December 31, 2013, 2012 and 2011, respectively. The total compensation expense of $843 for the year ended December 31, 2013 includes $445 related to incremental compensation expense recognized in connection with the modification of stock options described below.

In connection with the Company's special dividend payment of $3.00 per share paid on December 11, 2012, stock option holders with vested in-the-money options (those with exercise prices less than $12.39) were paid an equivalent cash bonus of $3.00 per each vested in-the-money option. The total aggregate cash bonus paid on December 11, 2012 was approximately $2,496 and was recorded as payroll and related expense in the consolidated statements of operations for the year ended December 31, 2012. Additionally, on December 11, 2012, adjustments were made to certain stock options which were modified in order to maintain the intrinsic value of the options in connection with the Company's special dividend payment. The modifications in most cases reduced the exercise price of the options and in certain other cases also increased the number of options. The option modifications impacted 67 plan participants. Other existing terms and conditions of the options were not modified. The modification of these options resulted in incremental compensation expense of $148 which was recognized on the modification date on December 11, 2012 for options that were modified which have been fully expensed as of the modification date. Additional incremental compensation expense of approximately $609 is being recognized ratably over the remaining vesting periods related to unvested options that were modified. The incremental compensation expense was determined by measuring the fair market value, using the Black-Scholes methodology, of the modified options immediately before and immediately after the dividend payment transaction.

The Company's 2006 Stock Incentive Plan, as amended and restated (the "2006 Plan"), authorizes the Company to issue up to 3,000,000 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. An amendment to the 2006 Plan to increase the aggregate number of shares issuable under the plan by 500,000 shares from 2,500,000 shares to 3,000,000 shares was unanimously adopted by the Board of Directors on March 1, 2011, and approved by stockholders at the Annual Meeting of Stockholders on May 12, 2011. 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. As of December 31, 2013, there were 423,239 shares available to be issued under the 2006 Plan.

The following table summarizes the stock option activity for the years ended December 31, 2011, 2012 and 2013:

	Common	Weighted Average Exercise Price
Balance at January 1, 2011	2,240,257	$ 5.20
Granted	7,500	4.18
Exercised	(164,435)	2.91
Cancelled	(15,034)	11.40
Forfeited	(59,582)	2.58
Balance at December 31, 2011	2,008,706	5.40
Option Modifications	25,764	1.35
Exercised	(534,514)	4.40
Cancelled	(18,090)	15.28
Forfeited	(171,048)	2.60
Balance at December 31, 2012	1,310,818	5.21
Exercised	(135,786)	4.42
Cancelled	(30,548)	6.33
Forfeited	(4,253)	1.00
Balance at December 31, 2013	1,140,231	$ 5.29

The following table summarizes stock option information as of December 31, 2013:

	Options Outstanding				
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
Common					
2005 grants	9,100	16 months	$ 4.19	1,960	$ 6.54
2006 grants	138,000	31 months	12.05	138,000	12.05
2007 grants	123,000	43 months	14.97	123,000	14.97
2008 grants	212,269	54 months	6.07	212,269	6.07
2009 grants	265,268	71 months	1.72	265,268	1.72
2010 grants	385,094	80 months	1.89	285,169	2.20
2011 grants	7,500	85 months	1.93	3,750	2.68
Total Grants	1,140,231	63 months	$ 5.29	1,029,416	$ 5.73

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company did not grant any stock options during the years ended December 31, 2013 and 2012.

Options granted under the 2004 Stock Option Plan generally qualify as "incentive stock options" under the U.S. Internal Revenue Code. Options granted under the 2006 Stock Option Plans generally qualify as "non-qualified stock options" under the U.S. Internal Revenue Code. The exercise price of a stock option is generally equal to the fair market value of the Company's Common Stock on the option grant date.

The fair value of share-based payment awards was estimated using the Black-Scholes option pricing model with the following weighted average fair values as follows as of December 31, 2013:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (thousands)
Outstanding at December 31, 2013	1,140,231	$ 5.29	5.2	$ 10,864
Vested and exercisable at December 31, 2013	1,029,416	$ 5.73	5.1	$ 9,358

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the fair value of the Company's common stock at December 31, 2013 of $14.76 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2013.The intrinsic value is based on the fair market value of the Company's stock and therefore changes as the fair market value of the stock price changes. The total intrinsic value of options exercised was $970 for the year ended December 31, 2013.

As of December 31, 2013, a total of $194 unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 0.7 years.

c. Common Stock Grants

Restricted Stock Grants

The following restricted stock grants were issued to employees of the Company during the year ended December 31, 2013.

Date	Number of Shares	Share Price	Grant Date Fair Value
February 22, 2013	7,500	$ 9.15	$ 69
March 11, 2013	168,000	9.31	1,564
May 17, 2013	3,000	$10.79	32
Total	178,500		$ 1,665

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes the restricted stock activity for the year ended December 31, 2013.

	Number of Shares	Weighted Average Grant Date Fair Value
Balance as of January 1, 2011	8,000	$ 7.06
Granted	188,999	7.29
Vested	(3,250)	8.12
Forfeited	(7,500)	4.14
Balance as of December 31, 2011	186,249	7.39
Granted	251,500	12.30
Vested	(43,846)	7.28
Forfeited	(26,291)	7.98
Balance as of December 31, 2012	367,612	10.72
Granted	178,500	9.33
Vested	(98,692)	10.39
Forfeited	(84,249)	10.92
Balance as of December 31, 2013	363,171	$ 10.08

The fair value of restricted stock is based on the closing stock price of an unrestricted share of the Company's common stock on the grant date and is amortized to compensation expense on a straight-line basis over the requisite service period, which is generally the vesting period, net of estimated forfeitures. The total compensation expense, classified within payroll and related on the consolidated statements of operations, related to restricted stock grants was $1,056, $533 and $138 for the years ended December 31, 2013, 2012 and 2011, respectively, and the related tax benefit was $459, $232, $52 for the years ended December 31, 2013, 2012 and 2011, respectively. The restricted shares contain vesting restrictions and vest 25% per year over four years on the anniversary date of the grants. The Company granted restricted stock awards totaling 178,500 shares with an aggregate grant date fair value of $1,665 in the year ended December 31, 2013. In the years ended December 31, 2012 and 2011, the Company granted 251,500 and 188,999 restricted shares, respectively, with an aggregate grant date fair value of $3,093 and $1,377, respectively.

The total unrecognized compensation cost related to restricted stock of $2,383 is expected to be recognized through May 17, 2017.

Non-Restricted Stock Grants

The below table indicates the non-restricted common stock grants issued to the Company's Board of Directors during the year ended December 31, 2013. The total fair value of the shares issued was expensed upon the grant dates.

Date	Number of Shares	Share Price	Grant Date Fair Value
January 16, 2013	24,280	$10.09	$ 245
March 25, 2013	1,622	9.25	15
June 24, 2013	1,418	10.58	15
September 24, 2013	1,208	12.42	15
December 26, 2013	1,034	$14.51	15
Total	29,562		$ 305

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

d. Common Stock Repurchases

The Company did not repurchase Common Stock during the years ended December 31, 2013, 2012 and 2011.

e. Dividends

On November 15, 2013, the board of directors of the Company declared a quarterly cash dividend of $0.16 per share, payable on December 5, 2013 to common stockholders of record at the close of business on November 26, 2013. The aggregate amount of the dividends payable was $3,792, based upon shares of common stock outstanding as of the record date of November 26, 2013 with another $58 payable as restricted shares vest.

On November 16, 2012, the board of directors of the Company declared a special cash dividend of $3.00 per share, payable on December 11, 2012 to common stock holders of record at the close of business on November 30, 2012. The aggregate amount of the dividends payable was $70,296, based upon shares of common stock outstanding as of the record date of November 30, 2012 with another $1,104 payable as restricted shares vest.

Pursuant to the 2006 Plan, holders of unvested restricted shares as of December 11, 2012 and December 5, 2013 qualify to receive the $3.00 dividend and $0.16 dividend, respectively, on each future vesting date, subject to continued employment through the vesting date. As of December 31, 2013, the total dividends payable on unvested restricted shares was $666, of which $259 is classified as the current portion of the dividends payable expected to be paid in 2014 and $407 classified as long-term which is expected to be paid in the vesting periods in 2015 through 2017.

13. Revenue from Club Operations

Revenues from club operations for the years ended December 31, 2013, 2012 and 2011 are summarized below:

	Years Ended December 31,		
	2013	2012	2011
Membership dues(2)	$358,761	$366,044	$364,536
Joining fees	14,392	11,595	6,824
Personal training revenue	66,367	65,641	62,394
Other ancillary club revenue(1)(2)	24,720	29,897	28,297
Total club revenue	464,240	473,177	462,051
Fees and other revenue(3)	5,985	5,804	4,890
Total revenue	$470,225	$478,981	$466,941

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

(2) As previously disclosed, member usage fees of $2,035 historically recorded in other ancillary club revenue were reclassified to membership dues for the year ended December 31, 2011.

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

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

14. Corporate Income Taxes

The provision for income taxes for the years ended December 31, 2013, 2012 and 2011 consisted of the following:

	Year Ended December 31, 2013			
	Federal	Foreign	State and Local	Total
Current	$ 396	$ 232	$ 175	$ 803
Deferred	6,487	—	77	6,564
	$6,883	$ 232	$ 252	$7,367

	Year Ended December 31, 2012 (Revised)			
	Federal	Foreign	State and Local	Total
Current	$ 250	$ 172	$ 79	$ 501
Deferred	6,041	—	(221)	5,820
	$6,291	$ 172	$ (142)	$6,321

	Year Ended December 31, 2011 (Revised)			
	Federal	Foreign	State and Local	Total
Current	$ (9,667)	$ 541	$ 187	$ (8,939)
Deferred	12,015	—	(377)	11,638
	$ 2,348	$ 541	$ (190)	$ 2,699

The components of deferred tax assets, net consist of the following items:

	December 31,	
	2013	2012 (Revised)
Deferred tax assets		
Deferred lease liabilities	$24,560	$26,654
Deferred revenue	10,816	11,545
Deferred compensation expense incurred in connection with stock options	2,101	1,919
Federal and state net operating loss carry-forwards	6,397	10,913
Accruals, reserves and other	5,773	7,829
	$49,647	$58,860
Deferred tax liabilities		
Fixed assets and intangible assets	$16,283	$18,045
Deferred costs	4,457	5,346
Undistributed foreign earnings and other	492	333
	$21,232	$23,724
Gross deferred tax assets	28,415	35,136
Valuation allowance	(65)	(83)
Deferred tax assets, net	$28,350	$35,053

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

As of December 31, 2013, the Company has net deferred tax assets of $28,350. The state net deferred tax asset balance as of December 31, 2013 is $22,674. Quarterly, the Company assesses the weight of all positive and negative evidence to determine whether the net deferred tax asset is realizable. The Company has historically been a taxpayer and is in a three year cumulative income position as of December 31, 2013 for both federal and certain state jurisdictions. In addition, the Company, based on recent trends, projects future income sufficient to realize the deferred tax assets during the periods when the temporary tax deductible differences reverse. With the exception of the deductions related to our captive insurance company for state taxes, state taxable income has been and is projected to be the same as federal taxable income. Because the Company expects the captive insurance company to be discontinued in 2014, the assessment of the realizability of the state deferred tax assets is consistent with the federal tax analysis above. The Company has state net operating loss carry-forwards which the Company believes will be realized within the available carry-forward period, except for a small net operating loss carry-forward in Rhode Island due to the short carry-forward period in that state. Accordingly, the Company concluded that, with the exception of net operating loss carry-forward in Rhode Island, it is more likely than not that the deferred tax assets will be realized. If actual results do not meet the Company's forecasts and the Company incurs losses in 2014 and beyond, a valuation allowance against the deferred tax assets may be required in the future.

As of December 31, 2013, the Company has a tax benefit of federal net operating loss carry-forwards for tax purposes of $7,916. Pursuant to ASC 718-740-25-10, the Company has not recorded the tax benefit and related deferred tax asset for the windfall portion of stock compensation tax deductions that either create a net operating loss carry-forward or increase a net operating loss carry-forward. As such, the amount of net operating loss carry-forwards for which a tax benefit would be recorded to additional paid-in capital when the tax benefit is realized is approximately $4,554 as of December 31, 2013.

As of December 31, 2013, Federal tax wage credit carry-forwards were $1,284 and state net operating loss carry-forwards were $8,821 for tax purposes. Such amounts expire between December 31, 2015 and December 31, 2033. The Company has concluded that it is more likely than not that the net deferred tax asset balance as of December 31, 2013 will be realized with the exception of the aforementioned Rhode Island net operating loss. The amounts reported for federal and state purposes reflect net operating loss and tax credit carry-forwards for tax return purposes, which are different for carry-forwards for financial statement purposes due to the reduction under the FASB's guidance on accounting for uncertainty in income taxes.

The Company's foreign pre-tax earnings related to the Swiss entity were $968, $846 and $910 for the years ended December 31, 2013, 2012 and 2011, respectively, and the related current tax provisions were $232, $172 and $541, respectively. In 2011, the Company repatriated Swiss earnings through 2010. In connection with this dividend, the Company will be entitled to claim a foreign tax credit of $1,541 for federal income tax purposes which, due to the net operating loss carry-forward, is reflected as a deferred tax asset. This credit expires in December 2021. In accordance with ASC 740-30, the Company had recognized a deferred tax liability of $492 for the incremental U.S. tax cost on the total cumulative undistributed earnings of the Swiss clubs for the period through December 31, 2013.

The results for the years ended December 31, 2013, 2012 and 2011 include error corrections that resulted in an increase in benefit for corporate income taxes and a related increase in deferred tax assets in the Company's consolidated statement of operations and consolidated balance sheet for each year, respectively. In the fourth quarter of 2013, the Company identified a correction relating to temporary differences in fixed assets for state depreciation that resulted in the recognition of an income tax benefit of $225. Also in the fourth quarter of 2013, the Company identified corrections related to temporary differences in landlord allowances resulting in the recognition of out of period expense of $209 for a net benefit to Provision for corporate income taxes of $16 recorded in the year ended December 31, 2013. The Company also made out of period balance sheet adjustments as of December 31, 2012

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

related to a reclassification of the deferred tax asset associated with the deferred membership costs and the corrections related to temporary differences in landlord allowances. As of December 31, 2012, the net effect of the balance sheet adjustments was a decrease in current deferred tax assets of 5,572 and an increase both non-current Deferred tax assets of $6,432 and the long term income tax liability (included within Other Liabilities) of $860. In the fourth quarter of 2012, the Company identified corrections related to temporary differences in fixed assets, intangible assets and deferred revenue resulting in the recognition of an income tax benefit of $483. In the fourth quarter of 2011, the Company identified revisions related to the tax effect of net operating loss carry-forwards resulting in the recognition of an income tax benefit of $343. The Company does not believe that these error corrections are material to the current or prior reporting periods.

The differences between the United States Federal statutory income tax rate and the Company's effective tax rate were as follows for the years ended December 31, 2013, 2012 and 2011:

	Years Ended December 31,		
	2013	2012	2011
Federal statutory tax rate	35%	35%	35%
State and local income taxes, net of federal tax benefit	8	8	8
Change in state effective income tax rate	—	(2)	4
State tax benefit related to insurance premiums	(6)	(7)	(11)
Tax reserves	2	—	—
Correction of an error	(1)	(3)	(4)
Other permanent differences	(1)	4	(2)
	37 %	35 %	30 %

The 2013, 2012 and 2011 effective tax rate of 37%, 35%, and 30%, respectively, on the Company's pre-tax income was primarily impacted by state tax benefits related to insurance premiums and interest paid to the captive insurance company.

As of December 31, 2013 and 2012, $751 represented the amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate in any future periods. For the years ended December 31, 2013, 2012 and 2011, interest expense on unrecognized tax benefits was $495, $81 and $81, respectively. The Company recognizes both interest accrued related to unrecognized tax benefits and penalties in income tax expenses. The Company had total accruals for interest as of December 31, 2013 and 2012 of $959 and $464, respectively.

A reconciliation of unrecognized tax benefits, excluding interest and penalties, is as follows:

	2013	2012 (Revised)	2011 (Revised)
Balance on January 1	$15,659	$16,497	$17,067
Gross decreases for tax positions taken in prior years	(1,829)	(838)	(570)
Gross increases (decreases) for tax positions taken in current year	—	—	—
Reduction due to settlements or lapse of statute of limitations	—	—	—
Balance on December 31	$13,830	$15,659	$16,497

As of December 31, 2013, the Company had $13,830 of unrecognized tax benefits. Of the amounts reflected in the above table for December 31, 2013, it is reasonably possible $1,155, could be realized by the Company in 2014 since the income tax returns may no longer be subject to audit in 2014.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company files federal, foreign and multiple state and local jurisdiction income tax returns. The Company is no longer subject to examinations of its federal income tax returns by the Internal Revenue Service for years 2009 and prior.

The following state and local jurisdictions are currently examining the Company's respective returns for the years indicated: New York State (2006 through 2012), New York City (2006, 2007, and 2008), and the Commonwealth of Massachusetts (2009, 2010). The State of New York issued a proposed assessment dated, January 13, 2014 for $3,787, inclusive of $1,231 of interest. A meeting has been requested with the State of New York to discuss this assessment. The years from 2010 through 2012 remain open for the City of New York. The Company continues to evaluate the merits of the proposed assessment as new information becomes available when we meet the state authorities. 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 however it may be reasonably possible that one or more of these examinations may result in a change in the reserve for uncertain tax positions over the next twelve months.

15. Contingencies

On or about March 1, 2005, in an action styled *Sarah Cruz, et al v. Town Sports International, d/b/a New York Sports Club* , plaintiffs commenced a purported class action against TSI, LLC in the Supreme Court, New York County, seeking unpaid wages and alleging that TSI, LLC violated various overtime provisions of the New York State Labor Law with respect to the payment of wages to certain trainers and assistant fitness managers. On or about June 18, 2007, the same plaintiffs commenced a second purported class action against TSI, LLC in the Supreme Court of the State of New York, New York County, seeking unpaid wages and alleging that TSI, LLC violated various wage payment and overtime provisions of the New York State Labor Law with respect to the payment of wages to all New York purported hourly employees. On September 17, 2010, TSI, LLC made motions to dismiss the class action allegations of both lawsuits for plaintiffs' failure to timely file motions to certify the class actions. The court granted the motions on January 29, 2013, dismissing the class action allegations in both lawsuits. On March 4, 2013, plaintiffs served notice of their intent to appeal that dismissal. The court has stayed the remaining, individual claims in each action pending resolution of the plaintiffs' appeal. The appeal has been fully briefed and the parties expect that oral argument on the motion will be held in April 2014.

On September 22, 2009, in an action styled *Town Sports International, LLC v. Ajilon Solutions, a division of Ajilon Professional Staffing LLC* (Supreme Court of the State of New York, New York County, 602911-09), TSI, LLC brought an action in the Supreme Court of the State of New York, New York County, against Ajilon for, among other things, breach of contract seeking, among other things, money damages, in connection with Ajilon's failure to design and deliver to TSI, LLC a new sports club enterprise management system known as GIMS. Subsequently, on October 14, 2009, Ajilon brought a counterclaim against TSI, LLC alleging breach of contract, asserting, among other things, failure to pay outstanding invoices in the aggregate amount of approximately $2,900. Following a jury trial, a jury verdict was rendered on January 28, 2013, that awarded TSI, LLC damages against Ajilon in the amount of approximately $3,300, plus interest, and also awarded Ajilon damages against TSI, LLC in the amount of approximately $214, plus interest. After the Court granted Ajilon's motion to set aside the part of the jury verdict that had rejected the bulk of Ajilon's counterclaim, the Court increased the award of damages against TSI, LLC from approximately $214 to approximately $2,900, plus interest. The result is a net

amount owed to TSI, LLC in the amount of approximately $400, plus interest. On April 8, 2013, TSI, LLC filed a notice of appeal, appealing the Court's decision to set aside the jury verdict, and on May 6, 2013, Ajilon filed its notice of appeal, appealing the verdict. On December 3, 2013, the Appellate Division issued its opinion, which vacated the judgments for damages both for and against TSI, LLC but let stand the jury's verdict that Ajilon is liable to TSI, LLC for damages to be determined at a new trial against Ajilon. The new trial, which has not yet been scheduled, will be limited to the damages suffered by TSI, LLC. On January 2, 2014, Ajilon filed a motion to the Appellate Division to both reargue the Appellate Division's decision to deny Ajilon damages as well as appeal the Appellate Division's decision to the New York State Court of Appeals. On February 25, 2014, the Appellate Division denied Ajilon's motion.

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, and take additional space in the nearby facility leased by another subsidiary of TSI, LLC. The trial court granted the landlord damages against its tenant in the amount of approximately $700, including interest and costs ("Initial Award"). TSI, LLC was held to be jointly liable with the tenant for the amount of approximately $488, under a limited guarantee of the tenant's lease obligations. The landlord subsequently appealed the trial court's award of damages, and on December 21, 2010, the appellate court reversed, in part, the trial court's decision and ordered the case remanded to the trial court for an assessment of additional damages, of approximately $750 plus interest and costs (the "Additional Award"). On February 7, 2011, the landlord moved for re-argument of the appellate court's decision, seeking additional damages plus attorneys' fees. On April 8, 2011, the appellate court denied the landlord's motion. On August 29, 2011, the Additional Award (amounting to approximately $900), was entered against the tenant, who has recorded a liability. TSI, LLC does not believe it is probable that TSI, LLC will be held liable to pay for any amount of the Additional Award. 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. In connection with the Initial Award (and in furtherance of the indemnification agreement), TSI, LLC and the developer have entered into an agreement pursuant to which the developer has agreed to pay the amount of the Initial Award in installments over time. The indemnification agreement also covers the Additional Award, and therefore the Tenant has recorded a receivable related to the indemnification. The developer did not pay the amount of the Additional Award to the landlord, and on October 13, 2011, the landlord commenced a special proceeding in the Supreme Court of the State of New York, Westchester County, to collect the Additional Award directly from the developer. A motion to dismiss the special proceeding made by the developer was denied by the court on March 13, 2012. An appeal of that decision by the developer was rejected. On March 14, 2013, the landlord moved for summary judgment on its claim to recover the Additional Award directly from the developer and on March 25, 2013, the developer cross-moved for summary judgment to dismiss the special proceeding. On May 30, 2013, the court granted summary judgment to the landlord and denied the cross-motion for summary judgment of the developer. Judgment was entered against the developer on June 5, 2013 in the amount of approximately $1,045, plus interest. On June 13, 2013, the developer filed a notice of its intent to appeal the judgment. The appeal remains pending.

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. On December 18, 2012, TSI, LLC filed a motion to stay the class action pending a decision on class certification in the Cruz case and to dismiss the Labbe action if the Cruz case is certified. On January 29, 2013, Labbe responded to the motion to stay and filed a cross-motion to consolidate the Labbe case

with the Cruz case. On February 11, 2013, following the dismissal of the class claims in Cruz, Labbe withdrew the cross-motion to consolidate. Oral argument to stay the action until a decision is made on the appeal in the Cruz case was heard on April 10, 2013. On December 17, 2013, the Court granted TSI, LLC's motion to stay the Labbe action pending a resolution of the Cruz appeal. By the terms of the order, the stay lasts as long as the appeal of the dismissal of the class claims in the Cruz case remains pending.

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 and employee relations claims. 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. While it is not feasible to predict the outcome of such proceedings, in the opinion of the Company, either the likelihood of loss is remote or any reasonably possible loss associated with the resolution of such proceedings is not expected to be material either individually or in the aggregate.

16. Employee Benefit Plan

The Company maintains a 401(k) defined contribution plan and is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). The Plan provides for the Company to make discretionary contributions. The Plan was amended, effective January 1, 2001, to provide for an employer matching contribution in an amount equal to 25% of the participant's contribution with a limit of five hundred dollars per individual, per annum. Employer matching contributions totaling $223 and $222 were made in February 2013 and March 2012, respectively, for the Plan years ended December 31, 2012 and 2011, respectively. The Company expects to make an employer matching contribution of approximately $238 in March 2014 for the Plan year ended December 31, 2013.

17. Selected Quarterly Financial Data (Unaudited)

	2013			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter (b)
Net revenue	$119,164	$120,112	$117,042	$113,907
Operating income	11,479	15,001	8,770	5,348
Net income (loss)	4,231	6,197	2,591	(695)
Earnings (loss) per share(a)				
Basic	$ 0.18	$ 0.26	$ 0.11	$ (0.03)
Diluted	$ 0.18	$ 0.25	$ 0.10	$ (0.03)

	2012			
	First Quarter	Second Quarter	Third Quarter (c)	Fourth Quarter (d)
Net revenue	$122,912	$122,241	$119,612	$114,216
Operating income	11,629	13,796	11,660	4,348
Net income (loss)	3,850	5,417	3,152	(453)
Earnings (loss) per share(a)				
Basic	$ 0.17	$ 0.23	$ 0.13	$ (0.02)
Diluted	$ 0.16	$ 0.23	$ 0.13	$ (0.02)

TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(a) Basic and diluted earnings per share are computed independently for each quarter presented. Accordingly, the sum of the quarterly earnings per share may not agree with the calculated full year earnings per share.

(b) Revenue and operating income for the fourth quarter of 2013 includes $424 of rental revenue due to an out of period error correction. Net loss and loss per share for the fourth quarter of 2013 include $632 and ($0.03), respectively, comprised of the following: $259, net of tax, related to the out of period adjustment to rental income referred to above, $457 loss on extinguishment of debt, net of tax, in connection with the Company's debt refinancing in November 2013; $77 payroll bonus expense, net of tax, in connection with the payment of a $0.16 cash bonus to eligible stock option holders; $237, net of tax, of severance related to an executive departure; $136, net of tax, related to legal fees in connection with the sale of our 86 th Street property and $16 of net income tax benefits related to corrections of temporary tax differences.

(c) Net income and earnings per share for the third quarter of 2012 include $530 and ($0.02), respectively comprised of the following: $575 loss on extinguishment of debt, net of tax in connection with the Company's debt refinancing in August 2012; $848, net of tax, of incremental interest expense in connection with the Company's debt refinancing in August 2012; $182 of a discrete income tax benefit; and additional fees and revenue of $711, net of tax, realized in connection with the termination of a long-term marketing arrangement with a third party in-club advertiser.

(d) Net loss and loss per share for the fourth quarter of 2012 include $4,277 and $(0.18), respectively, comprised of the following: $1,883, net of tax, of fixed asset impairments related to the write-offs of fixed assets for four clubs that sustained damages from Hurricane Sandy; $924, net of tax, of incremental interest expense in connection with the Company's additional borrowing under the 2011 Senior Credit Facility in November 2012; $1,470 payroll bonus expense, net of tax in connection with the payment of a $3.00 cash bonus to eligible stock option holders; $340 of additional general and administrative expenses and incremental share based compensation expense, net of tax from fees incurred in connection with the Company's special dividend payment and stock option modifications; and $340 of discrete income tax benefits related primarily to corrections of temporary differences related to depreciation and amortization on the Company's fixed assets and intangible assets.

18. Other

On December 24, 2013, the Company announced the entry into an agreement to sell its property located at 151 East 86th Street, New York to an affiliate of Stillman Development International, LLC for a price of $82,000, subject to certain adjustments. The transaction is subject to various closing conditions, and the parties expect the transaction to be completed on March 31, 2014. In connection with the sale of the property, the Company will continue to operate its NYSC health and fitness club at this location under a lease with the purchaser of the property. After a period of not less than two years, the purchaser, upon prior notice, may exercise its right to terminate the lease in order to commence the demolition of the premises and the currently adjacent property under which the purchaser has entered into a long-term ground lease, and the construction of a new high-rise multi-use property. The parties have agreed to enter into a new lease for a health and fitness club space to be located at the same location as the current fitness club following completion of development of the new high-rise building.

19. Subsequent Event

On February 12, 2014, the board of directors of the Company declared a quarterly cash dividend of $0.16 per share. The cash dividend is payable on March 5, 2014 to stockholders of record at the close of business on February 24, 2014. The aggregate amount of the payment to be made in connection with the cash dividend will be approximately $3,900.

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Exhibit Index

The following is a list of all exhibits filed or incorporated by reference as part of this Report:

Exhibit No.	Description of Exhibit
3.1	Amended and Restated Certificate of Incorporation of Town Sports International Holdings, Inc. (the "Registrant") (incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).
3.2	Second Amended and Restated By-laws of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K, filed on May 19, 2008).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.5 of the Registrant's Registration Statement on Form S-1, File No. 333-126428 (the "S-1 Registration Statement")).
10.1	Registration Rights Agreement, dated as of February 4, 2004, by and among Town Sports International Holdings, Inc., Town Sports International, Inc., Bruckmann, Rosser, Sherrill & Co., L.P. the individuals and entities listed on the BRS Co-Investor Signature Pages thereto, Farallon Capital Partners, L.P., Farallon Capital Institutional Partners, L.P., RR Capital Partners, L.P., and Farallon Capital Institutional Partners II, L.P., Canterbury Detroit Partners, L.P., Canterbury Mezzanine Capital, L.P., Rosewood Capital, L.P., Rosewood Capital IV, L.P., Rosewood Capital IV Associates, L.P., CapitalSource Holdings LLC, Keith Alessi, Paul Arnold, and certain stockholders of the Company listed on the Executive Signature Pages thereto (incorporated by reference to Exhibit 10.5 of the S-4 Registration Statement).
10.2	Amendment No. 1 to the Registration Rights Agreement dated as of March 23, 2006 (incorporated by reference to Exhibit 10.21 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005 (the "2005 Form 10-K")).
10.3	Amendment No. 2 to the Registration Rights Agreement dated as of May 30, 2006 (incorporated by reference to Exhibit 10.9.1 of the S-1 Registration Statement).
10.4	Credit Agreement, dated as of November 15, 2013, among Town Sports International, LLC, TSI Holdings II, LLC, the lenders party thereto, Deutsche Bank Trust Company Americas, as Administrative Agent, and Keybank National Association, as Syndication Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, dated November 15, 2013).
10.5	Subsidiaries Guaranty, dated as of November 15, 2013, among each of the Guarantors party thereto, and Deutsche Bank AG New York Branch, as Administrative Agent (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, dated November 15, 2013).
10.6	Pledge Agreement dated as of November 15, 2013, among the Borrower, Holdings II, each of the Pledgors party thereto, and Deutsche Bank AG New York Branch, as Collateral Agent (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K, dated November 15, 2013).
10.7	Security Agreement dated as of November 15, 2013, among the Borrower, Holdings II, each of the Assignors party thereto, and Deutsche Bank AG New York Branch, as Collateral Agent (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K, dated November 15, 2013).
10.8	Amended and Restated Interest Rate Swap Confirmation, dated November 15, 2013, between Town Sports International, LLC and Deutsche Bank AG New York (Filed herewith).
10.9	Agreement of Sale, dated December 23, 2013, by and between Town Sports International, LLC and Monty Two East 86th Street Associates LLC (Filed herewith).
*10.10	2004 Common Stock Option Plan (incorporated by reference to Exhibit 10.7 of the S-4 Registration Statement).

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Exhibit No.	Description of Exhibit
*10.11	Amendment No. 1 to the Registrant's 2004 Common Stock Option Plan (incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007).
*10.12	Amended and Restated 2006 Stock Incentive Plan (incorporated herein by reference to Appendix A of the Company's definitive Proxy Statement on Schedule 14A filed on March 29, 2011).
*10.13	Form of Incentive Stock Option Agreement pursuant to the 2006 Incentive Plan (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed August 8, 2006).
*10.14	Form of Non-Qualified Stock Option Agreement pursuant to the 2006 Incentive Plan (incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed August 8, 2006).
*10.15	Form of the Non-Qualified Stock Option Agreement for Non-Employee Directors pursuant to the 2006 Incentive Plan (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed April 2, 2007).
*10.16	Form of Non-Qualified Stock Option Agreement pursuant to the 2006 Incentive Plan (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007).
*10.17	Form of Restricted Stock Agreement pursuant to the 2006 Incentive Plan (incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008).
*10.18	Amended and Restated 2006 Annual Performance Bonus Plan (incorporated by reference to Appendix A of the Registrant's definitive Proxy Statement on Schedule 14A filed on March 30, 2010).
*10.19	Amended and Restated Non-Employee Director Compensation Plan Summary Effective January 1, 2013 (incorporated by reference to Exhibit 10.11 if the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012).
*10.20	Offer Letter to David M. Kastin, Senior Vice President — General Counsel, dated July 23, 2007 (incorporated by reference to Exhibit 10.35 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007).
*10.21	Amendment to Offer Letter to David M. Kastin, dated December 23, 2008 (incorporated by reference to Exhibit 10.35 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008).
*10.22	Offer Letter, dated March 18, 2010, between the Registrant and Robert Giardina (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2010).
*10.23	Form of Executive Severance Agreement between the Registrant and each of Daniel Gallagher and David Kastin (incorporated by reference to Exhibit 10.38 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007).
*10.24	Form of Amendment to Executive Severance Agreement between the Registrant and each of Daniel Gallagher and David Kastin (incorporated by reference to Exhibit 10.39 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008).
*10.25	Form of Amended and Restated Executive Severance Agreement between the Registrant and each of Robert Giardina, Paul Barron, and Scott Milford (incorporated by reference to Exhibit 10.28 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009).
*10.26	Amendment dated March 1, 2011 to Executive Severance Agreement between the Registrant and Robert Giardina (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2011).

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Exhibit No.	Description of Exhibit
*10.27	Offer Letter, dated March 9, 2012, between the Registrant and Terry Kew — Chief Operating Officer (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2012).
*10.28	Separation Agreement, dated December 2, 2013, between the Registrant and Terry Kew (Filed herewith).
*10.29	Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.25 of the S-1 Registration Statement).
*10.30	Form of 2012 Bonus Letter between the Registrant and each of Robert Giardina, Daniel Gallagher, Terry Kew, David Kastin, Scott Milford and Paul Barron (incorporated by reference to Exhibit 10.11 if the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012).
*10.31	Letter Agreement with Daniel Gallagher, dated January 10, 2014 (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed January 10, 2014).
21	Subsidiaries of the Registrant.
23.1	Consent of PricewaterhouseCoopers LLP.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.
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.

* Management contract or compensatory plan or arrangement.

Exhibit 10.8

Deutsche Bank

Deutsche Bank AG New York
60 Wall Street
New York, NY 10005

+1 212-250-2500

Amendment Date	**November 15, 2013**
Original Draft Date	July 8, 2011
To	Town Sports International, LLC
Attention	Dan Gallagher
Facsimile no	(212)246-8422
Our Reference.	**Global No. N1539871N (previously N1317383N)**

Interest Rate Swap Transaction - This confirmation supersedes and replaces all prior communication between the parties hereto with respect to the Transaction described

Ladies and Gentlemen

The purpose of this letter agreement is to set forth the terms and conditions of the Transaction entered into between Deutsche Bank AG ("DBAG") and Town Sports International, LLC ("Counterparty") on the Trade Date specified below (the "Transaction") This letter agreement constitutes a "Confirmation" as referred to in the Agreement specified below

The definitions and provisions contained in the 2006 ISDA Definitions (the "Definitions") as published by the International Swaps and Derivatives Association, Inc are incorporated by reference herein In the event of any inconsistency between the Definitions and this Confirmation, this Confirmation will govern

For the purpose of this Confirmation, all references in the Definitions or the Agreement to a "Swap Transaction' shall be deemed to be references to this Transaction

1 This Confirmation supplements, forms part of, and is subject to, the ISDA Master Agreement dated as of November 15, 2013 (as the same may be amended or supplemented from time to time, the "Agreement"), between DBAG and Counterparty All provisions contained in the Agreement shall govern this Confirmation except as expressly modified below

2 The terms of the particular Transaction to which this Confirmation relates are as follows

Notional Amount	USD 160,000,000 00
Original Trade Date	July 1, 2011
Original Effective Date	July 13, 2011
Amendment Date	**November 15, 2013**
Termination Date	**May 15, 2018** , subject to adjustment in accordance with the Modified Following Business Day Convention

Fixed Amounts:

Fixed Rate Payer	Counterparty
Fixed Rate Payer Period End Dates	The **15th** Business Day of each month of each year through and including the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention
Fixed Rate Payer Payment Dates	The **15th** Business Day of each month of each year through and including the Termination Date subject to adjustment in accordance with the Modified Following Business Day Convention
Fixed Rate	**1 884%**
Fixed Rate Day Count Fraction	Actual/360
Fixed Rate Payer Business Days	New York and London
Fixed Rate Payer Business Day Convention	Modified Following

Floating Amounts:

Floating Rate Payer	DBAG
Floating Rate Payer Period End Dates	The **15th** Business Day of each month of each year through and including the Termination Date, subject to adjustment in accordance with the Modified Following Business Day Convention
Floating Rate Payer Payment Dates	The **15th** Business Day of each month of each year through and including the Termination Date subject to adjustment in accordance with the Modified Following Business Day Convention
Floating Rate Option	**The greater of (i) USD-LIBOR-BBA and (ii) 1.00%**
Designated Maturity	1 month
Spread	None
Floating Rate Day Count Fraction	Actual/360
Reset Dates	The first Business Day in each Calculation Period
Compounding	Inapplicable

Business Days New York and London

3 **Account Details.**

Account Details for DBAG

USD DBAG Payment Instructions	
Account With	DB Trust Co Americas, New York
SWIFI Code	BKTRUS33
Favor Of	Deutsche Bank AG, New York
Account Number	[ILLEGIBLE]

Account Details for Counterparty

Payment Instructions	Please provide

4 **Offices**

The Office for DBAG for this Transaction is New York, New York

The Office of Counterparty for this Transaction New York, New York

5 **Calculation Agent:** The party specified as such in the Agreement, or if not specified therein DBAG

6 **Representations**

Each party will be deemed to represent to the other party on the date on which it enters into this Transaction that (absent a written agreement between the parties that expressly imposes affirmative obligations to the contrary for this Transaction)

(i) **Non-Reliance** It is acting for its own account, and it has made its own independent decisions to enter into this Transaction and as to whether this Transaction is appropriate or proper for it based upon its own judgement and upon advice from such advisers as it has deemed necessary It is not relying on any communication (written or oral) of the other party as investment advice or as a recommendation to enter into this Transaction, it being understood that information and explanations related to the terms and conditions of this Transaction shall not be considered investment advice or a recommendation to enter into this Transaction No communication (written or oral) received from the other party shall be deemed to be an assurance or guarantee as to the expected results of this Transaction

(ii) **Assessment and Understanding** It is capable of assessing the merits of and understanding (on its own behalf or through independent professional advice), and understands and accepts, the terms, conditions and risks of this Transaction It is also capable of assuming, and assumed, the risks of this Transaction

(iii) **Status of Parties** The other party is not acting as a fiduciary for, or an adviser to it in respect of this Transaction

7 Please confirm that the foregoing correctly sets forth the terms of our agreement by having an authorized officer sign this Confirmation and return it via facsimile or email to

Attention Derivative Documentation

Telephone 44 20 7547 4755

Facsimile 44 20 7545 9761

E-mail Derivative Documentation@db.com

This message will be the only form of Confirmation dispatched by us If you wish to exchange hard copy forms of this Confirmation, please contact us

Yours sincerely

Deutsche Bank AG

By: /s/ Jon Abela
Name: Jon Abela
Authorized Signatory

By: /s/ Paul Carter
Name: Paul Carter
Authorized Signatory

Confirmed as of the date first written above

Town Sports International LLC

By /s/ Kieran Sikso
Name Kieran Sikso
Title VP Finance

Exhibit 10.9

AGREEMENT OF SALE

THIS AGREEMENT OF SALE (this " **Agreement** "), made as of the 23rd day of December, 2013 (" **Effective Date** ") by and between **TOWN SPORTS INTERNATIONAL, LLC** , a New York limited liability company, having an address at 5 Penn Plaza, 4th Floor, New York, New York 10001 (hereinafter referred to as " **Seller** "), and **MONTY TWO EAST 86TH STREET ASSOCIATES LLC** , a Delaware limited liability company, having an address at 505 Park Avenue, Suite 1700, New York, New York 10022 (hereinafter referred to as " **Purchaser** "). Seller and Purchaser may sometimes be referred to herein collectively as the " **Parties** ".

W I T N E S S E T H :

WHEREAS, Seller is desirous of selling the Property (as hereinafter defined in Paragraph 2 hereof), and Purchaser is desirous of purchasing the Property, on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual promises herein made and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is agreed as follows:

1. **RECITALS .** The recitals set forth above are incorporated by reference as if fully set forth at length herein.

2. **SALE .**

(a) Seller agrees to sell to Purchaser, and Purchaser agrees to purchase from Seller, for the Purchase Price (as hereinafter defined in Paragraph 3 hereof), subject to the terms and conditions of this Agreement, all of the right, title and interest of Seller in and to the following (hereinafter collectively referred to as the " **Property** "):

(i) Real Property . That certain real property located at 151 East 86th Street (including 151-155 East 86th Street), in the Borough of Manhattan, County of New York, State of New York, as more particularly described in Exhibit "A " attached hereto and made a part hereof (the " **Land** "), together with: (1) all improvements located thereon (the " **Improvements** "); (2) all rights, benefits, privileges, easements, tenements, hereditaments, rights-of-way and other appurtenances thereon or in any way appertaining thereto, including all mineral rights, development rights, air and water rights; and (3) all strips and gores and any land lying in the bed of any street, road or alley, open or proposed, in front of or adjoining such Land (collectively, the " **Real Property** ");

(ii) Orva Lease . All of the landlord's right, title and interest in and to the Orva Lease (as defined in Paragraph 4(a) hereof), all amendments and modifications to the Orva Lease, and all security deposits (if any) furnished under the Orva Lease;

(iii) Tangible Personal Property . All of the equipment, machinery and fixtures, affixed to and serving the Improvements now or hereafter located on or affixed to and

used exclusively in the operation, ownership or maintenance of the Real Property, and any replacements or substitutions therefor (collectively, the " **Tangible Personal Property** "), but specifically excluding: (1) any items of personal property owned or leased by the Tenant; (2) any items of personal property in Seller's property management office, if any, located on the Real Property; (3) any items of personal property owned by third parties and leased to Seller; and (4) proprietary computer software, systems and equipment and related licenses used in connection with the operation or management of the Property;

(iv) Intangible Property . All intangible property, if any, pertaining to the Real Property, to the extent assignable, including, without limitation, all licenses, permits, approvals, guarantees and warranties (but excluding any guarantees or warranties covering items for which the Club Tenant (as hereinafter defined) will be responsible for maintaining, repairing or replacing under the Initial Lease (as hereinafter defined) (collectively, the " **Intangible Property** "); and

(v) Unpaid Awards . Any unpaid award for any taking by condemnation or any damage to the Real Property by reason of a change of grade of any street or highway.

(b) On the Closing Date, Seller's affiliate, TSI East 86 TH Street II, LLC (the " **Club Tenant** "), and Purchaser shall enter into a lease (the " **Initial Lease** ") with respect to the space within the Improvements occupied by Seller or its affiliate on the Closing Date (the " **Initial Club Premises** "). Purchaser and the Club Tenant shall execute and deliver to each other at Closing a memorandum of lease (the " **Memorandum of Lease** ") with respect to the Initial Lease, in form for recording and otherwise in form and substance acceptable to the parties thereto, which shall be recorded by the Club Tenant at its sole cost. At Closing, the Club Tenant shall also execute and deliver to Purchaser a termination of the Memorandum of Lease (the " **Termination of Memorandum of Lease** "), in form for recording and otherwise in form and substance acceptable to the parties theteto, which Purchaser will hold in escrow until the expiration or earlier termination of the Initial Lease (at which time Purchaser shall record the Termination of Memorandum of Lease), all as more particularly set forth in the Initial Lease. Nothing contained in this Agreement shall be deemed to affect the rights and obligations of the parties to the Initial Lease.

(c) Simultaneously herewith, Purchaser's affiliate, Monty Three East 86 th Street Associates LLC (" **Ground Lessee** "), is entering into that certain Agreement of Lease dated as of the date hereof (the " **Ground Lease** ") between Jane H. Goldman, Allan H. Goldman, Amy Goldman Fowler and Diane Goldman Kemper, as co-executors of the Estate of Lillian Goldman, and The Lillian Goldman Family, L.L.C., as lessor (collectively, " **Ground Lessor** "), and Ground Lessee, as lessee, in respect of the property located at 1283-1289 Lexington Avenue (a/k/a 147-149 East 86 th Street), New York, New York. Concurrent with the execution and delivery of this Agreement by the Parties hereto, Purchaser and Ground Lessee shall execute and deliver to Seller the Ground Lease Certification (Effective Date) in the form attached hereto as Exhibit "O-1" .

3. **PURCHASE PRICE .** The Purchase Price of the Property shall be Eighty-Two Million and 00/100 ($82,000,000.00) Dollars (herein referred to as the " **Purchase Price** "), payable as follows:

(a) Upon execution and delivery of this Agreement, Purchaser shall deposit in escrow with Fidelity National Title Insurance Company, 485 Lexington Avenue, 18th Floor, New York, New York 10017, as escrow agent (" **Escrow Agent** "), the sum of Five Million and 00/100 ($5,000,000.00) Dollars (such sum, together with all interest earned thereon, hereinafter referred to as the " **Deposit** "), which shall be maintained by Escrow Agent in an interest bearing account pursuant to the provisions of Paragraph 19 hereof.

(b) Upon making the Deposit, the Deposit shall be non-refundable and Purchaser shall have no further rights thereto, except as otherwise expressly set forth in this Agreement.

(c) Concurrently herewith, each Party shall notify Escrow Agent of its Federal Tax Identification number.

(d) Prior to the date hereof, Stillman Development International, LLC, an affiliate of Purchaser, paid to Seller a "no shop" fee in the amount of Fifty Thousand and 00/100 ($50,000.00) Dollars (the " **Additional No Shop Fee** ") in consideration for Seller's agreement not to (directly or indirectly), from November 22, 2013 through and including December 20, 2013, solicit, entertain or encourage inquiries or proposals or negotiate or enter into an agreement with any person or entity other than Purchaser, to sell, or enter into any merger or consolidation with respect to, the Property. At Closing, the Additional No Shop Fee shall be credited against the Purchase Price. If this Agreement is terminated by reason of Seller's default hereunder, then the Additional No Shop Fee shall, promptly upon such termination, be refunded by Seller to Purchaser or such other party as Purchaser may designate in writing.

(e) At Closing the balance of the Purchase Price (taking account of the Deposit and the Additional No Shop Fee), subject to the adjustments and prorations described in Paragraph 15 hereof, shall be paid in immediately available funds by wire transferring such balance into an account designated by Seller not less than one (1) business day prior to the Closing Date.

(f) Seller and Purchaser agree that no portion of the Purchase Price is being paid on account of the Tangible Personal Property included in the sale contemplated herein.

4. **CLOSING DOCUMENTS** .

(a) At Closing, Seller shall execute, acknowledge and/or deliver (as applicable) to Purchaser:

(i) a bargain and sale deed in the form attached hereto as Exhibit "B" (" **Deed** "), conveying marketable fee simple title to the Real Property subject to no liens or encumbrances other than the Permitted Encumbrances (as defined in Paragraph 5 hereof) on the basis that as of Closing, the Title Company (as defined in Paragraph 5 hereof) shall insure title as

set forth in this Agreement. For the purposes of this Agreement, the term " **marketable fee simple title** " shall be deemed to be such fee simple title as any nationally recognized title insurance company doing business in the State of New York shall insure at standard rates and subject only to the Permitted Encumbrances;

(ii) a New York State Department of Taxation and Finance Form TP-584 (the " **TP-584** ");

(iii) a New York State Board of Real Property Services Real Property Transfer Report Form RP-5217 NYC (the " **RP-5217** ");

(iv) a New York City Department of Finance Real Property Transfer Tax Return Form NYC-RPT (the " **NYC RPT** ")

(v) an affidavit of title, the form and substance of which shall be subject to the reasonable approval of the Title Company (as hereinafter defined);

(vi) the original (to the extent in Seller's possession or immediate control or, if the original is not in Seller's possession or immediate control, a copy) of the Lease dated as of January 27, 1984, as amended by (A) the Lease Modification dated as of March 31, 1995, (B) the Second Amendment to Lease dated as of October 31, 2003 (" **Second Amendment** ") and (C) the Third Amendment to Lease dated as of April 14, 2008 (" **Third Amendment** "; such Lease, together with such amendments, collectively, the " **Orva Lease** "), between Seller (as successor in interest to Town Squash, Inc.) and Orva Hosiery Stores, Inc. (" **Tenant** "), relating to a portion of the Real Property (the " **Orva Premises** "). Notwithstanding the foregoing, Purchaser hereby acknowledges and agrees that the Second Amendment is missing a page or pages containing a portion of Section 7(c) through Section 12 thereof;

(vii) an assignment and assumption of the Orva Lease, conveying all of Seller's right, title and interest as landlord in and to the Orva Lease and security deposits (if any) thereunder, in the form attached hereto as Exhibit "C" (" **Assignment of Lease** ");

(viii) an omnibus assignment and assumption agreement, conveying all of Seller's right, title and interest in and to the Intangible Property, free and clear of liens or encumbrances, in the form attached hereto as Exhibit "D" (" **Omnibus Assignment** ");

(ix) a bill of sale, if applicable, conveying all of Seller's right, title and interest in and to the Tangible Personal Property, free and clear of liens or encumbrances, in the form attached hereto as Exhibit "E" (" **Bill of Sale** ");

(x) a closing statement approved by Seller and Purchaser (" **Closing Statement** ") setting forth, inter alia , the closing adjustments, prorations and material monetary terms of the transaction contemplated hereby;

(xi) an affidavit of Seller certifying that Seller is not a "foreign person", as defined in the federal Foreign Investment in Real Property Tax Act of 1980, and the 1984 Tax Reform Act, as amended, in the form attached hereto as Exhibit "K" .

(xii) notice to the Tenant in the form attached hereto as Exhibit "F" , advising the Tenant of the sale of the Property;

(xiii) the Confirming Tenant Estoppel or Seller Certificate (each as defined in Paragraph 12(g) hereof), subject to and in accordance with the provisions of Paragraph 12(g) hereof;

(xiv) the Holdback Escrow Agreement (as defined in Paragraph 8(f) hereof);

(xv) all keys and combinations to the Property in Seller's possession as of the Effective Date;

(xvi) a certificate which confirms that Seller's representations and warranties made herein remain true and correct in all material respects as of the Closing;

(xvii) originals (or copies, if and to the extent that originals are unavailable) of all books and records relating to the Tenant and the Property (other than the books and records relating to the operation of the health club in the Initial Club Premises) and other Intangible Property reasonably required for the orderly transition of ownership and operation of the Property (provided , however , that the books and records and other Intangible Property shall also be made available at Seller's office for inspection and copying by Purchaser and Purchaser's Representatives (as defined in Paragraph 21 hereof) from time to time prior to the Closing at reasonable times and upon reasonable prior notice to Seller);

(xviii) such organizational and authorizing documents of Seller as reasonably shall be required by Purchaser and/or the Title Company to evidence Seller's authority to execute and deliver this Agreement and any documents to be executed and delivered by Seller at Closing and to consummate the transaction contemplated by this Agreement;

(xix) four (4) original counterparts of the Initial Lease, duly executed by the Club Tenant.

(xx) four (4) original counterparts of the Memorandum of Lease, duly executed and acknowledged by or on behalf of the Club Tenant;

(xxi) four (4) original counterparts of the Termination of Memorandum of Lease, duly executed and acknowledged by or on behalf of the Club Tenant;

(xxii) four (4) original counterparts of a subordination, non-disturbance and attornment agreement, in the form required by the Initial Lease (the " **SNDA** "), between the Club Tenant and Purchaser's mortgagee, if any, duly executed and acknowledged by or on behalf of the Club Tenant;

(xxiii) the Termination Payment Escrow Agreement (as defined in Paragraph 15(e)(ii) hereof);

(xxiv) the Letter Agreement regarding the Agreement of Lease dated as of June 15, 1994, as amended by a letter agreement dated as of June 15, 1994 (the " **Letter Agreement** "), a letter dated November 17, 1994 (the " **Letter** ") and the First Amendment to Lease dated as of March 10, 2006 (the " **Friedland Lease Amendment** "; such Agreement of Lease, as amended by the Letter Agreement, the Letter and the Friedland Lease Amendment, the " **Friedland Lease** "), between 161 East 86 th Street Company, LLC, as landlord (" **Friedland Landlord** "), and Seller's affiliate, TSI East 86, LLC (successor in interest to Town Sports International, Inc.), as tenant (" **Friedland Tenant** "), for a portion of the building located at 157-161 East 86 th Street (the " **Friedland Building** "), in the form attached hereto as Exhibit "N" (the " **Friedland Building Letter Agreement** "); and

(xxv) such other instruments as reasonably may be required by the Title Company to effectuate the transaction contemplated hereby.

(b) The Deed shall be accompanied by Seller's payment to the Register or Clerk of the County in which the Real Property is located of any transfer taxes or fees, all which are to be paid by Seller pursuant to Paragraph 15(b) hereof, or at Seller's option upon prior written notice to Purchaser and the Title Company not less than two (2) business days prior to the Closing Date, Purchaser shall be entitled to a credit against the Purchase Price of a sum equal to the realty transfer taxes or fees to be paid on account thereof.

(c) At Closing, Purchaser shall execute and/or deliver to Seller:

(i) the balance of the Purchase Price;

(ii) the TP-584;

(iii) the RP-5217;

(iv) the NYC RPT;

(v) the Assignment of Lease;

(vi) the Omnibus Assignment;

(vii) the Closing Statement;

(viii) the Holdback Escrow Agreement;

(ix) a certificate which confirms that Purchaser's representations and warranties made herein remain true and correct in all material respects as of the Closing;

(x) such organizational and authorizing documents of Purchaser as reasonably shall be required by Seller and/or the Title Company to evidence Purchaser's authority to execute and deliver this Agreement and any documents to be executed and delivered by Purchaser at Closing and to consummate the transaction contemplated by this Agreement;

(xi) four (4) original counterparts of the Initial Lease, duly executed by Purchaser;

(xii) four (4) original counterparts of the Memorandum of Lease, duly executed and acknowledged by or on behalf of Purchaser;

(xiii) four (4) original counterparts of the SNDA, duly executed and acknowledged by or on behalf of Purchaser's mortgagee;

(xiv) the Termination Payment Escrow Agreement;

(xv) the Ground Lease Certification (Closing Date) in the form attached hereto as Exhibit "O-2" , duly executed by or on behalf of Purchaser and Ground Lessee;

(xvi) the Friedland Building Letter Agreement; and

(xvii) such other instruments as reasonably may be required by the Title Company to effectuate the transaction contemplated hereby.

(d) If a return is required to be filed for the transaction herein described under Section 6045(e) of the Internal Revenue Code of 1986, as amended, then the Title Company shall be the "Reporting Person".

5. **TITLE** .

(a) Purchaser has: (i) obtained from Fidelity National Title Insurance Company (" **Title Company** ") a title insurance commitment for an owner's policy on Title Company's most current form (the " **Commitment** ") in respect of the Real Property; and (ii) obtained from Boro Land Surveying (the " **Surveyor** ") a survey of the Real Property prepared by Surveyor and dated November 13, 2013 (the " **Survey** ").

(b) Except as may be otherwise provided herein, at Closing, Seller shall deliver, and Purchaser shall accept, at Closing the Real Property subject only to the matters listed on Exhibit "G-1 " attached hereto (collectively, the " **Permitted Encumbrances** "). Notwithstanding the foregoing, Purchaser and Seller acknowledge that Purchaser has objected to (i) title exceptions 5, 7, 8.c and 8.d set forth in Schedule B of the Title Commitment and (ii) the Environmental Control Board Judgments referenced at the end of title exception 8 in Schedule B of the Title Commitment, with respect to which Seller shall execute and deliver (or cause to be executed and delivered) to Title Company at or prior to Closing such documentation (including, without limitation, a title affidavit reasonably acceptable to the Title Company) as Title Company may reasonably require to omit such title exceptions from Purchaser's title policy. If exceptions to title appear on any update or continuation of the Commitment or any new matters appear on any update to the Survey received by Purchaser (each, a " **Continuation** ") which are not Permitted Encumbrances, then Purchaser shall notify Seller thereof not later than five (5) business days after the date on which Purchaser receives such Continuation. If Purchaser fails to provide Seller with such notice by the expiration of such five (5) business day period, then Purchaser shall be deemed to have elected to acquire the Real Property subject to such additional

exceptions to title (other than with respect to Mandatory Cure Exceptions (as hereinafter defined). For purposes of this Agreement: (x) the term " **Monetary Objections** " shall mean: (1) any mortgage, deed to secure debt, deed of trust, security interest, financing statement or similar security instrument entered into by Seller encumbering all or any portion of the Property; (2) any mechanic's or materialman's lien shown on the Commitment or any Continuation and relating to work performed at or in connection with the Property which was performed at the direction of Seller; (3) the lien of ad valorem real or personal property taxes, assessments and governmental charges affecting all or any portion of the Property which are delinquent; and (4) any judgment of record against Seller which is a lien against the Property; and (y) the term " **Mandatory Cure Exceptions** " shall mean, collectively, Monetary Objections and any other exceptions (including, without limitation, any violations) resulting from Seller's acts which can be removed by payment of a liquidated sum, it being agreed by the Parties that the violations referenced on Exhibit "G-2" attached hereto shall not be deemed Mandatory Cure Exceptions or have been paid prior to the Effective Date.

(i) If Purchaser timely notifies Seller of exceptions to title shown on the Continuation which are neither Permitted Encumbrances nor Mandatory Cure Exceptions (" **Continuation Exceptions** "), then Seller shall use commercially reasonable efforts to attempt to eliminate such Continuous Exceptions.

(ii) If Seller is unable to remove a Continuation Exception and, accordingly, is unable to convey title to the Real Property in accordance with the other provisions of this Agreement, then Seller shall so notify Purchaser in writing within five (5) business days after its receipt of notice from Purchaser of such Continuation Exception. No later than five (5) business days after receipt of such notice from Seller, Purchaser shall elect by written notice to Seller to either: (x) purchase the Property without abatement of the Purchase Price and accept title to the Property subject to such exceptions; or (y) terminate this Agreement, in which event Seller and Purchaser shall jointly instruct the Escrow Agent to deliver the Deposit to Purchaser; provided, however, in no event may Purchaser terminate this Agreement if the Continuation Exception is a governmental violation which cannot be removed by payment of a liquidated sum (subject, however, to Paragraph 9(f) hereof). Upon Purchaser's receipt of the Deposit, this Agreement shall terminate and neither Purchaser nor Seller shall have any further rights or obligations hereunder except for Surviving Obligations (as defined in Paragraph 22 hereof). If Purchaser shall not notify Seller of such election within such five (5) business day period, then Purchaser shall be deemed to have elected clause (y) above. If Seller elects to remove a Continuation Exception, it shall complete the removal thereof prior to Closing, subject to Seller's right to adjourn the Closing, if necessary, pursuant to Paragraph 5(f) hereof.

(c) Anything herein to the contrary notwithstanding, Seller shall in all events be obligated to remove, or cause to be removed, the Mandatory Cure Exceptions, and Seller's failure to do so shall constitute a material breach hereunder, for which Purchaser shall be entitled to exercise any and all remedies available to it hereunder, including, without limitation, specific performance of Seller's obligations hereunder.

(d) If the Commitment discloses judgments, bankruptcies or similar returns against persons or entities having names the same as or similar to that of Seller but which returns are not against Seller, then Seller shall, on request, deliver to Purchaser or Title Company

affidavits reasonably acceptable to Title Company, to the effect that such judgments, bankruptcies or returns are not against Seller, in form and substance sufficient to permit removal of such judgments, bankruptcies or returns as exceptions in Purchaser's title policy.

(e) Notwithstanding anything to the contrary contained in this Paragraph 5, Seller may, at its option in lieu of satisfying any obligation to remove an exception that is not a Permitted Encumbrance, deposit with Title Company such amount of money and/or provide such documentation, affidavits and indemnities as may be reasonably determined by Title Company as being sufficient to induce it to insure Purchaser against collection of such liens and/or encumbrances, including interest and penalties, out of or against the Property so long as it would be customary for a title company issuing title in New York City to remove or insure over such liens and/or encumbrances. Any such liens and/or encumbrances which are removed as provided in this Paragraph 5(e) shall not be objections to title. In addition, notwithstanding anything to the contrary contained herein, if Title Company or any title company selected to co-insure Purchaser's title policy is unwilling to insure over any exception that is not a Permitted Encumbrance on terms which other nationally recognized title companies customarily require to insure over such exceptions (it being understood and agreed that Seller shall provide such escrows, bonds and/or indemnities as customarily required to insure over such exceptions), then Seller shall have the right to cause another nationally recognized title insurance company doing business in the State of New York (in place of the Title Company) to insure title in accordance with this Paragraph 5 and other applicable provisions of this Agreement, on terms reasonably satisfactory to Seller and Purchaser and at no additional cost to Purchaser.

(f) Seller shall be entitled to one or more adjournments of the Closing Date, not to exceed sixty (60) days in the aggregate, time being of the essence, to remove any exceptions to title which Seller is obligated to remove under this Agreement or which Seller elects to attempt, but is not obligated, to remove under this Agreement.

(g) If, on the date of Closing, the Property is affected by any Mandatory Cure Exceptions, Seller shall, at or prior to Closing: (i) make the payments required hereby; and (ii) execute and deliver (or cause to be executed and delivered) all instruments in recordable form sufficient to satisfy such Mandatory Cure Exceptions (and otherwise in form and substance satisfactory to Title Company for the issuance of Purchaser's title policy) and pay any applicable recording and/or filing fees; provided, however, that Seller shall not be in default hereunder with respect to notes or notices of violations issued by governmental authorities if despite Seller's commercially reasonable efforts, such notes or notices of violations are not removed from the public records at or prior to Closing but Seller has made the required payments and has provided the Title Company with reasonable proof of payment to, and receipt thereof by, the applicable governmental authorities with respect to such notes or notices of violations. Upon the request of Seller delivered to Purchaser not less than three (3) business days prior to the Closing, Purchaser shall provide at Closing separate checks or wire transfers as requested, aggregating no more than the amount of the balance of the Purchase Price (as adjusted for the apportionments provided in this Agreement), to facilitate the satisfaction of any such Mandatory Cure Exceptions.

6. **POSSESSION .** Seller shall deliver to Purchaser, and Purchaser shall accept, possession of the Property from Seller at the time of Closing subject to the Orva Lease and subject to the Club Tenant's right to occupy the Initial Club Premises pursuant to the terms of the Initial Lease, and otherwise in accordance with the provisions of this Agreement, and thereafter, Purchaser shall be entitled to receive any rents, issues and profits of the Property for its own use.

7. **RISK OF LOSS AND CONDEMNATION** .

(a) Seller assumes the risk of any loss or damage to the Property beyond ordinary wear and tear until the Closing Date. Between the Effective Date and Closing Date, Seller shall give Purchaser prompt written notice of any fire or other casualty occurring at the Property. If prior to Closing all or any portion of the Improvements are damaged or destroyed by fire or other casualty that permits Seller to terminate the Orva Lease pursuant to the express terms thereof, then Seller shall request Purchaser's written approval to terminate the Orva Lease. If, however, Seller does not have the right to terminate the Orva Lease by reason of the occurrence of such fire or other casualty, then Seller shall request Purchaser's written approval to: (1) terminate the Orva Lease pursuant to Section 5 of the Third Amendment; and (2) pay the Termination Payment (as such term is defined in Paragraph 15(e)(ii) hereof) pursuant to Section 5 of the Third Amendment and Paragraph 15 (e)(ii) of this Agreement. In either case: (i) Purchaser shall not unreasonably withhold, condition or delay its approval of such termination; and (ii) Seller and Purchaser shall, subject to the terms of the Orva Lease, mutually agree upon the effective date of termination. Anything herein to the contrary notwithstanding, if the effective date of termination occurs after the Closing Date, then: (x) Seller shall be required to deliver at Closing the Confirming Tenant Estoppel or Seller Certificate (as such terms are defined in Paragraph 12(e) hereof) (with such applicable modifications as may be agreed upon by the Parties) and all other documents in respect of the Orva Lease set forth in Paragraph 4(a) above; and (y) provided that the Orva Lease is terminated pursuant to Section 5 of the Third Amendment (rather than the casualty provisions in the Orva Lease), Seller shall deliver in escrow to the Escrow Agent the Termination Payment Escrow Amount in accordance with the terms of Paragraph 15(e)(ii) of this Agreement.

(b) If prior to Closing all or any portion of the Improvements are damaged or destroyed by fire or other casualty, the Parties shall, whether or not the Orva Lease is terminated following such fire or other casualty, proceed to Closing and, at Closing, Seller shall assign to Purchaser, by written instrument in form reasonably satisfactory to Seller and Purchaser, all of Seller's interest in and to the insurance proceeds on account of such damage or destruction and shall deliver to Purchaser any such insurance proceeds actually received by Seller (less an amount equal to any expenses and costs reasonably and actually incurred by Seller to obtain the proceeds and/or to repair or restore the Property) without any change in the Purchase Price or in any other terms and conditions hereof and allow as a credit against the Purchase Price, an amount equal to the amount of the deductible of any such insurance policy. The proceeds of rent interruption insurance, if any, shall be appropriately apportioned between Seller and Purchaser on the Closing Date. Seller shall have the right to negotiate, compromise or contest the obtaining of any insurance proceeds, but any settlement of the amount of such proceeds shall be subject to Purchaser's prior written approval (not to be unreasonably withheld, conditioned or delayed).

(c) Seller shall give Purchaser prompt written notice of any actual or threatened condemnation of all or any portion of the Real Property of which Seller obtains actual knowledge. If, prior to Closing, all or any "material portion" (as hereinafter defined) of the Real Property shall be condemned or taken as the result of the exercise of the power of eminent

domain, then the Deposit promptly shall be returned to Purchaser and this Agreement shall be null and void and of no further force or effect, except that Escrow Agent shall release to Purchaser the Deposit in accordance with the provisions of Paragraph 19 hereof, and except for Surviving Obligations. If prior to Closing, less than all or any "material portion" of the Real Property shall be so condemned or taken, and Purchaser, in its reasonable judgment, shall determine that: (i) the remaining portion of the Real Property is not suitable for its intended use of, or business operations on, the Real Property, then Purchaser may terminate this Agreement without further liability hereunder on the part of either Party except that Escrow Agent shall return the Deposit promptly to Purchaser in accordance with the provisions of Paragraph 19 hereof, and except for Surviving Obligations; or (ii) the remaining portion of the Real Property is suitable for its intended use of, or business operations on, the Property, then Purchaser and Seller shall proceed to Closing, without any change in the Purchase Price, shall have the right to participate jointly in the condemnation proceedings and the proceeds thereof shall belong to Seller, but Purchaser shall be entitled to a credit against the Purchase Price in an amount equal to said proceeds unless such condemnation proceedings shall be pending on the Closing Date, in which event there shall be no such credit and, at Closing, Seller shall assign all of its rights and interest in said proceeds to Purchaser by written instrument in form and substance acceptable to the Parties (upon which Seller shall have no further right to participate in the condemnation proceedings). Purchaser shall make its election either to terminate this Agreement or proceed to Closing within ten (10) days after receipt of Seller's notice to Purchaser of any such proceedings. If Purchaser shall fail to so notify Seller within said ten (10) day period, then Purchaser shall be deemed conclusively to have elected to terminate this Agreement. For purposes of this Paragraph 7(c), the term "material portion" shall mean: (A) more than fifteen (15%) percent of the aggregate lot area of the Land; or (B) the permanent denial of access to any street adjacent to the Real Property.

(d) The Parties expressly acknowledge and agree that the provisions of this Paragraph 7, and not Section 5-1311 of the New York State General Obligations Law, shall govern the rights and obligations of the Parties.

8. **REPRESENTATIONS** .

(a) In order to induce Purchaser to enter into this Agreement, Seller warrants and represents to Purchaser the following as of the Effective Date:

(i) Seller is a limited liability company duly organized and in good standing under the laws of the State of New York and qualified to do business in the State of New York;

(ii) Seller has the right, power and authority, without the joinder of any other person or entity, to enter into, execute and deliver this Agreement, and to perform all duties and obligations imposed on it under, and subject to the terms of, this Agreement; Seller has obtained, or will as of the Closing Date obtain (as applicable), all consents and approvals required in connection with the same;

(iii) This Agreement is a legal, valid and binding obligation of Seller and is enforceable against it in accordance with the terms hereof; the persons or parties executing this Agreement on its behalf have been duly authorized and empowered to bind it to this Agreement;

(iv) Neither the execution nor the delivery of this Agreement, nor the consummation of the purchase and sale contemplated hereby, nor the compliance with the terms and conditions of this Agreement conflict with or will result in the breach of any material agreement, law, regulation, order or decree to which it is a party or by which it is bound, and will not result in the creation or imposition of any lien on any of Seller's assets or property which would materially and adversely affect Seller's ability to carry out the terms of this Agreement;

(v) Except for the Orva Lease and the right of Friedland Landlord, pursuant to Section 62(g) of the Friedland Lease, to enter the Property and perform the Restoration Work (as such term is defined in the Friedland Building Letter Agreement) (subject, however, to the Club Tenant's obligation to complete the Restoration Work in accordance with the terms of the Initial Lease), Seller has made no agreements or commitments (including, without limitation, collective bargaining agreements, management agreements or leasing brokerage agreements) affecting the Property which would be binding upon Purchaser after Closing;

(vi) Except for the Orva Lease, there is no lease or other occupancy agreement in force affecting the Property; Seller has delivered to Purchaser a true, correct and complete copy of the Orva Lease (except that Purchaser hereby acknowledges and agrees that the Second Amendment is missing a page or pages containing a portion of Section 7(c) through Section 12 thereof); the Orva Lease is in full force and effect, has not been assigned, is not (to Seller's actual knowledge) subject to any sublease and, except as disclosed in Paragraph 4(a) hereof, has not been amended or modified; no written notice of any outstanding default has been given by any party to the Orva Lease, and, to Seller's actual knowledge, no event has occurred that, with the passage of time and/or the giving of notice, would constitute a default thereunder; Seller is not in possession of any security deposits or guaranties under the Orva Lease; and there are no unpaid Landlord Lease Obligations (as defined in Paragraph 15(e) hereof) which are either currently due and payable or earned (but not yet due or payable) in respect of the Orva Lease;

(vii) There are no pending or, to Seller's actual knowledge, threatened eminent domain proceedings against the Property or any portion thereof;

(viii) To Seller's actual knowledge, Seller has not received from any governmental authority written notice of any outstanding violation of any zoning, building, environmental or other statute, ordinance, rule or regulation applicable (or alleged by any such governmental authority to be applicable) to the Property or any part thereof other than with respect to any notes or notices of any violation that would be deemed a Permitted Encumbrance hereunder, except as set forth on Exhibit "G-2" attached hereto and made a part hereof (it being understood and agreed that Seller shall be required to remove, at or prior to Closing, any and all such violations which can be removed by payment of a liquidated sum but shall not be required to remove prior to Closing any of the violations set forth on Exhibit "G-2"; provided, however, that the Parties acknowledge that Seller paid the fine associated with Violation #1174832J prior to the Effective Date);

(ix) There are no outstanding rights or options to purchase the Property or any portion thereof, and there are no rights of first offer, rights of first refusal or conditional purchase agreements in effect with respect to the Property or any portion thereof;

(x) Seller has not filed, and has not retained anyone to file, notices of protest against, or to commence actions to review real property tax assessments against, the Real Property which are current pending;

(xi) Seller has not: (a) made a general assignment for the benefit of creditors; (b) filed any voluntary petition in bankruptcy or suffered the filing of any involuntary petition by its creditors; (c) suffered the appointment of a receiver to take possession of all, or substantially all, of its assets; (d) suffered the attachment or other judicial seizure of all, or substantially all, of its assets; (e) admitted in writing its inability to pay its debts as they come due; or (f) made an offer of settlement, extension or composition to its creditors generally;

(xii) There are no existing or pending (or to Seller's actual knowledge, threatened) litigation or insolvency actions or claims against Seller or the Property which, if adversely determined, could materially interfere with Seller's ability to consummate the proposed transaction described herein;

(xiii) The Friedland Lease is in full force and effect and, except for the Friedland Lease Amendment, has not been amended, modified or supplemented whether by written or oral agreement. Seller has provided Purchaser with true, correct and complete copies of all provisions in the Friedland Lease relating to the removal of the Connecting Doors and the Restoration Work (as such terms are defined in the Friedland Building Letter Agreement); and

(xiv) Seller currently is in compliance with and at all times during the term of this Agreement (including any extension thereof) shall remain in compliance with the regulations of the Office of Foreign Asset Control (" **OFAC** ") of the Department of Treasury (including those named on OFAC's Specially Designated Nationals and Blocked Persons List) and any statute, executive order (including the September 24, 2001 Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit or Support Terrorism) or other governmental action relating thereto.

(b) In order to induce Seller to enter into this Agreement, Purchaser warrants and represents to Seller the following as of the Effective Date:

(i) Purchaser has been duly organized and is in good standing under the laws of the State in which it was formed, and, if required to do so, will as of the Closing Date be qualified to do business in the State in which the Property is located;

(ii) Purchaser has the right, power and authority, without the joinder of any other person or entity, to enter into, execute and deliver this Agreement and to perform all duties and obligations imposed on it under, and subject to the terms of, this Agreement; Purchaser has obtained, or will as of the Closing Date obtain (as applicable), all consents and approvals required in connection with the same;

(iii) This Agreement is a legal, valid and binding obligation of Purchaser and is enforceable against it in accordance with the terms hereof; the persons or parties executing this Agreement on its behalf have been duly authorized and empowered to bind it to this Agreement;

(iv) Purchaser has not: (a) made a general assignment for the benefit of creditors; (b) filed any voluntary petition in bankruptcy or suffered the filing of any involuntary petition by its creditors; (c) suffered the appointment of a receiver to take possession of all, or substantially all, of its assets; (d) suffered the attachment or other judicial seizure of all, or substantially all, of its assets; (e) admitted in writing its inability to pay its debts as they come due; or (f) made an offer of settlement, extension or composition to its creditors generally;

(v) Neither the execution nor the delivery of this Agreement, nor the consummation of the purchase and sale contemplated hereby, nor the compliance with the terms and conditions of this Agreement conflict with or will result in the breach of any material agreement, law, regulation, order or decree to which it is a party or by which it is bound, and will not result in the creation or imposition of any lien on any of Purchaser's assets or property which would materially and adversely affect Purchaser's ability to carry out the terms of this Agreement;

(vi) There are no existing or pending (or to Purchaser's actual knowledge, threatened) litigation or insolvency actions or claims against Purchaser which, if adversely determined, could materially interfere with Purchaser's ability to consummate the proposed transaction described herein;

(vii) It has, the financial capacity to pay the Purchase Price and all other costs and expenses in connection with the purchase of the Property; and

(viii) Purchaser currently is in compliance with and at all times during the term of this Agreement (including any extension thereof) shall remain in compliance with the regulations of OFAC (including those named on OFAC's Specially Designated Nationals and Blocked Persons List) and any statute, executive order (including the September 24, 2001 Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit or Support Terrorism) or other governmental action relating thereto.

(c) Seller's representations and warranties in this Paragraph 8 shall survive Closing for a period of one hundred eighty (180) days. The foregoing 180-day survival period shall not apply to any representations and warranties with respect to which Purchaser has, prior to the expiration of such 180-day survival period, raised any claims that remain outstanding and unresolved upon the expiration of such 180-day survival period (in which event such 180-day survival period shall be extended until all such claims have been resolved by mutual agreement of the Parties or by a final, unappealable order or judgment of a court of competent jurisdiction).

(d) As used herein, the terms "best of Seller's knowledge", "Seller's actual knowledge" "Seller's knowledge", and any similar phrase shall mean the current actual knowledge of David M. Kastin, the General Counsel of Seller (the " **General Counsel** "); provided , however , that the General Counsel shall not have any personal liability in connection with, or arising out of, any representation made by Seller in this Agreement.

(e) As used herein, the terms “best of Purchaser’s knowledge”, “Purchaser’s actual knowledge” “Purchaser’s knowledge”, and any similar phrase shall mean the current actual knowledge of Jon Glickman (the “ **Purchaser Knowledge Party** ”); provided , however , that the Purchaser Knowledge Party shall not have any personal liability in connection with, or arising out of, any representation made by Purchaser in this Agreement.

(f) At Closing, Seller shall deposit in escrow with the Escrow Agent, using net proceeds from the Purchase Price paid to Seller, the sum of Five Hundred Thousand and 00/100 ($500,000.00) Dollars (the “ **Holdback Escrow Amount** ”) toward the potential satisfaction of claims arising out of a breach of Seller’s representations and warranties that survive Closing (“ **Survival Claims** ”), to be held in an interest-bearing escrow account with the Escrow Agent pursuant to an escrow agreement substantially in the form attached hereto as Exhibit “H” (the “ **Holdback Escrow Agreement** ”) until the day that is one hundred eighty (180) days after the Closing; provided that if a Survival Claim is made against Seller under this Agreement on or prior to such date, then the amount so claimed by Purchaser in any timely asserted Survival Claims shall be retained by the Escrow Agent and held pursuant to the Holdback Escrow Agreement and the balance of the Holdback Escrow Amount shall be released to Seller. The Holdback Escrow Amount shall be held and disbursed in accordance with this Agreement and the Holdback Escrow Agreement. The provisions of this Paragraph 8(f) shall survive the Closing until final disposition of all funds comprising the Holdback Escrow Amount.

(g) Purchaser hereby expressly agrees that Seller shall have no liability to Purchaser for a misrepresentation or breach of warranty hereunder if: (a) Purchaser does not provide to Seller written notice of a claim of misrepresentation or breach of warranty on or prior to the date which is one hundred eighty (180) days after Closing; (b) Purchaser had actual knowledge of the misrepresentation or breach of warranty prior to the consummation of Closing; or (c) the aggregate amount of all claims by Purchaser or misrepresentation or breach of warranty is less than One Hundred Thousand and 00/100 ($100,000.00) Dollars; provided, however, that if such claims equal or exceed One Hundred Thousand and 00/100 ($100,000.00) Dollars, in the aggregate, Purchaser shall have the right to prosecute such claims in the full amount thereof, and not just in the amount by which such claims exceed One Hundred Thousand and 00/100 ($100,000.00) Dollars. Purchaser further expressly agrees that the maximum amount for which Seller shall be liable, and for which Purchaser shall have the right to assert claims against Seller, arising out of any and all misrepresentations or breaches of warranty hereunder shall not exceed the sum of Five Hundred Thousand and 00/100 ($500,000.00) Dollars, in the aggregate (provided , however , that Seller’s indemnity in the Assignment of Lease shall not be subject to the limitations on survivability and liability set forth in Paragraphs 8(c) and 8(g) hereof). Purchaser and Seller hereby agree that in the event that at the time of or prior to Closing, Seller discloses in writing to Purchaser, or Purchaser otherwise has actual knowledge of any fact, information or circumstance which renders any representation or warranty made by Seller in this Agreement untrue, incorrect or misleading in any material respect, Purchaser’s sole remedy, to be exercised on or before Closing, shall be to: (i) waive its rights and claims hereunder with respect to such misrepresentation or breach of warranty, and proceed to Closing

in accordance with the terms of this Agreement, without any reduction in the Purchase Price; or (ii) terminate this Agreement, in which event the Deposit shall be returned to Purchaser and the Parties shall have no further obligations hereunder except for the Surviving Obligations.

9. **CONDITION OF PROPERTY** .

(a) Purchaser acknowledges and agrees that Seller has not made, does not make and specifically negates and disclaims any representations, warranties, promises, covenants, agreements or guaranties of any kind or character whatsoever, whether expressed or implied, oral or written, past, present or future (other than as otherwise represented pursuant to and as limited by this Agreement or the documents delivered at Closing), of, as to, concerning or with respect to: (i) the value, nature, quality or condition of the Property, including, without limitation, the water, soil and geology; (ii) the income to be derived from the Property; (iii) the suitability of the Property for any and all activities and uses which Purchaser or any tenant may conduct thereon; (iv) the compliance of or by the Property or its operation with any laws, rules, ordinances or regulations of any applicable governmental authority or body; (v) the habitability, merchantability, marketability, profitability or fitness for a particular purpose of the Property; (vi) the manner or quality of the construction or materials incorporated into the Property; (vii) the manner, quality, state of repair or lack of repair of the Property; (viii) compliance with any environmental protection, pollution, safety or land use laws, rules, regulations, orders or requirements, including the existence in or on the Property of Hazardous Materials (as hereinafter defined); or (ix) any other matter with respect to the Property. Additionally, no person acting on behalf of Seller is authorized to make, and by execution hereof Purchaser acknowledges that no person has made, except as set forth in this Agreement or in the documents to be delivered at Closing, any representation, agreement, statement, warranty, guaranty or promise regarding Seller and/or the Property or the transaction contemplated herein; and no such representation, warranty, agreement, guaranty, statement or promise if any, made by any person acting on behalf of Seller shall be valid or binding upon Seller unless expressly set forth herein or in the documents to be delivered at Closing. Purchaser further acknowledges and agrees that having been given the opportunity to inspect the Property, Purchaser is relying and shall rely solely on its own investigation of the Property and not on any information provided or to be provided by Seller except as otherwise set forth herein, and agrees to accept the Property at Closing in the condition which Seller is required to deliver the Property hereunder and waive all objections or claims against Seller arising from or related to the Property or to any Hazardous Materials on the Property, except with respect to a breach of any representation or warranty set forth herein. Except as otherwise set forth herein, Purchaser further acknowledges and agrees that any information provided or to be provided with respect to the Property was obtained from a variety of sources and that Seller has not made any independent investigation or verification of such information and makes no representations as to the accuracy, truthfulness or completeness of such information except with respect to a breach of any representation or warranty set forth herein. Seller is not liable or bound in any manner by any verbal or written statement, representation or information pertaining to the Property, or the operation thereof, furnished by any real estate broker, contractor, agent, employee, servant or other person except with respect to a breach of any representation or warranty set forth herein. Except as otherwise set forth herein, Purchaser further acknowledges and agrees that to the maximum extent permitted by law, it is purchasing the Property on an “AS IS”, “WHERE IS” and “WITH ALL FAULTS” basis. The provisions of this Paragraph 9 shall survive Closing or any termination hereof.

(b) " **Hazardous Materials** " shall mean any substance which is or contains: (i) any "hazardous substance" as now or hereafter defined in §101(14) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. §9601 et seq.) or any regulations promulgated thereunder, "CERCLA"; (ii) any "hazardous waste" as now or hereafter defined in the Resource Conservation and Recovery Act (42 U.S.C. §6901, et seq .) or regulations promulgated thereunder, "RCRA" or in any other applicable state or local law, ordinance, rule or regulation; (iii) any substance regulated by the Toxic Substances Control Act (15 U.S.C. §2601 et seq.) or in any other applicable state or local law, ordinance, rule or regulation; (iv) any gasoline, diesel fuel, or other petroleum hydrocarbons; (v) any asbestos and asbestos containing materials, in any form, whether friable or non friable; (vi) any polychlorinated biphenyls; (vii) any radon gas; or (viii) any additional substances or materials which now are or hereafter shall be classified or considered to be hazardous or toxic under Environmental Requirements (as defined in Paragraph 9(c) hereof), or the common law, or any other applicable laws relating to the Property. Hazardous Materials shall include, without limitation, any substance, the presence of which on the Property: (A) requires reporting, investigation or remediation under Environmental Requirements; (B) causes or threatens to cause a nuisance on the Property or adjacent property or poses or threatens to pose a hazard to the health or safety of persons on the Property or adjacent property; or (C) which, if it emanated or migrated from the Property, could constitute a trespass.

(c) " **Environmental Requirements** " shall mean all laws, ordinances, statutes, codes, rules, regulations, agreements, judgments, orders, and decrees, now or hereafter enacted, promulgated, or amended, of the United States, the states, the counties, the cities, or any other political subdivisions in which the Property is located, and any other political subdivision, agency or instrumentality exercising jurisdiction over the owner of the Property, the Property, or the use of the Property, relating to pollution, the protection or regulation of human health, natural resources, or the environment, or the emission, discharge, release or threatened release of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or waste or Hazardous Materials into the environment (including, without limitation, ambient air, surface water, ground water or land or soil).

(d) By proceeding with this transaction, Purchaser shall be deemed to have made its own independent investigation of the Property, and the presence of Hazardous Materials on the Property as Purchaser deems appropriate. Accordingly, subject to a claim for the breach of any of the representations and warranties of Seller, whether set forth herein or in any document delivered in connection with Closing, or any other breach of this Agreement or any other agreement to be delivered in connection with Closing, which claim(s) (subject to Seller's limitation of liability hereunder) is expressly reserved to Purchaser, Purchaser, on behalf of itself and all of its officers, directors, shareholders, employees, members, partners, representatives and affiliated entities (collectively, the " **Releasors** "), hereby expressly waives and relinquishes any and all rights and remedies Releasors now or hereafter may have against Seller, Seller's affiliates, Seller's investment advisors, the partners, trustees, beneficiaries, shareholders, members, managers, directors, officers, employees, agents and representatives of each of them,

and their respective heirs, successors, personal representatives and assigns (the " **Seller Parties** "), whether known or unknown, which may arise from or be related to: (a) the physical condition, quality, quantity and state of repair of the Property and the prior management and operation of the Property; (b) the Property's compliance or lack of compliance with any federal, state or local laws or regulations; and (c) any past, present or future presence or existence of Hazardous Materials on, under or about the Property or with respect to any past, present or future violation of any Environmental Requirements now or hereafter enacted, regulating or governing the use, handling, storage or disposal of Hazardous Materials, including, without limitation, (i) any and all rights and remedies Releasors now or hereafter may have pursuant to any Environmental Requirements and (ii) any and all claims, whether known or unknown, now or hereafter existing, with respect to the Property under any Environmental Requirements; provided , however (subject to Seller's limitation of liability hereunder), that Seller is not released by the foregoing for any claim based upon a breach of any of Seller's warranties, breach of any covenant or indemnity which survives Closing, whether set forth herein or in any document delivered in connection with Closing, or any other breach of this Agreement or any other agreement to be delivered in connection with Closing, or resulting from the gross negligence, willful misconduct or acts of fraud of Seller.

Without limiting the generality of the foregoing, subject to claims for the breach of any of Seller's warranties, a breach of any covenant or indemnity, whether set forth herein or in any other agreement to be delivered in connection with Closing, Purchaser, on behalf of itself and the other Releasors, hereby assumes all risk and liability resulting or arising from, or relating to the ownership, use, condition, location, maintenance, repair, or operation of, the Property from and after Closing. Seller Parties shall not be liable for any special, direct or indirect, consequential, punitive or other similar damages resulting or arising from or relating to the ownership, use, condition, location, maintenance, repair or operation of the Property.

The foregoing waivers, releases and agreements by Purchaser, on behalf of itself and Releasors, shall survive Closing and the recordation of the Deed and shall not be deemed merged into the Deed upon its recordation.

(e) Seller shall not be responsible for curing any governmental violations, notice of which hereafter is received, either prior to or subsequent to Closing, nor shall Purchaser be entitled to any abatement, reduction or other modification in the Purchase Price or in any of the other terms and conditions hereunder in the event of the occurrence and/or the receipt of notice of any such governmental violation, provided , however , that Seller shall be required to pay at or prior to Closing any and all judgments, fines, penalties and other liquidated sums entered or assessed by any governmental authority relating to violations arising prior to Closing which are not the responsibility of the Tenant under the Orva Lease and which are Mandatory Cure Exceptions.

(f) If any non-monetary violations arising prior to Closing and caused by Seller or its contractors or agents which Seller is not obligated to cure hereunder and which prevents or impedes Purchaser from obtaining demolition permits for the Improvements and/or building permits or certificates of occupancy for any new building to be constructed on the Property, then Seller shall use commercially reasonable efforts to remove such violations within a reasonable period of time following receipt of written notice given by Purchaser to Seller

indicating that such violations have prevented Purchaser from obtaining demolition permits, building permits or certificates of occupancy, as applicable. This Paragraph 9(f) shall survive Closing.

10. **ASSESSMENTS .** If at the time for the delivery of the Deed, the Property or any part thereof shall be or shall have been affected by an assessment or assessments which are or may become payable in annual installments of which the first installment is then due or has been paid, then for the purposes of this Agreement all the unpaid installments of any such assessment, including those which are to become due and payable after the delivery of the Deed, shall be deemed to be due and payable and to be liens upon the Property affected thereby and shall be paid and discharged by Seller at or prior to Closing or allowed as a credit against the Purchase Price by Seller upon the delivery of the Deed. Unconfirmed improvements or assessments, if any, shall be paid or allowed by Seller on account of the Purchase Price if the improvement or work has been completed on or before the Closing Date. If there are any municipal improvements approved, commenced and/or completed following the Closing Date, the cost of such municipal improvements will be borne by Purchaser.

11. **CLOSING OF TITLE .** The closing of title herein sometimes referred to as the " **Closing** ") shall take place on March 31, 2014 (hereinafter referred to as the " **Closing Date** "), at the offices of Cole, Schotz, Meisel, Forman & Leonard P.A., 900 Third Avenue, 16 th Floor, New York, New York, at ten o'clock in the forenoon (or at such other location and/or time as mutually may be agreed upon by Seller and Purchaser). The Parties may participate by representative or delivery of documents in escrow with the Escrow Agent or the title company selected by Seller pursuant to Paragraph 5(d) hereof if the Escrow Agent is not the Title Company.

12. **FUTURE OPERATIONS** . From the Effective Date until Closing or earlier termination of this Agreement:

(a) Seller shall maintain its existing or comparable casualty and liability insurance with respect to the Property;

(b) Seller shall operate and maintain the Property substantially in accordance with its past practices;

(c) Seller shall not, without Purchaser's prior written consent: (i) sell, encumber or otherwise dispose of any interest in the Property; (ii) enter into any new leases or contracts (to the extent such contracts will be binding upon Purchaser after Closing) for the Property that are not subject to termination or cancellation by Seller without penalty upon no more than thirty (30) days' prior written notice; or (iii) cancel, modify in any material respect or renew the Orva Lease, except as may be mutually agreed upon by Seller and Purchaser;

(d) Seller shall not, without Purchaser's prior written consent, enter into any contracts or commitments with respect to the Property involving any capital expenditure or construction;

(e) Seller shall provide Purchaser with prompt notice of any and all claims, suits and notices of default or other violations given to or received by Seller in respect of the Property, together with copies of all written communications given to or received by Seller in connection with such claims, suits, notices or other violations (provided, however, that Seller shall not be required to provide Purchaser with notice of any general liability insurance claims, or any claims, suits or notices of default or other violations relating to employment and/or workers' compensation issues, arising from the operation of the health club in the Initial Club Premises prior to the Closing);

(f) Seller shall not remove the Tangible Personal Property from the Real Property except as may be required for necessary repair or replacement, provided that any replacement of such Tangible Personal Property shall be of approximately equal quality and quantity as the removed item;

(g) Seller and Purchaser acknowledge receipt of that certain tenant estoppel dated December 17, 2013 executed by Tenant. Seller shall use commercially reasonable efforts (and, upon Purchaser's request, provide Purchaser with reasonable evidence of such efforts) to obtain and deliver to Purchaser not less than five (5) business days prior to Closing a "bring down" estoppel certificate executed by the Tenant, substantially in the form of Exhibit "I" attached hereto and made a part hereof (the " **Tenant Estoppel** ") and dated not more than thirty (30) days prior to the Closing Date, confirming the matters set forth in the Tenant Estoppel (the Tenant Estoppel, as so confirmed, the " **Confirming Tenant Estoppel** "). Seller shall not be obligated to expend any funds (other than nominal sums) in connection with obtaining the Tenant Estoppel and, provided that Seller uses commercially reasonable efforts to obtain and deliver the Tenant Estoppel, the failure of Seller to obtain such Tenant Estoppel shall not be a breach or default hereunder or a failure to satisfy of a condition to Closing or otherwise entitle Purchaser to terminate this Agreement (subject, however, to Seller's obligation to deliver to Purchaser the Seller Certificate pursuant to the following sentence). As of the scheduled Closing Date, if the Tenant has not signed and delivered the Confirming Tenant Estoppel, then Seller shall execute and deliver at Closing a "bring down" certificate to Purchaser, in the form of Exhibit "J" attached hereto and made a part hereof (the " **Seller Certificate** "), covering the matters contained in the Tenant Estoppel (which shall be subject to the same limitations on survivability and liability set forth in Paragraphs 8(c) and 8(g) hereof as apply to the representations and warranties made by Seller). The Seller's Certificate delivered in lieu of the Tenant Estoppel shall be deemed revoked, null and void, if Seller subsequently delivers to Purchaser, within ninety (90) days after Closing, the Confirming Tenant Estoppel which contains substantially the same information as Seller's Certificate. Notwithstanding the foregoing:

(h) (i) if Purchaser notifies Seller of the existence of any Material Monetary Matter (as hereinafter defined) in the executed Tenant Estoppel and Seller disputes in good faith the existence of such Material Monetary Matter, then Seller may: (i) deliver to Purchaser, within five (5) business days after its receipt of Purchaser's notice, a Seller Certificate which does not reflect such Material Monetary Matter and otherwise confirms the matters contained in the Tenant Estoppel; and (ii) deliver in escrow to Escrow Agent at Closing, pursuant to the terms of an escrow agreement among Seller, Purchaser and Escrow Agent (the form and substance of which shall be subject to the reasonable approval of the parties thereto), funds in the

amount of the contested Material Monetary Matter (the " **Material Monetary Matter Funds** "). Additionally, if Purchaser notifies Seller of the existence of any Non-Material Monetary Matter (as hereinafter defined) in the executed Tenant Estoppel and Seller disputes in good faith the existence of such Non-Material Monetary Matter, then Seller shall nevertheless be required to deliver in escrow to Escrow Agent at Closing, pursuant to the terms of an escrow agreement among Seller, Purchaser and Escrow Agent (the form and substance of which shall be subject to the reasonable approval of the parties thereto), funds in the amount of the contested Non-Material Monetary Matter (the " **Non-Material Monetary Matter Funds** "). If the executed Tenant Estoppel reflects the existence of a Material Monetary Matter and Seller fails to (1) execute and deliver the aforesaid Seller Certificate within the aforesaid 5-business day period (in the case of a Material Monetary Matter) and/or (2) deliver in escrow the Material Monetary Matter Funds at Closing, then Purchaser may elect, by notice to Seller to receive a credit against the Purchase Price in an amount equal to the Material Monetary Matter. If the executed Tenant Estoppel reflects the existence of a Non-Material Monetary Matter and Seller fails to deliver in escrow the Non-Material Monetary Matter Funds at Closing, then Purchaser shall receive a credit against the Purchase Price in an amount equal to the Non-Material Monetary Matter. The term " **Material Monetary Matter** " as used herein means a monetary default or other monetary claim relating to the Orva Lease which, in each case, would subject the landlord thereunder to any liability in excess of Five Hundred Thousand and 00/100 ($500,000.00) Dollars, or otherwise materially adversely affect the rent or additional rent that Purchaser will receive under the Orva Lease after the Closing Date. The term " **Non-Material Monetary Matter** " as used herein means a monetary default or other monetary claim relating to the Orva Lease which, in each case, would subject the landlord thereunder to any liability equal to or less than Five Hundred Thousand and 00/100 ($500,000.00) Dollars, or otherwise adversely affect (but not in any material respect) the rent or additional rent that Purchaser will receive under the Orva Lease after the Closing Date.

(ii) if Purchaser notifies Seller of the existence of any Material Non-Monetary Matter (as hereinafter defined) in the executed Tenant Estoppel, then: (1) Seller shall not be entitled to furnish the aforesaid Seller Certificate to cure such Material Non-Monetary Matter; and (2) Seller may contest (if Seller disputes in good faith the existence of such Material Non-Monetary Matter) or cure such Material Non-Monetary Matter by giving Purchaser written notice thereof within the earlier of: (A) ten (10) business days after Seller's receipt of Purchaser's notice; and (B) the Closing Date. If Seller fails to cure or take affirmative steps to contest the Material Non-Monetary Matter (and, in either case, provide Purchaser with written notice thereof, accompanied by reasonable supporting documentation) within the period set forth in the immediately preceding sentence, or having contested same, fails to resolve such dispute in a manner reasonably satisfactory to Seller and Purchaser within sixty (60) days after Seller's receipt of Purchaser's notice (it being understood and agreed that (I) Purchaser shall have the right to confirm whether the applicable Material Non-Monetary Matter has been cured or otherwise resolved by requiring Seller to deliver to Purchaser a Confirming Tenant Estoppel or other documentation reasonably acceptable to Purchaser and (II) Seller shall be entitled to adjourn the Closing Date up to sixty (60) days in the aggregate, time being of the essence, to resolve any such dispute), then Purchaser shall have the right to terminate this Agreement (in which event the Deposit shall be released to Purchaser and neither Party shall have any further obligation to the other, except for Surviving Obligations). The term " **Material Non-Monetary**

Matter ” as used herein means: (x) any matter adversely affecting the landlord’s termination of the Orva Lease pursuant to Section 5 of the Third Amendment; (y) any matter (including, without limitation, a right of first refusal, right of first offer or similar right granted to the Tenant for the purchase of the Property or any portion thereof), evidenced by a document or court order to which Seller is a party or otherwise bound, that prevents the parties from consummating the transaction contemplated hereby; or (z) any written amendments, modifications or supplements to the Orva Lease (other than those set forth in Paragraph 4(a) hereof), or the existence of any other non-monetary matter evidenced by a document or court order to which Seller is a party or otherwise bound, that increases in any material respect any material obligations, or diminishes in any material respect any material rights, of the landlord under the Orva Lease at any time from and after the Closing. If Seller disputes a Material Monetary Matter and/or a Non-Material Monetary Matter and such dispute is not resolved prior to Closing, then Seller and Purchaser shall reasonably cooperate with each other in an attempt to resolve such dispute with the Tenant following the Closing. The foregoing obligations of the Parties shall survive Closing.

13. **ASSIGNMENT .** This Agreement may not be assigned, pledged or otherwise transferred by Purchaser without the prior consent of Seller, which consent may be withheld in Seller’s sole discretion, except that: (i) Purchaser may, without Seller’s consent, (A) assign its rights under this Agreement: (1) in connection with an IRC tax deferred exchange pursuant to Paragraph 38 hereof; or (2) to an entity in which Purchaser and/or its principals or an Affiliate of Purchaser maintains, directly or indirectly, at least twenty-five (25%) percent beneficial interest in, and is a managing member of, such entity, (B) designate an entity (including an entity to be formed after the date hereof in which Purchaser and/or its principals or an Affiliate of Purchaser owns, directly or indirectly, at least a twenty-five (25%) percent beneficial interest in, and is a managing member of, such entity) to be the grantee or transferee under the Closing documents set forth herein; or (C) take title as nominee for Ground Lessor; and (ii) the holders of direct or indirect interests in Purchaser may, without Seller’s consent, assign their interests in Purchaser or any permitted assignee to any of its respective Affiliates, provided that: (x) concurrently with any assignment pursuant to clause (i)(A)(2), Purchaser notifies Seller thereof and of the name and address of the assignee and sends to Seller a true copy of such executed assignment, together with a written agreement by the assignee to assume all of the terms, promises and conditions of this Agreement on the part of Purchaser; and (y) concurrently with any designation pursuant to clause (i)(B) or any nominee arrangement pursuant to clause (i)(C), Purchaser notifies Seller of the name and address of the designee or the Ground Lessor on whose behalf Purchaser is acting as nominee (as applicable). Notwithstanding any such assignment or designation, Purchaser shall remain liable for all of the terms, promises and conditions of this Agreement on Purchaser’s part to be performed hereunder. As used herein, the term “Affiliate” shall mean, as to any person, any other person, directly or indirectly, through one or more intermediaries, controlling, controlled by or under common control with such person, and the term “control” shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of an entity. Notwithstanding anything to the contrary contained herein, in no event shall Purchaser or any assignee of Purchaser have the right to assign its rights under this Agreement, or to designate an entity to be the grantee or transferee, if such assignee, or its Affiliate, or such designee, or its Affiliate, owns and/or operates a fitness, training, health, sports and development center for men and/or women of all ages (including children).

14. **BROKERAGE .** At Closing, Seller and Purchaser shall each pay fifty (50%) percent of the total commission payable to Eastern Consolidated (" **Broker** ") pursuant to separate written commission agreements only with respect to the sale transaction contemplated by this Agreement. Seller shall pay to Broker its fifty (50%) percent share of such commission (" **Seller's Commission Payment** ") pursuant to a separate written agreement between Seller and Broker. Purchaser shall pay to Broker its fifty (50%) percent share of such commission (" **Purchaser's Commission Payment** ") pursuant to a separate written agreement between Broker and Purchaser. Said commission in no event shall be earned, due or payable unless and until the transaction contemplated hereby is closed in accordance with the terms of this Agreement; if such transaction is not closed for any reason, including, without limitation, failure of title or default by Seller or Purchaser or termination of this Agreement pursuant to the terms hereof, then such commission will be deemed not to have been earned and shall not be due or payable. Except as set forth above with respect to Broker, each of Seller and Purchaser represents and warrants to the other that it has not authorized any broker or finder to act on its behalf in connection with the sale and purchase contemplated hereunder and has not dealt with any broker or finder purporting to act on behalf of any other Party. Seller and Purchaser agree to indemnify and hold harmless each other from and against any and all claims, losses, damages, costs or expenses of any kind or character arising out of or resulting from any agreement, arrangement or understanding alleged to have been made by the indemnifying Party or on the indemnifying Party's behalf with any broker or finder in connection with this Agreement or the transaction contemplated hereby other than the Broker, together with any and all losses, damages, costs and expenses, including reasonable attorneys' fees and disbursements and expert fees, relating to such claims or arising therefrom or incurred by the indemnified Party in connection with this indemnification provision. In the event that by settlement or otherwise any monies or other consideration is awarded to or turned over as a result of a commission claim, it is the intention of the Parties hereto that the indemnifying Party shall be solely responsible therefor. The indemnification provisions in this Paragraph 14 shall survive the Closing.

15. **COSTS AND PRORATIONS** .

(a) At Closing, Purchaser will pay the following costs of closing this transaction:

(i) All Deed recordation fees and expenses and all mansion or similar taxes or any other fees or taxes due in connection with the recordation of the Deed and which are not required by statute to be paid by Seller (it being acknowledged and agreed that Seller shall be responsible for the payment of all realty transfer fees and taxes pursuant to Paragraph 15(b));

(ii) All settlement fees and other charges of the Title Company due in connection with the closing of this transaction;

(iii) The premiums, title search fees and all other costs relating to the issuance of the title policy, and any and all special endorsements issued in connection with this transaction, whether pursuant to the title commitment or otherwise;

(iv) The cost of any survey obtained by Purchaser;

(v) The fees and disbursements of Purchaser's counsel and any other expenses(s) incurred by Purchaser or its representative (s) in inspecting or evaluating the Property or closing of this transaction;

(vi) Any and all charges, fees, costs and expenses in connection with Purchaser obtaining or recording any financing for the purchase of the Property;

(vii) The Purchaser's Commission Payment to the Broker; and

(viii) Any and all charges, fees, costs and expenses of the Escrow Agent in connection with this transaction.

(b) At Closing, Seller will pay the following costs of closing this transaction:

(i) All realty transfer fees and taxes due in connection with the recordation of the Deed;

(ii) Any fees or charges required by statute to be paid by Seller;

(iii) The fees and disbursements of Seller's counsel; and

(iv) The Seller's Commission Payment to the Broker.

(c) All revenues and expenses, including, but not limited to, rents and any other amounts paid or payable by the Tenant, personal property taxes, installment payments of special assessment liens, sewer charges, utility charges and other normally prorated operating expenses paid as of Closing shall be prorated as of 12:01 a.m. on the Closing Date on an "as and when collected or paid basis" and shall be adjusted against the Purchase Price due at Closing; provided that within sixty (60) days after Closing Purchaser and Seller will make a further adjustment for such rents, taxes or charges which may have accrued or been incurred prior to Closing, but not received or paid at that date. If, after Closing, it is determined that any item of income or expense was prorated at Closing in error or on the basis of an estimate, or if it is determined that the Parties failed to prorate an item at Closing which should have been prorated, Purchaser and Seller promptly upon (but in no event later than fifteen (15) days after) discovery of such error, agree to calculate in good faith the proper proration of such item that should have been made, and, if it is determined that either Party is required to pay the other a sum based on such post-Closing adjustment, the Party owing such sum shall pay the same to the other within fifteen (15) days after such amount has been determined by the Parties. Notwithstanding the foregoing, all adjustments and prorations hereunder shall be deemed final on the first (1 st) anniversary of Closing.

(d) General real estate taxes and special assessments relating to the Property payable during the year in which Closing occurs shall be prorated as of the Closing Date. If Closing shall occur before the actual taxes and special assessments payable during such year are known, the apportionment of taxes shall be upon the basis of taxes for the Property payable during the immediately preceding year; provided that if the taxes and special assessments payable during the year in which Closing occurs thereafter are determined to be more or less than

the taxes payable during the preceding year (after any appeal of the assessed valuation thereof is concluded), Seller and Purchaser promptly shall adjust the proration of such taxes and special assessments, and Seller or Purchaser, as the case may be, shall pay to the other any amount required as a result of such adjustment. This covenant shall not merge with the Deed delivered hereunder but shall survive Closing. If, as the result of an appeal of the assessed valuation of the Property for any real estate tax year prior to (or including) the year of Closing, there is issued after Closing an administrative ruling, judicial decision or settlement by which the assessed value of the Property for such tax year is reduced, and a real estate tax refund or credit is issued, Seller shall be entitled to all such refunds, credits or reductions relating to the period prior to Closing, except to the extent that the Tenant is entitled to a portion of same under the express provisions of the Orva Lease. To the extent any tax appeals or protests have been instituted or are pending at and as of Closing, Seller and Purchaser shall execute such documents as reasonably are necessary for Purchaser to assume any such tax appeal or protest and the prosecution thereof with attorneys or consultants reasonably acceptable to Seller; provided , however , that Purchaser agrees to remit to Seller, within ten (10) days after receipt by Purchaser, all refunds or an amount equal to all credits or reductions of real estate taxes obtained in connection with such tax appeal to the extent such refunds, credits or reductions relate to the period prior to Closing, except to the extent that the Tenant is entitled to a portion of same under the express provisions of the Orva Lease, and after deducting therefrom Seller's pro rata share of attorneys' fees and collection costs incurred in connection with obtaining such refunds, credits or reductions, calculated on the basis of the number of days during the period for which such refund, credit or reduction, was issued that Seller and Purchaser, respectively, owned the Property.

(e) (i) At Closing, Purchaser shall assume and be solely responsible and liable for all Landlord Lease Obligations (as hereinafter defined) with respect to the Orva Lease, coming due or arising after Closing, including without limitation, those Landlord Lease Obligations accruing or arising as the result of the exercise by Tenant under the Orva Lease of any expansion, extension or renewal option contained therein. Purchaser shall indemnify Seller against all costs, claims and damages, including reasonable attorneys' fees, suffered or sustained as the result of Purchaser's breach of the covenants contained in this Paragraph 15(e). Seller shall remain responsible and liable for all Landlord Lease Obligations with respect to the Orva Lease, coming due or arising prior to Closing. Seller shall indemnify Purchaser against all costs, claims and damages, including reasonable attorneys' fees, suffered or sustained as the result of Seller's breach of the covenants contained in this Paragraph 15(e). For purposes of this Agreement, the term " **Landlord Lease Obligations** " shall mean and include: (a) all unpaid leasing commissions and brokerage fees in connection with the Orva Lease or the exercise by the Tenant thereunder of any extension, renewal or expansion option; (b) all unpaid tenant improvement allowances (if any) specified in the Orva Lease required to be funded by landlord thereunder, including tenant allowances required to be funded upon the exercise by the Tenant under the Orva Lease of any extension, renewal or expansion option; (c) the cost of completing tenant improvements, if any, specified in the Orva Lease to be performed by landlord, including tenant improvements to be performed by the landlord upon the exercise by Tenant under the Orva Lease of any extension, renewal or expansion option; (d) any "free" rent to the extent the Tenant is entitled thereto pursuant to the Orva Lease; and (e) subject to Paragraph 15(e) (ii) below, any termination payment payable by landlord under the Orva Lease.

(ii) Notwithstanding anything to the contrary contained herein, within seven (7) days after the Closing, Purchaser shall send Tenant a notice terminating the Orva Lease pursuant to Section 5 of the Third Amendment. Provided that Purchaser terminates the Orva Lease pursuant to Section 5 of the Third Amendment, then Seller shall be responsible for the payment of fifty (50%) percent (" **Seller's Termination Payment Share** ") of the total termination payment (the " **Termination Payment** ") due and payable to the Tenant. At Closing, Seller shall deposit in escrow with the Escrow Agent, using net proceeds from the Purchase Price paid to Seller, the sum of One Million Seven Hundred Fifty Thousand and 00/100 ($1,750,000.00) Dollars (the " **Termination Payment Escrow Amount** ") as and for Seller's Termination Payment Share, to be held in an interest-bearing escrow account with the Escrow Agent pursuant to an escrow agreement substantially in the form attached hereto as Exhibit "M" (the " **Termination Payment Escrow Agreement** "). As a condition to the release of the Termination Payment Escrow Amount, Purchaser shall execute and deliver to Seller and Escrow Agent a certification from Purchaser, together with a copy of the termination notice furnished to the Tenant (such certification and accompanying termination notice, collectively, the " **Termination Payment Certification** "): (a) confirming the Orva Lease has been terminated and the Tenant has vacated and surrendered possession of the Orva Premises in accordance with the provisions of the Third Amendment and the other applicable provisions of the Orva Lease; (b) listing the total amount of the Termination Payment due and payable to the Tenant; and (c) if the termination notice to the Tenant is given by Purchaser after the Closing (rather than by Seller prior to the Closing, subject to Purchaser's prior written approval), stating that Purchaser furnished the termination notice to the Tenant pursuant to the notice provision in the Orva Lease. The Termination Payment Certification provided to Escrow Agent shall be accompanied by: (1) a wire transfer by Purchaser to Escrow Agent of immediately available funds in an amount equal to fifty (50%) percent of the Termination Payment (" **Purchaser's Termination Payment Share** "); and (2) wire instructions for the Tenant's account, or the Tenant's address, to which Escrow Agent will send the Termination Payment (the Termination Payment Certification and the items listed in clauses (1) and (2), collectively, the " **Termination Payment Certification Package** "). Immediately following the later to occur of (x) Escrow Agent's receipt of the Termination Payment Certification Package, and (y) Seller's confirmation to the Escrow Agent of Seller's receipt of the Termination Payment Certification or Purchaser's delivery to the Escrow Agent of a receipt evidencing that Seller was furnished with the Termination Payment Certification, Escrow Agent shall release to the Tenant, without the consent of Seller or Purchaser, funds in the amount of the Termination Payment listed in the Termination Payment Certification. Seller's Termination Payment Share shall be paid out of the Termination Payment Escrow Amount and any balance shall be returned to Seller by the Escrow Agent simultaneously with the release of the Seller's Termination Payment Share from escrow. Except as may otherwise be agreed in writing by the Parties hereto, Seller's Termination Payment Share shall not in any event exceed the Termination Payment Escrow Amount. The Termination Payment Escrow Amount shall be held and disbursed by the Escrow Agent in accordance with this Agreement and the Termination Payment Escrow Agreement. Purchaser's Termination Payment Share shall be held and disbursed by the Escrow Agent in accordance with this Agreement and the Termination Payment Escrow Agreement. If the Termination Payment becomes due and payable after the Outside Date (as such term is defined in the Termination Payment Escrow Agreement), then Seller shall deliver to Purchaser, by wire transfer of immediately available funds within three (3) business days after the date on which Seller receives the Termination

Payment Certification, Seller's Termination Payment Share. Seller shall indemnify Purchaser against all costs, claims and damages, including reasonable attorneys' fees, suffered or sustained as the result of Seller's breach of the covenants contained in the immediately preceding sentence.

(iii) If for any reason the Tenant fails to timely vacate and surrender the Orva Premises following its receipt of the termination notice, then Seller shall, at its sole cost and expense, cooperate with Purchaser as and when reasonably requested by Purchaser in order to evict or otherwise dispossess the Tenant from the Orva Premises. Seller's cooperation shall be limited to: (a) providing such information and documents in Seller's possession, custody and control relating to Tenant and the Orva Premises as Purchaser may reasonably request from time to time; and (b) making available to Purchaser, upon request, Seller's current employees and counsel (and using commercially reasonable efforts to make available to Purchaser, upon request, Seller's former employees and counsel) for meetings, depositions and other applicable proceedings.

(f) With respect to the additional rent attributable to insurance, taxes, common area maintenance and other operating expenses which are passed through to Tenants under the Orva Lease (the " **Pass Through Expenses** ") which have been billed by Seller to Tenant prior to Closing but which have not yet been collected and are delinquent, such Pass Through Expenses shall be prorated between the parties as uncollected rent as provided in subparagraph (h) below. With respect to Pass Through Expenses which (i) have been billed prior to Closing but which have not yet been collected and are not delinquent, and (i) have not been billed to Tenant as of Closing, Purchaser shall use its commercially reasonable efforts to collect such amounts, and upon the collection of same, Purchaser shall remit to Seller an amount equal to that portion of Pass Through Expenses which accrued prior to Closing, after deducting therefrom Seller's pro rata share of attorneys' fees and collection costs incurred in connection with recovering such Pass Through Expenses, calculated on the basis of the number of days during the period for which such Pass Through Expenses were incurred, that Seller and Purchaser, respectively, owned the Property. With respect to Pass Through Expenses which have not been billed to Tenant as of Closing, Purchaser shall bill the Tenant for same in accordance with the Orva Lease. At Closing, Seller and Purchaser reasonably shall estimate the amount, if any, by which the Tenant has overpaid or underpaid its proportionate share of operating expenses and real estate taxes through Closing. If, at Closing, Purchaser and Seller determine that an overpayment by the Tenant exists, Purchaser shall receive a credit in the aggregate amount of such estimated overpayment. If, at Closing, Purchaser and Seller determine that an underpayment by the Tenant exists, Seller shall receive a credit in the aggregate amount of such estimated underpayment. Notwithstanding the foregoing, the Parties shall perform a final reconciliation after Closing of such Pass Through Expenses in accordance with the other provisions of this Paragraph 15. Subject to the terms of this Agreement, Seller shall continue to be responsible for the actual amount of any overpayment and Purchaser shall be responsible for the actual amount of any underpayment, to the extent collected from the Tenant. In the event that Seller and Purchaser, after using commercially reasonable efforts to do so, are not able to agree at Closing on an estimated amount of overpayment or underpayment of operating expenses and real estate taxes by Tenant, the Parties shall reconcile the proration of such Pass Through Expenses after the Closing.

(g) Seller shall be entitled to the return of any deposit(s) posted by it with any utility company and Seller shall notify each utility company serving the Property to terminate Seller's account, effective at noon on the Closing Date. Prior to Closing, Seller shall reasonably cooperate with Purchaser to establish with the applicable utilities companies new accounts in Purchaser's name, to the extent the accounts for the applicable utilities are not currently in the Tenant's name or do not relate to utilities exclusively serving the Initial Club Premises prior to Closing.

(h) Upon Closing, Seller shall retain all rights in and to any rents or other amounts due under the Orva Lease for any period prior to Closing, but shall have no right to commence any legal proceedings which would, or could, result in the eviction or dispossession of a tenant from the Property. Seller shall retain and shall have the right to seek monetary damages against the Tenant with respect to any arrears. If Seller commences any action for such monetary damages, then: (i) Seller shall give Purchaser prompt written notice thereof and provide Purchaser, upon request, with updates on the status of such action; and (ii) Seller shall discontinue such action upon Purchaser's request if it interferes in any material respect with Purchaser's operation and management of the Property. At Closing, Seller shall deliver to Purchaser a schedule of all past due but uncollected rents and other amounts owed by the Tenant, if any, for any period prior to Closing. Purchaser shall use its commercially reasonable efforts during the twelve (12) month period immediately following Closing to collect and promptly remit to Seller rents or other amounts due Seller for the period prior to Closing, but shall not be required to commence any legal proceedings against the Tenant to collect such rents or other amounts. Purchaser shall apply all rents or other amounts received by Purchaser: first, to costs of collection; second, for the account of Purchaser for any and all amounts due to Purchaser for the month in which such amounts were received; third, for the account of Purchaser for any and all amounts due to Purchaser for periods subsequent to the month of Closing; fourth, for the account of Seller for any and all amounts due to Seller for periods prior to the month of Closing; and the balance shall be retained by Purchaser. In exercising its commercially reasonable efforts to collect rents and other amounts due Seller as herein required, Purchaser, during the entirety of the foregoing twelve (12) month period, shall bill and invoice the Tenant owing any such amounts to Seller on a monthly basis, and institute the same "follow-up" actions or programs used by Purchaser to collect delinquent amounts owed by the Tenant to Purchaser.

(i) Any other costs or charges of closing this transaction not specifically mentioned in this Agreement shall be paid and adjusted in accordance with local custom in the commercial real estate market in which the Property is located.

(j) Except as expressly provided herein, the purpose and intent of the provisions for prorations and apportionments set forth in this Paragraph 15 and elsewhere in this Agreement are for Seller to bear all expenses of ownership and operation of the Property and to receive all income therefrom accruing through midnight of the day preceding Closing and for Purchaser to bear all expenses and receive all such income accruing thereafter; provided , however , that if Seller and/or any lender of a loan secured by the Property being repaid from sales proceeds at Closing, do not actually receive, in immediately available funds, and by 5:00 p.m. on the Closing Date, all amounts required to be disbursed to them pursuant to the Closing Statement executed by all Parties at Closing, then all Closing adjustments and prorations shall be

recalculated and made as of midnight on the next business day immediately following the Closing; provided , further , that the foregoing provision shall not be construed to give either Party the right unilaterally and without the agreement of the other Party, to extend Closing beyond the scheduled Closing Date, and the failure of either Party to consummate Closing on the scheduled Closing Date, at the option, and in the sole discretion, of the non-defaulting Party, shall constitute a default hereunder. All of the provisions contained in this Paragraph 15 shall survive Closing.

16. **CONDITIONS TO CLOSING OBLIGATIONS .**

(a) Anything herein to the contrary notwithstanding, the obligation of Seller to close title in accordance with this Agreement is expressly conditioned upon fulfillment by and as of the time of Closing of each condition listed below, provided that Seller, at its election, evidenced by written notice delivered to Purchaser at or prior to Closing, may waive any of such conditions:

(i) Purchaser shall have executed and delivered, or caused to be executed and delivered, to Seller all of the documents set forth in Paragraph 4(c) hereof, shall have paid all of the sums of money and shall have taken, or caused to be taken, all of the other action required by Purchaser under this Agreement; and

(ii) All representations and warranties made by Purchaser in this Agreement shall be true and correct in all material respects as of the Closing Date.

(b) Anything herein to the contrary notwithstanding, the obligation of Purchaser to close title in accordance with this Agreement is expressly conditioned upon fulfillment by and as of the time of Closing of each condition listed below, provided that Purchaser, at its election, evidenced by written notice delivered to Seller at or prior to Closing, may waive any of such conditions:

(i) Seller shall have executed and delivered, or caused to be executed and delivered, to Purchaser all of the documents set forth in Paragraph 4(a) hereof, and shall have taken, or caused to be taken, all of the other action required by Purchaser under this Agreement;

(ii) All representations and warranties made by Seller in this Agreement shall be true and correct in all material respects as of the Closing Date; and

(iii) Title Company shall be prepared to issue, upon payment by Purchaser of the premium therefor, an owner’s policy of title insurance in the amount of the Purchase Price and subject only to the Permitted Encumbrances, insuring title to the Property as required under this Agreement.

17. **NOTICES .** All notices, requests, consents, approvals, responses, waivers or other communications (" **notice(s)** ") required or permitted to be given hereunder shall be given in writing and shall be (a) personally delivered or (b) delivered by a commercial overnight courier that guarantees next business day delivery and provides a receipt, and such notices shall be addressed as follows:

To Seller:	Town Sports International, LLC 5 Penn Plaza 4 th Floor New York, New York 10001 Attention: General Counsel
with a copy to:	Cole, Schotz, Meisel, Forman & Leonard, P.A. Court Plaza North 25 Main Street Hackensack, New Jersey 07602-0800 Attention: Michael E. Jones, Esq.
To Purchaser:	Monty Two East 86 th Street Associates LLC 505 Park Avenue Suite 1700 New York, New York 10022 Attention: Roy Stillman and Chris Sullivan
with a copy to:	Pillsbury Winthrop Shaw Pittman LLP 1540 Broadway New York, New York 10036 Attention: Marc S. Shapiro, Esq.

To Escrow Agent: as its address set forth in Paragraph 3 hereof, Attention: Lawrence Holmes,

or to such other address as any party from time to time may specify in writing to the other Parties pursuant to this Paragraph. Any notice sent as hereinabove provided shall be deemed served and received upon delivery in person (with signed delivery receipt obtained) or the first business day following the date of deposit with an overnight express delivery service providing proof of delivery. If any notice is properly addressed but returned or refused for any reason, such notice shall be deemed to be effective notice and to be given on the date of attempted delivery. Any notice may be sent by the attorney representing a Party, and each such notice shall qualify as effective notice under this Agreement.

18. **DEFAULT; REMEDIES** .

(a) If (i) Purchaser shall default in the performance any of its obligations to be performed on the Closing Date for any reason other than a default by Seller under this Agreement or (ii) Purchaser shall default in the performance of any of its material obligations to be performed prior to the Closing Date and, with respect to any default under this clause (ii) only, such default continues for ten (10) days (unless otherwise provided herein) after Purchaser receives written notice thereof from Seller, then Purchaser shall forfeit to Seller all of its right, title and interest in and to the Deposit paid hereunder, and Purchaser shall have no further

liability to Seller (except for the Surviving Obligations). The Parties have agreed that the actual damages suffered by Seller would be extremely difficult or impracticable to ascertain. After negotiation, the Parties have agreed that, considering all the circumstances existing on the date of this Agreement, the amount of the Deposit is a reasonable estimate of the damages that Seller would incur in such an event and that the aforesaid payment of the Deposit is liquidated damages hereunder and not a penalty. The provisions of this Paragraph 18(a) shall not limit or affect any of Purchaser's indemnities as provided in Paragraphs 14, 20 and 21 of this Agreement.

(b) If (i) Seller shall refuse or fail to convey the Property to Purchaser in violation of Seller's obligations hereunder or shall otherwise default in the performance of any of its obligations to be performed on the Closing Date for any reason other than a default by Purchaser under this Agreement, or (ii) Seller shall default in the performance of any of its material obligations to be performed prior to the Closing Date and, with respect to any default under this clause (ii) only, such default continues for ten (10) days (unless otherwise provided herein) after Seller receives written notice thereof from Purchaser, then Purchaser, as its sole remedies hereunder, shall have the right to: (i) terminate this Agreement and receive a return of the Deposit; or (ii) seek specific performance; or (iii) waive such breach or default and proceed to Closing. In the event that Purchaser elects to seek specific performance under (ii) above, Purchaser shall bring such action within sixty (60) days after the scheduled Closing Date, or else such remedy shall be deemed waived; and unless otherwise expressly required pursuant to this Agreement or by applicable law, in no event shall Seller be obligated to undertake any of the following: (1) change the condition of the Property or restore the same after any fire or casualty; (2) secure any governmental permit, approval, or consent with respect to the Property or Seller's conveyance thereof; or (3) expend any money to repair, improve, remediate or alter the Property or any portion thereof. If Purchaser shall not institute an action for specific performance within sixty (60) days after the scheduled Closing Date, time being of the essence, and Purchaser has not elected to waive such default by Seller, Purchaser shall be deemed to have elected to terminate this Agreement pursuant to clause (i) above. Anything herein to the contrary notwithstanding, in the event any willful act of Seller shall preclude Purchaser from obtaining specific performance of Seller's obligations hereunder, then in addition to the remedies described in this Paragraph and the remedies available at law, in equity or otherwise, Seller shall, no later than fifteen (15) days following Purchaser's demand therefor and delivery to Seller of paid invoices evidencing the costs incurred by Purchaser, reimburse Purchaser for any and all actual costs incurred by Purchaser, in an amount not to exceed Five Hundred Thousand and 00/100 ($500,000.00) Dollars in the aggregate, in connection with the transaction contemplated hereby, including, without limitation, reasonable attorneys' fees and due diligence costs. The provisions of this Paragraph 18(b) shall not limit or affect any of Seller's indemnity as provided in Paragraph 14 of this Agreement.

(c) In no event shall either Party be liable to the other Party for any punitive, speculative or consequential damages.

(d) Notwithstanding any limitation of remedies above, if, as a result of a default under this Agreement, either Seller or Purchaser retains an attorney to enforce its rights and prevails in any final judgment, the defaulting party shall reimburse the non-defaulting party for all reasonable attorneys' fees, court costs and other legal expenses incurred by the non-defaulting party in connection with the default. This Paragraph 18(d) shall survive Closing or the termination of this Agreement.

19. **ESCROW AGENT** .

(a) The Deposit shall be held in escrow by Escrow Agent in one or more interest-bearing bank, federally insured accounts at JPMorgan Chase Bank on the terms hereinafter set forth.

(b) When Closing has occurred, Escrow Agent shall deliver the Deposit to Seller.

(c) If Escrow Agent receives a request for the Deposit signed by Seller stating that Purchaser has defaulted in the performance of its obligations under this Agreement, Escrow Agent shall submit (in the manner set forth in Paragraph 17 hereof) a copy of such request to Purchaser. If Escrow Agent shall not have received notice of objection from Purchaser within five (5) business days after Escrow Agent has furnished Purchaser with such request, Escrow Agent shall deliver the Deposit to Seller. If Escrow Agent shall receive a timely notice of objection from Purchaser as aforesaid, Escrow Agent promptly shall submit a copy thereof to Seller.

(d) If Escrow Agent receives a request signed by Purchaser stating that this Agreement has been canceled or terminated, or that Seller has defaulted in the performance of its obligations hereunder, and that Purchaser is entitled to the Deposit, Escrow Agent shall submit (in the manner set forth in Paragraph 17 hereof) a copy of such request to Seller. If Escrow Agent shall not have received notice of objection from Seller within five (5) business days after Escrow Agent has furnished Seller with such request, Escrow Agent shall deliver the Deposit to Purchaser. If Escrow Agent shall receive a timely notice of objection from Seller as aforesaid, Escrow Agent promptly shall submit a copy thereof to Purchaser.

(e) Any notice to Escrow Agent shall be sufficient only if given in the manner set forth in Paragraph 17 hereof and received by Escrow Agent within the applicable time period set forth herein. All mailings and notices from Escrow Agent to Seller and/or Purchaser, or from Purchaser and/or Seller to Escrow Agent, shall be addressed to Escrow Agent and to the Party to receive such notice at its address as set forth in Paragraphs 3 or 17 hereof.

(f) If Escrow Agent receives notice signed by Seller instructing Escrow Agent to pay the Deposit to Purchaser, or if Escrow Agent receives notice signed by Purchaser instructing Escrow Agent to pay the Deposit to Seller, Escrow Agent shall deliver the Deposit in accordance with such instructions.

(g) If Escrow Agent shall have received a notice of objection as provided for in Paragraphs 19(c) or 19(d) hereof within the time therein prescribed, Escrow Agent shall not comply with any requests or demands it may have received and shall continue to hold the Deposit until Escrow Agent receives either: (i) a written notice signed by both Seller and Purchaser stating who is entitled to the Deposit; or (ii) a final non-appealable order of a court of competent jurisdiction directing disbursement of the Deposit in a specific manner; in either of

which events, Escrow Agent then shall disburse the Deposit in accordance with such notice or order. Escrow Agent shall not be or become liable in any way or to any person for its refusal to comply with any such requests or demands until and unless it has received a direction of the nature described in (i) or (ii) above.

(h) Notwithstanding the foregoing provisions of Paragraph 19(g) above, if Escrow Agent shall have received a notice of objection as provided for in Paragraphs 19(c) or 19(d) hereof within the time therein prescribed, or shall have received at any time before actual disbursement of the Deposit a notice from either Seller or Purchaser advising that litigation between Seller and Purchaser over entitlement to the Deposit has been commenced, or otherwise shall believe in good faith at any time that a disagreement or dispute has arisen between the Parties hereto over entitlement to the Deposit (whether or not litigation has been instituted), Escrow Agent shall have the right, upon notice to both Seller and Purchaser, (i) to deposit the Deposit with the Clerk of the Court in which any litigation is pending, and/or (ii) to take such affirmative steps, at its option, as it may elect in order to terminate its duties as Escrow Agent, including, but not limited to, the depositing of the Deposit with a court of competent jurisdiction and the commencement of an action for interpleader, the costs thereof to be borne by whichever of Seller or Purchaser is the losing party, and thereupon Escrow Agent shall be released of and from all liability hereunder except for any previous gross negligence or willful default.

(i) Escrow Agent shall have no duty to invest all or any portion of the Deposit during any period of time Escrow Agent may hold the same prior to disbursement thereof except in one or more interest-bearing accounts as aforesaid, and any disbursements or deliveries of the Deposit required herein to be made by Escrow Agent shall be with such interest, if any, as shall have been earned thereon.

(j) Escrow Agent shall be under no obligation to deliver any instrument or documents to a court or take any other legal action in connection with this Agreement or towards its enforcement, or to appear in, prosecute or defend any action or legal proceeding which, in Escrow Agent's opinion, would or might involve it in any cost, expense, loss or liability unless, as often as Escrow Agent may require, Escrow Agent shall be furnished with security and indemnity satisfactory to it against all such costs, expenses, losses or liability.

(k) Escrow Agent shall not be liable for any error or judgment or for any act done or omitted by it in good faith, or for any mistake of fact or law, and is released and exculpated from all liability hereunder except for willful misconduct or gross negligence.

(l) Escrow Agent's obligations hereunder shall be as a depositary only, and Escrow Agent shall not be responsible or liable in any manner whatever for the sufficiency, correctness, genuineness or validity of any notice, written instructions or other instrument furnished to it or deposited with it, or for the form of execution thereof, or for the identity or authority of any person depositing or furnishing same.

(m) Escrow Agent shall not have any duties or responsibilities except those set forth in this Agreement and shall not incur any liability in acting upon any signature, notice, request, waiver, consent, receipt or other paper or document believed by it to be genuine, and Escrow Agent may assume that any person purporting to give any notice or advice on behalf of

any Party in accordance with the provisions hereof has been duly authorized to do so. Seller and Purchaser hereby jointly and severally agree to indemnify and to hold and save Escrow Agent harmless from and against any and all loss, damage, cost or expense Escrow Agent may suffer or incur as Escrow Agent hereunder unless caused by its gross negligence or willful misconduct.

(n) The terms and provisions of this Paragraph 19 shall create no right in any person, firm or corporation other than the Parties hereto and their respective successors and permitted assigns, and no third party shall have the right to enforce or benefit from the terms hereof.

(o) The provisions of this Paragraph 19 shall survive Closing or the termination of this Agreement for any reason.

20. **PROPERTY INSPECTIONS** .

(a) Intentionally omitted.

(b) During the period commencing on the Effective Date and ending on the Closing Date or the date of any earlier termination of this Agreement, Purchaser and Purchaser's Representatives (as defined in Paragraph 21 hereof) shall have the right to enter onto the Real Property to: (i) perform non-invasive inspections and tests, all of which shall be upon at least twenty-four (24) hours' request (which request may be given by email to the General Counsel of Seller); and (ii) show the Property to potential lenders and joint venture partners. Notwithstanding anything to the contrary contained herein, in no event shall Purchaser have the right to perform any invasive inspections and tests of the Property without Seller's prior written consent (which consent may be withheld in Seller's sole and absolute discretion). Purchaser shall: (A) at all times conduct Purchaser's inspections and testing of the Real Property in compliance with applicable law and in a manner so as to minimize damage to the Real Property; (B) promptly restore the Real Property to its condition immediately preceding Purchaser's inspections or testing to the extent any damage is caused by such inspections or testing; and (C) keep the Real Property free and clear of any mechanic's or materialmen's liens in connection with such inspections or testing. A representative of Seller shall have the right to be present at all times during such inspections or testing. All inspections shall be conducted in compliance with all applicable laws. Purchaser shall use commercially reasonable efforts not to interfere with the activity of the Tenant, or any other entities or persons occupying or providing services at the Property, and shall take all actions and implement all protections reasonably necessary to ensure that the inspections of the Property and the equipment, materials, and substances generated, used or brought onto the Property in connection therewith, pose no threat to the safety or health of persons or the environment, and cause no damage to the Property or other property of Seller or any persons. Any inspections undertaken by or on behalf of Purchaser pursuant to this Paragraph 20 shall be at Purchaser's sole risk and expense.

(c) Purchaser agrees to provide to Seller, as and when the same are prepared and provided to Purchaser, promptly upon request of Seller and upon any termination of this Agreement, copies of: (i) all environmental, structural, engineering and other reports or studies prepared by outside consultants (other than such reports prepared by or on behalf of legal counsel that are subject to an attorney-client privilege) undertaking inspections of the Property,

or any portion or component thereof or condition affecting the same, for or on behalf of Purchaser (collectively, the " **Property Inspection Reports** "); and (ii) all non-public materials and documents obtained by Purchaser from Seller (and Purchaser may not retain copies of any such materials and documents). All non-public information regarding or relating to: (i) Seller or (ii) the Property, or the ownership, operation or maintenance thereof, that is obtained by Purchaser during any inspection of the Property, or in any other manner, or from any other source, including the Property Inspection Reports (collectively, the " **Proprietary Information** "), shall be held, maintained and treated as private and confidential information pursuant to Paragraph 21 hereof. All obligations and agreements of Purchaser contained in this Paragraph 20(c) shall survive Closing or any termination of this Agreement for any reason.

(d) Except as otherwise expressly set forth in this Agreement, Seller makes no representations or warranties as to the truth, accuracy or completeness of any materials, data or other information, including, without limitation, the Orva Lease, supplied to Purchaser in connection with Purchaser's inspection of the Property.

(e) Prior to undertaking any inspections of the Property, Purchaser or Purchaser's agents will obtain and maintain not less than Three Million ($3,000,000.00) Dollars comprehensive general liability insurance with a contractual liability endorsement which insures Purchaser's indemnity obligations hereunder and which names Seller, as an additional insured thereunder (a certificate evidencing such policy shall be provided by Purchaser to Seller prior to undertaking any inspections under this Paragraph 20). Such insurance coverage shall be maintained by Purchaser until the earlier of: (i) the date that is two (2) years after the Closing; and (ii) the date on which this Agreement is terminated for any reason. Purchaser agrees to indemnify and hold and save Seller and each of the Seller Parties harmless from any claim, loss, injury, liability, damage or expense, including reasonable attorneys' fees and costs, arising out of: (i) a breach by Purchaser and/or any of the Releasors (as defined in Paragraph 9(d) hereof) of any applicable laws, rules, regulations or ordinances resulting from such inspections, or the agreements set forth in this Paragraph 20, including the failure to restore the Property in accordance with Paragraph 20(b) above; (ii) any access to, entry upon or activity conducted by, or on behalf of, Purchaser or any Releasors with respect to or on the Property, whether or not such access, entry or activity is permitted by, in compliance with or in violation of any applicable laws, rules, regulations or ordinances, or this Paragraph 20; and (iii) any lien, claim or levy, including construction, mechanic's, materialmen's and judgment liens, filed or pending against any portion of the Property, or title thereto, by any contractor, sub-contractor or other party having a claim against or through Purchaser or any Releasor (without limiting the foregoing indemnity, Purchaser hereby acknowledges and agrees that Purchaser's failure to cause any such lien to be released or bonded to the reasonable satisfaction of Seller within twenty (20) days after receipt of written notice thereof shall constitute a default hereunder), unless such claim, loss, injury, liability, damage or expense arises from the gross negligence or willful misconduct of Seller or any of the Seller Parties (collectively, the " **Indemnity Obligations** "). Anything herein to the contrary notwithstanding, Purchaser shall not be liable for the exacerbation by Purchaser or any of the Purchaser's Representatives (as defined in Paragraph 21) of any existing environmental conditions at, on, beneath or near the Property.

21. **CONFIDENTIALITY** . Purchaser agrees that, unless Seller specifically and expressly otherwise agrees in writing, all of the Proprietary Information is and shall be deemed and treated by Purchaser and all of the Releasors as proprietary and confidential and neither Purchaser nor any Releasor shall disclose same to any other person except those Releasors and such outside consultants and legal counsel assisting Purchaser with the transaction contemplated herein, and Purchaser's potential lenders and joint venture partners, if any (the Releasors and Purchaser's outside consultants and potential lenders and joint venture partners, collectively, " **Purchaser's Representatives** "), and then only on a need-to-know basis, and upon Purchaser or Releasor making each such person aware of the confidentiality restrictions set forth herein and procuring such person's agreement to be bound thereby. Notwithstanding the foregoing, Purchaser shall not be deemed to have violated the provisions of this Paragraph 21 if Purchaser or any of Purchaser's Representatives is required to disclose any Proprietary Information pursuant to a judicial order or subpoena validly issued and served upon Purchaser or any of Purchaser's Representatives by a court with competent jurisdiction over the Property and the Proprietary Information which is the subject of such order or subpoena, and Purchaser (to the extent legally permitted and practicable): (i) promptly, and in no event less than five (5) business days after receipt by Purchaser's or any of Purchaser's Representatives of such court order or subpoena, delivers a copy of same, together with any notices or other documents which were served on Purchaser or any of Purchaser's Representatives with such court order or subpoena, to Seller; and (ii) reasonably cooperates, at Seller's sole cost and expense, in any effort (provided that neither Purchaser nor any of Purchaser's Representatives thereby is placed in breach of such court order or subpoena) instituted by Seller to prevent such disclosure. In the event the purchase and sale contemplated hereby fails to close for any reason whatsoever, Purchaser agrees to deliver to Seller, or cause to be delivered to Seller, all Proprietary Information in the possession of Purchaser and/or any of Purchaser's Representatives. Purchaser shall not use any Proprietary Information for any purpose other than to determine whether Purchaser shall proceed with the contemplated purchase, or if the purchase and sale is consummated, in connection with the ownership and operation of the Property post-Closing. Purchaser, on behalf of itself and Purchaser's Representatives, agrees to indemnify Seller and each of the Seller Parties against all costs, claims and damages, including reasonable attorneys' fees, suffered or sustained as the result of a breach by Purchaser or any of the Releasors of the covenants contained in this Paragraph 21. All obligations of Purchaser and Releasors under this Paragraph 21 shall be referred to as the " **Confidential Obligations** ". Notwithstanding any other term of this Agreement, the provisions of this Paragraph 21 shall survive Closing or the termination of this Agreement for any reason.

22. **SURVIVING OBLIGATIONS** . The term " **Surviving Obligations** " as used herein shall mean, collectively, the Indemnity Obligations, the Confidentiality Obligations and the indemnities set forth in Paragraphs 14 and 20 hereof, together with all other obligations of the Parties which expressly survive the termination of this Agreement for any reason.

23. **ENTIRE AGREEMENT .** This Agreement constitutes the final and entire agreement between the Parties with respect to the subject matter hereof and neither Party shall be bound by any terms, conditions, statements, warranties or representations, oral or written, not contained herein. All understandings and agreements heretofore made between the Parties are merged in this Agreement, which alone fully and completely expresses the agreement of the

Parties and may not be changed, modified, varied or terminated except by a written instrument signed by the Parties or their respective counsel. The Parties agree that, except as and to the extent expressly provided herein or in the documents to be delivered at Closing, the Parties agree that none of the terms and provisions of this Agreement shall survive the delivery of the Deed and all such terms and provisions of this Agreement shall be merged into the Deed.

24. **BINDING EFFECT .** This Agreement shall be binding upon and shall inure to the benefit of Seller and Purchaser and their respective successors and assigns, except as otherwise provided herein.

25. **CONSTRUCTION .** The interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York, without regard to principles of conflict of laws. Each of the Parties hereby agrees to submit to the jurisdiction of any state or federal court sitting in New York County, New York, in the event of a dispute between the Parties with respect to this Agreement.

26. **FURTHER ASSURANCES .** Each Party, at any time and from time to time, shall execute, acknowledge when appropriate, and deliver such further instruments and documents and take such other action as reasonably may be requested by the other Party in order to carry out the intent and purpose of this Agreement; provided , however , that the requested modifications shall be ministerial in scope and, without limitation, shall not: (i) modify or alter in any form or manner the monetary obligation of either Party hereto; or (ii) materially increase any non-monetary obligations or materially and adversely affect the rights (monetary or non-monetary) of either Party under this Agreement, as determined by the affected Party in its reasonable judgment. Further, neither Party: (a) shall be obligated to agree in any form or manner, to any additional indemnity agreements or any representations, warranties or guaranties which are not already expressly agreed upon in this Agreement or the documents to be delivered at Closing; (b) shall be obligated to agree to any changes to the environmental covenants set forth herein or in any document to be delivered at Closing; and (c) shall allow others to act as attorney-in-fact for such Party. The provisions of this Paragraph 26 shall survive Closing or the termination of this Agreement for any reason.

27. **CAPTIONS .** The captions preceding the paragraphs of this Agreement are intended only as a matter of convenience and for reference and in no way define, limit or describe the scope of this Agreement or the intent of any provision hereof.

28. **WAIVER OF CONDITIONS** .

(a) Purchaser and Seller each shall have the right, in the sole and absolute exercise of its discretion, to waive any of the terms or conditions of this Agreement which are strictly for its respective benefits and to complete Closing in accordance with the terms and conditions of this Agreement which have not been so waived. Unless otherwise specifically provided herein, any such waiver shall be effective and binding only if in writing and made and delivered at or prior to Closing.

(b) No waiver by either Party of any failure or refusal by the other Party to comply with its obligations hereunder shall be deemed a waiver of any other or subsequent failure or refusal by the other Party so to comply.

29. **WAIVER OF TRIAL BY JURY .** PURCHASER AND SELLER EACH HEREBY AGREES NOT TO ELECT A TRIAL BY JURY OF ANY ISSUE TRIABLE OF RIGHT BY JURY, AND WAIVES ANY RIGHT TO TRIAL BY JURY FULLY TO THE EXTENT THAT ANY SUCH RIGHT SHALL NOW OR HEREAFTER EXIST WITH REGARD TO THIS AGREEMENT OR ANY CLAIM, COUNTERCLAIM OR OTHER ACTION ARISING IN CONNECTION THEREWITH. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS GIVEN KNOWINGLY AND VOLUNTARILY BY PURCHASER AND SELLER AND IS INTENDED TO ENCOMPASS INDIVIDUALLY EACH INSTANCE AND EACH ISSUE AS TO WHICH THE RIGHT TO A TRIAL BY JURY WOULD OTHERWISE ACCRUE. SELLER OR PURCHASER, AS APPLICABLE, IS HEREBY AUTHORIZED TO FILE A COPY OF THIS PARAGRAPH IN ANY PROCEEDING AS CONCLUSIVE EVIDENCE OF THIS WAIVER BY PURCHASER OR SELLER, AS APPLICABLE. THE PROVISIONS OF THIS PARAGRAPH SHALL SURVIVE THE CLOSING OR EARLIER TERMINATION OF THIS AGREEMENT.

30. **SEVERABILITY .** The terms, conditions, covenants and provisions of this Agreement shall be deemed to be severable. If any clause or provision herein contained shall be adjudged to be invalid or unenforceable by a court of competent jurisdiction or by operation of any applicable law, the same shall be deemed to be severable and shall not affect the validity of any other clause or provision herein, but such other clauses or provisions shall remain in full force and effect, unless such provisions shall relate to the Purchase Price or other monies to be paid hereunder. In such event, each of the Parties, on not less than ten (10) days' notice to the other Party, shall have the right to terminate this Agreement on the date specified in such notice, whereupon the Deposit shall be released to Purchaser in accordance with the provisions of Paragraph 19 hereof and neither Party shall have any further obligation to the other, except for Surviving Obligations.

31. **GENDER .** As used in this Agreement, the masculine gender shall include the feminine or neuter genders and the neuter gender shall include the masculine or feminine genders, the singular shall include the plural and the plural shall include the singular, wherever appropriate to the context.

32. **NO PUBLIC DISCLOSURE .** Prior to Closing, all press releases or other dissemination of information to the media or responses to requests from the media for information relating to the transaction contemplated herein shall be subject to the prior consent of both Parties hereto. After Closing, this covenant shall terminate and no longer be binding on either Party. Notwithstanding anything to the contrary contained herein, this paragraph shall not apply to any required disclosure of this Agreement or the transaction contemplated hereby to a governmental or quasi-governmental authority.

33. **NO PARTNERSHIP .** Nothing contained in this Agreement shall be construed to create a partnership or joint venture between the Parties or their successors in interest.

34. **TIME OF ESSENCE .** Time is of the essence in this Agreement for all purposes and in all instances, whether or not specifically set forth herein.

35. **RECORDATION .** Concurrent with their execution and delivery of this Agreement, Purchaser and Seller shall execute, acknowledge and deliver a memorandum of this Agreement in the form attached hereto as Exhibit "P" (the " **Memorandum** ") and of each modification of this Agreement, which shall be recorded by Purchaser at its sole cost, provided that simultaneously with the execution of the Memorandum, Seller and Purchaser execute a termination of the Memorandum in the form attached hereto as Exhibit "Q" , to be held in escrow by the Escrow Agent pursuant to an escrow agreement substantially in the form attached hereto as Exhibit "R" (the " **Termination of Memorandum Escrow Agreement** ").

36. **PROPER EXECUTION** . The submission by Seller to Purchaser of this Agreement in an unsigned form shall be deemed to be a submission solely for Purchaser's consideration and not for acceptance and execution. Such submission shall have no binding force and effect, shall not constitute an option or an offer, and shall not confer any rights upon the Parties or impose any obligations upon the Parties irrespective of any reliance thereon, change of position or partial performance. The submission by Seller to Purchaser of this Agreement for execution by Purchaser and the actual execution thereof and delivery to Seller by Purchaser similarly shall have no binding force and effect on the Parties unless and until the Parties shall have executed this Agreement and the Deposit shall have been received by Escrow Agent.

37. **BUSINESS DAYS .** If any date herein set forth for the performance of any obligations by Seller or Purchaser or for the delivery of any instrument or notice as herein provided should fall on a Saturday, Sunday or Legal Holiday (hereinafter defined), the compliance with such obligations or delivery shall be deemed acceptable on the next business day following such Saturday, Sunday or Legal Holiday. As used herein, the term "Legal Holiday" shall mean any local or federal holiday on which post offices are closed in the jurisdiction in which the Property is located.

38. **LIKE-KIND EXCHANGE** .

(a) Purchaser, at the request of Seller, agrees to cooperate reasonably with Seller so that Seller may dispose of the Property in a transaction intended to qualify in whole or in part as a tax-deferred exchange pursuant to Section 1031 of the Internal Revenue Code of 1986, as amended (the " **Tax Code** "). In order to implement such exchange: (i) Seller, upon notice to Purchaser, shall assign its rights, but not its obligations, under this Agreement to a third party designated by Seller to act as a qualified intermediary (as such phrase is defined in applicable regulations issued under the Tax Code); (ii) Purchaser shall, and hereby agrees to, acknowledge such assignment and make all payments due hereunder to or as may be directed by such intermediary; and (iii) at Closing, Seller shall convey the Property directly to Purchaser; provided , however , that: (w) Purchaser's cooperation shall be limited to the actions specifically contemplated by the foregoing sentence; (x) none of Purchaser's rights or obligations hereunder shall be affected or modified in any way, nor shall any time periods contained herein be affected in any way; (y) Purchaser shall have no responsibility or liability to Seller or any other person for the qualification of Seller's purported exchange transaction under Section 1031 of the Tax Code other than as a result of Purchaser's failure to perform the actions specifically contemplated in

this Paragraph; and (z) Purchaser shall not be required to incur any additional expense (unless reimbursed by Seller) or liability (other than to a de minimis extent) as a result of such cooperation, exchange or assignment. Seller hereby agrees to and shall save, defend, indemnify and hold Purchaser harmless from and against any and all liability, loss, damage, claims, costs and expenses (including, without limitation, reasonable attorneys' fees and disbursements) incurred by Purchaser as a result of any such cooperation, exchange or assignment.

(b) Seller, at the request of Purchaser, agrees to cooperate reasonably with Purchaser so that Purchaser may acquire the Property as "replacement property" in a transaction intended to qualify in whole or in part as a tax-deferred exchange pursuant to Section 1031 of the Tax Code. In order to implement such exchange: (i) Purchaser, upon notice to Seller, shall assign its rights, but not its obligations, under this Agreement to a third party designated by Purchaser to act as a qualified intermediary; (ii) Seller shall, and hereby agrees to, acknowledge such assignment and to accept payment of all or a portion of the Purchase Price from the intermediary; and (iii) at Closing, Seller shall convey the Property directly to Purchaser; provided , however , that: (w) Seller's cooperation shall be limited to the actions specifically contemplated by the foregoing; (x) none of Seller's rights or obligations hereunder shall be affected or modified in any way, nor shall any time periods contained herein be affected in any way; (y) Seller shall have no responsibility or liability to Purchaser or any other person for the qualification of Purchaser's purported exchange transaction under Section 1031 of the Tax Code, other than solely as a result of Seller's failure to perform the actions specifically contemplated in this Paragraph; and (z) Seller shall not be required to incur any additional expense (unless reimbursed by Purchaser) or liability (other than to a de minimis extent) as a result of such cooperation, exchange or assignment. Purchaser hereby agrees to and shall save, defend, indemnify and hold Seller harmless from and against any and all liability, loss, damage, claims, costs and expenses (including, without limitation, reasonable attorneys' fees and disbursements) incurred by Seller as a result of any such cooperation, exchange or assignment.

(c) The provisions of this Paragraph 38 shall survive Closing.

39. **LIMITED LIABILITY** . The respective obligations of Seller and Purchaser under this Agreement or any documents executed pursuant hereto or in connection herewith, including, without limitation, the Deed, the Bill of Sale, the Assignment of Lease and the Seller Certificate, are intended to be binding only on Seller and Purchaser and each of such party's respective assets, and shall not be personally binding upon, nor shall any resort be had to any properties of the Seller Parties or Releasors. The provisions of this Paragraph 39 shall survive Closing or termination of this Agreement, for any reason.

40. **NO ELECTION BY SELLER OR PURCHASER** . Each right of Seller and Purchaser provided for in this Agreement shall be cumulative and shall be in addition to every other right provided for in this Agreement or now or hereafter existing at law or in equity, by statute or otherwise, and the exercise or beginning of the exercise by Seller or Purchaser of any one or more of such rights shall not preclude the simultaneous or later exercise by Seller or Purchaser of any or all other rights provided for in this Agreement or now or hereafter existing at law or in equity, by statute or otherwise.

41. **NO THIRD PARTY BENEFICIARY .** The provisions of this Agreement are not intended to benefit any third parties.

42. **EQUITABLE OWNERSHIP** . Prior to the conveyance of the Property hereunder, Purchaser shall not acquire, obtain or assume any equitable ownership of or title to the Property by reason of this Agreement.

43. **PREPARATION OF AGREEMENT** . This Agreement shall not be construed more strongly against either Party regardless of who is responsible for its preparation.

44. **JOINT OBLIGATIONS** . All obligations and liabilities of Seller and Purchaser set forth herein shall be joint and several if more than one Seller or Purchaser is named herein.

45. **COUNTERPARTS .** This Agreement may be executed and delivered in any number of counterparts and by facsimile or e-mail (e.g., pdf), each of which when so executed and delivered shall be deemed to be an original and all of which shall constitute one and the same instrument.

46. **EXHIBITS** : All Exhibits referred to herein are a part of the Agreement.

[SIGNATURES APPEAR ON THE FOLLOWING PAGES]

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed and delivered by duly authorized persons on the day and year first above written.

SELLER:

TOWN SPORTS INTERNATIONAL, LLC

By: /s/ Robert Giardina
Name: Robert Giardina
Title: CEO

PURCHASER:

MONTY TWO EAST 86 TH STREET ASSOCIATES LLC

By: /s/ Roy Stillman
Name: Roy Stillman
Title:

JOINDER AND CONSENT OF ESCROW AGENT

An original, fully executed copy of this Agreement, together with the Deposit, has been received by Escrow Agent this 23rd day of December, 2013, and by execution hereof Escrow Agent covenants and agrees to be bound by the terms of this Agreement.

FIDELITY NATIONAL TITLE INSURANCE COMPANY

By: /s/ John Madde
Name: John Madde
Title: VP

LIST OF EXHIBITS

EXHIBIT “A”	Legal Description
EXHIBIT “B”	Deed
EXHIBIT “C”	Assignment of Lease
EXHIBIT “D”	Omnibus Assignment and Assumption
EXHIBIT “E”	Bill of Sale
EXHIBIT “F”	Tenant Notice
EXHIBIT “G-1”	Permitted Encumbrances
EXHIBIT “G-2”	Existing Violations
EXHIBIT “H”	Holdback Escrow Agreement
EXHIBIT “I”	Tenant Estoppel
EXHIBIT “J”	Seller Certificate
EXHIBIT “K”	FIRPTA Affidavit
EXHIBIT “L”	Intentionally Omitted
EXHIBIT “M”	Termination Payment Escrow Agreement
EXHIBIT “N”	Friedland Building Letter Agreement
EXHIBIT “O-1”	Ground Lease Certification (Effective Date)
EXHIBIT “O-2”	Ground Lease Certification (Closing Date)
EXHIBIT “P”	Memorandum of Agreement of Sale
EXHIBIT “Q”	Termination of Memorandum of Agreement of Sale
EXHIBIT “R”	Termination of Memorandum Escrow Agreement

EXHIBIT "A"

Legal Description

ALL that certain plot, piece or parcel of land, situate, lying and being in the Borough of Manhattan, City, County and State of New York, bounded and described as follows:

BEGINNING at a point on the northerly side of 86 th Street, distant 62 feet 2-2/3 inches easterly from the corner formed by the intersection of the westerly side of Lexington Avenue with the said northerly side of 86 th Street;

RUNNING THENCE northerly parallel with the easterly side of Lexington Avenue, 100 feet 8 1/2 inches to the center line of the block;

THENCE easterly along said center line of the block parallel with the northerly side of 86 th Street and part of the distance through a party wall, 76 feet 8 inches;

THENCE southerly again parallel with the easterly side of Lexington Avenue, 100 feet 8-1/2 inches to the northerly side of 86 th Street; and

THENCE westerly along the said northerly side of 86 th Street, 76 feet 8 inches to the point or place of BEGINNING.

EXHIBIT "B"

BARGAIN AND SALE DEED
WITHOUT COVENANTS

THIS INDENTURE, made as of the day of , 2013, between **TOWN SPORTS INTERNATIONAL, LLC** , a New York limited liability company, having an address at 5 Penn Plaza, 4 th Floor, New York, NY 10001 (" **Grantor** "), and , a , having an address at (" **Grantee** ").

WITNESSETH , that Grantor, in consideration of Ten Dollars ($10.00) and other valuable consideration paid by Grantee, the receipt and sufficiency of which are hereby acknowledged, does hereby grant and release unto Grantee, the heirs or successors and assigns of Grantee forever,

ALL that certain plot, piece or parcel of land, with the buildings and improvements thereon erected, situate, lying and being in the City, County and State of New York, as more particularly described on Exhibit A attached hereto and made a part hereof.

TOGETHER with all right, title and interest, if any, of Grantor in and to the land lying in the bed of any streets or roads in front of or adjoining the above described premises to the center lines thereof;

TOGETHER with any rights of way, appendages, appurtenances, easements, sidewalks, alleys, gores or strips of land adjoining or appurtenant to the above described premises and used in conjunction therewith, any development rights appurtenant to the above described premises and any award or payment made or to be made in lieu of any of the foregoing or any portion thereof and any unpaid award for damage to the above described premises by reason of change of grade or closing of any street, road or avenue;

TO HAVE AND TO HOLD the above described premises herein granted, or mentioned and intended so to be, unto Grantee, the heirs or successors and assigns of Grantee, forever.

The premises herein described are intended to be the same as that described in deed recorded in CRFN .

AND Grantor, in compliance with Section 13 of the Lien Law, covenants that Grantor will receive the consideration for this conveyance and will hold the right to receive such consideration as a trust fund to be applied first for the purpose of paying the cost of the improvement and will apply the same first to the payment of the cost of the improvement before using any part of the total of the same for any other purpose. The word "party" shall be constructed as if it read "parties" whenever the sense of this Indenture so requires.

[signature follows]

IN WITNESS WHEREOF, Grantor has duly executed this Indenture the day and year first above written.

TOWN SPORTS INTERNATIONAL, LLC

By: _____
Name:
Title:

State of New York)
County of New York) ss.:

On the day of in the year 2013 before me, the undersigned, personally appeared personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity, and that by his signatures on the instrument, the individual, or the person upon behalf of which the individual(s) acted, executed the instrument.

_____
Signature and Office of individual taking acknowledgment

ADDRESS: 151-155 EAST 86 TH STREET
NEW YORK, NEW YORK
SECTION: [ ]
BLOCK: 1515
LOT: 23

COUNTY OR TOWN: New York

Upon recording return to:

Exhibit A to Deed

ALL that certain plot, piece or parcel of land, situate, lying and being in the Borough of Manhattan, City, County and State of New York, bounded and described as follows:

BEGINNING at a point on the northerly side of 86 th Street, distant 62 feet 2-2/3 inches easterly from the corner formed by the intersection of the westerly side of Lexington Avenue with the said northerly side of 86 th Street;

RUNNING THENCE northerly parallel with the easterly side of Lexington Avenue, 100 feet 8 1/2 inches to the center line of the block;

THENCE easterly along said center line of the block parallel with the northerly side of 86 th Street and part of the distance through a party wall, 76 feet 8 inches;

THENCE southerly again parallel with the easterly side of Lexington Avenue, 100 feet 8-1/2 inches to the northerly side of 86 th Street; and

THENCE westerly along the said northerly side of 86 th Street, 76 feet 8 inches to the point or place of BEGINNING.

EXHIBIT "C"

ASSIGNMENT OF LEASE

THIS ASSIGNMENT OF LEASE (this " **Assignment** ") is made on , 20 , by and between , a (" **Assignor** "), having an office at and , a (" **Assignee** "), having an office at .

FOR AND IN CONSIDERATION of the sum of Ten and 00/100 ($10.00) Dollars and other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, Assignor does hereby sell, assign, transfer and set over unto Assignee all of Assignor's right, title and interest as landlord in and to: (i) that certain written lease of a portion of the building located on the land described on Schedule 1 annexed hereto and made a part hereof or of any portion of such land, and all renewals, modifications, amendments, guaranties, other security and other agreements affecting the same (collectively, the " **Lease** "), as more particularly set forth on Schedule 2 attached hereto and incorporated herein by reference; and (ii) all prepaid rentals and security deposits (if any) paid or deposited by the tenant under the Lease as set forth on Schedule 2 , receipt of which hereby is acknowledged by Assignee (the items described in clauses (i) and (ii) above, collectively, the " **Assigned Interest** ").

TO HAVE AND TO HOLD the Assigned Interest unto Assignee, its successors and assigns, forever.

Assignee accepts the foregoing assignment and assumes and shall pay, perform and discharge, as and when due, all of the agreements and obligations of Assignor under the Lease accruing from and after the date hereof and agrees to be bound by all of the terms and conditions of the Lease, and Assignee further agrees that, as between Assignor and Assignee, Assignee shall be responsible for any brokerage commissions, fees or payments which may be due or payable hereafter or in connection with any extension or renewal of the term of the Lease or the expansion of the premises demised thereunder.

Assignee shall indemnify, protect, defend and hold Assignor harmless from and against any and all claims, demands, liabilities, losses, costs, damages or expenses (including, reasonable attorneys' fees and costs) arising out of or resulting from Assignee's acts or omissions under the terms of the Lease or any brokerage agreement arising on or after the date hereof, asserted by any tenant, broker or any person or persons claiming under any of them with respect to such Lease or agreement, including the enforcement thereof.

Assignor shall indemnify, protect, defend and hold Assignee harmless from and against any and all claims, demands, liabilities, losses, costs, damages or expenses (including, reasonable attorneys' fees and costs) arising out of or resulting from Assignor's acts or omissions under the terms of the Lease or any brokerage agreement arising prior to the date hereof, asserted by any tenant, broker or any person or persons claiming under any of them with respect to such Lease or agreement, including the enforcement thereof. The foregoing indemnity shall not be subject to the limitations on survivability and liability set forth in Paragraphs 8(c) and 8(g) of the Agreement of Sale (as defined below).

This Assignment is made without any warranty or representation by, or recourse against, Assignor of any kind whatsoever except and to the extent expressly set forth in the Agreement of Sale, dated as of December , 2013, between Assignor and Assignee (the " **Agreement of Sale** ").

This Assignment shall be binding upon and inure to the benefit of the respective successors and assigns of each party hereto. The respective obligations of each party hereto are intended to be binding only on the property of such party and shall not be personally binding upon, nor shall any resort be had to, the private properties of any of its respective trustees, officers, beneficiaries, directors, members, partners or shareholders, or the general partners, officers, directors, members, or shareholders thereof, or any employees or agents of each party hereto.

To facilitate execution, this Assignment may be executed in as many counterparts as may be required. It shall not be necessary that the signatures on behalf of all parties appear on each counterpart hereof. All counterparts hereof shall collectively constitute a single agreement, at such time as each party has executed and delivered a copy hereof to the other.

IN WITNESS WHEREOF, this Assignment of Lease has been executed and delivered by duly authorized persons of Assignor and Assignee as of the day of , 20 .

ASSIGNOR:

_____,
a _____

By: _____
Name:
Title:

ASSIGNEE:

_____,
a _____

By: _____
Name:
Title:

ACKNOWLEDGEMENTS TO
ASSIGNMENT OF LEASES

STATE OF)
: ss.:
COUNTY OF)

On this day of , 20 , before me, the undersigned officer, personally appeared , who, I am satisfied, are the individuals named in the foregoing instrument as the authorized signatory of and, on behalf of did acknowledge that they signed, sealed and delivered the foregoing instrument as their voluntary act and deed and as the voluntary act and deed of said , for the purposes therein contained.

WITNESS my hand and Notarial seal this day of , 20 .

Notary Public

STATE OF)
: ss.:
COUNTY OF)

On this day of , 20 , before me, the undersigned officer, personally appeared , who, I am satisfied, are the individuals named in the foregoing instrument as the authorized signatory of and, on behalf of did acknowledge that they signed, sealed and delivered the foregoing instrument as their voluntary act and deed and as the voluntary act and deed of said , for the purposes therein contained.

WITNESS my hand and Notarial seal this day of , 20 .

Notary Public

SCHEDULE 1
To Assignment Of Lease

ALL that certain plot, piece or parcel of land, situate, lying and being in the Borough of Manhattan, City, County and State of New York, bounded and described as follows:

BEGINNING at a point on the northerly side of 86 th Street, distant 62 feet 2-2/3 inches easterly from the corner formed by the intersection of the westerly side of Lexington Avenue with the said northerly side of 86 th Street;

RUNNING THENCE northerly parallel with the easterly side of Lexington Avenue, 100 feet 8 1/2 inches to the center line of the block;

THENCE easterly along said center line of the block parallel with the northerly side of 86 th Street and part of the distance through a party wall, 76 feet 8 inches;

THENCE southerly again parallel with the easterly side of Lexington Avenue, 100 feet 8-1/2 inches to the northerly side of 86 th Street; and

THENCE westerly along the said northerly side of 86 th Street, 76 feet 8 inches to the point or place of BEGINNING.

SCHEDULE 2
To Assignment Of Lease

Lease, dated as of January 27, 1984, between Town Squash, Inc. (Assignor's predecessor in interest), as landlord, and Orva Hosiery Stores, Inc., as tenant, as amended by that certain Lease Modification dated as of March 31, 1995, that certain Second Amendment to Lease dated as of October 31, 2003 and that certain Third Amendment to Lease dated as of April 14, 2008.

EXHIBIT "D"

OMNIBUS ASSIGNMENT AND ASSUMPTION

THIS OMNIBUS ASSIGNMENT AND ASSUMPTION (this " **Assignment** ") is made on , 20 , by and between , a (" **Assignor** "), having an office at and , a (" **Assignee** "), having an office at .

FOR AND IN CONSIDERATION of the sum of Ten and 00/100 ($10.00) Dollars and other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, Assignor does hereby sell, assign, transfer and set over unto Assignee, to the extent assignable, all of Assignor's right, title and interest in and to the Intangible Property (as such term is defined in that certain Agreement of Sale dated as of , (the " Agreement ") between Assignor and Assignee).

TO HAVE AND TO HOLD the Intangible Property unto Assignee, its successors and assigns, forever.

Assignee accepts the foregoing assignment and assumes the obligation to perform all of the terms, covenants and conditions imposed upon Assignor under the Intangible Property accruing or arising on or after the date hereof.

Assignor shall indemnify, protect, defend and hold Assignee harmless from and against any and all claims, demands, liabilities, losses, costs, damages or expenses (including, reasonable attorneys' fees and costs) arising out of or resulting from Assignor's acts or omissions under or with respect to the Intangible Property arising, accruing or occurring prior to the date hereof.

Assignee shall indemnify, protect, defend and hold Assignor harmless from and against any and all claims, demands, liabilities, losses, costs, damages or expenses (including, reasonable attorneys' fees and costs) arising out of or resulting from Assignee's acts or omissions under or with respect to the Intangible Property arising, accruing or occurring on or after the date hereof.

This Assignment is made without any warranty or representation by, or recourse against, Assignor of any kind whatsoever except and to the extent expressly set forth in the Agreement.

This Assignment shall be binding upon and inure to the benefit of the respective successors and assigns of Assignor and Assignee. The respective obligations of each party hereto are intended to be binding only on the property of such party and shall not be personally binding upon, nor shall any resort be had to, the private properties of any of its respective trustees, officers, beneficiaries, directors, members, partners or shareholders, or the general partners, officers, directors, members, or shareholders thereof, or any employees or agents of each party hereto.

To facilitate execution, this Assignment may be executed in as many counterparts as may be required. It shall not be necessary that the signatures on behalf of all parties appear on each counterpart hereof. All counterparts hereof shall collectively constitute a single agreement, at such time as each party has executed and delivered a copy hereof to the other.

[signatures follow]

IN WITNESS WHEREOF, this Omnibus Assignment and Assumption has been executed and delivered by duly authorized persons of Assignor and Assignee as of the day of , 20 .

ASSIGNOR:

_____,
a _____

By: _____
Name:
Title:

ASSIGNEE:

_____,
a _____

By: _____
Name:
Title:

ACKNOWLEDGEMENTS TO
OMNIBUS ASSIGNMENT AND ASSUMPTION

STATE OF)
: ss.:
COUNTY OF)

On this day of , 20 , before me, the undersigned officer, personally appeared , who, I am satisfied, are the individuals named in the foregoing instrument as the authorized signatory of and, on behalf of did acknowledge that they signed, sealed and delivered the foregoing instrument as their voluntary act and deed and as the voluntary act and deed of said , for the purposes therein contained.

WITNESS my hand and Notarial seal this day of , 20 .

Notary Public

STATE OF)
: ss.:
COUNTY OF)

On this day of , 20 , before me, the undersigned officer, personally appeared , who, I am satisfied, are the individuals named in the foregoing instrument as the authorized signatory of and, on behalf of did acknowledge that they signed, sealed and delivered the foregoing instrument as their voluntary act and deed and as the voluntary act and deed of said , for the purposes therein contained.

WITNESS my hand and Notarial seal this day of , 20 .

Notary Public

EXHIBIT "E"

BILL OF SALE

KNOW ALL PERSONS BY THESE PRESENTS that on this day of 20 , the undersigned, , a , having an office at (" **Seller** "), pursuant to the terms of that certain Agreement of Sale dated as of (the " **Agreement** ") between Seller and , a , having an office at (" **Purchaser** "), and in consideration for the Purchase Price set forth (and defined) in the Agreement and other good and valuable consideration all as more particularly set forth in the Agreement, the receipt and sufficiency of which hereby are acknowledged, has conveyed to Purchaser, concurrently with the execution of this Bill of Sale, fee title in and to the property set forth on Exhibit A (the " **Real Property** ") and hereby sells, assigns, transfers, conveys and delivers unto Purchaser absolutely, free and clear of any and all liens, encumbrances or security interests, all of Seller's right, title, and interest in and to all fixtures, equipment and other articles of personal property located on, attached to or used in the operation of the Real Property, and any replacements or substitutions therefor (all such fixtures, articles and personal property hereinafter being collectively referred to as the " **Personal Property** ").

TO HAVE AND TO HOLD the same unto said Purchaser, its successors and assigns, forever.

Purchaser acknowledges and agrees that, except as expressly provided in, and subject to the limitations contained in, the Agreement, Seller has not made, does not make and specifically disclaims any representations, warranties, promises, covenants, agreements or guaranties of any kind or character whatsoever, whether express or implied, oral or written, past, present or future, of, as to, concerning or with respect to (a) the nature, quality or conditions of the Personal Property, (b) the income to be derived from the Personal Property, (c) the suitability of the Personal Property for any and all activities and uses which Assignee may conduct thereon, (d) the compliance of or by the Personal Property or its operation with any laws, rules, ordinances or regulations of any applicable governmental authority or body, (e) the quality, habitability, merchantability or fitness for a particular purpose of any of the Personal Property, or (f) any other matter with respect to the Personal Property. Purchaser further acknowledges and agrees that, having been given the opportunity to inspect the Personal Property, Purchaser is relying solely on its own investigation of the Personal Property and not on any information provided or to be provided by Assignor, except as specifically provided in the Agreement. Purchaser further acknowledges and agrees that (a) any information provided or to be provided with respect to the Personal Property was obtained from a variety of sources and that Seller has not made any independent investigation or verification of such information; and (b) the sale of the Personal Property as provided for herein is made on an "as is, where is" condition and basis "with all faults," except as specifically provided in, and subject to the limitations contained in, the Agreement.

The obligations of Seller are intended to be binding only on the property of Seller and shall not be personally binding upon, nor shall any resort be had to, the private properties of any of its trustees, officers, beneficiaries, directors, members, partners or shareholders, or the general partners, officers, directors, members, or shareholders thereof, or any employees or agents of Seller.

Seller hereby agrees to execute and deliver such further instruments of conveyance, transfer and assignment reasonably acceptable to Purchaser, and to take such other and further action without further consideration, as Purchaser reasonably may request, to evidence conveyance, transfer and assignment of the Personal Property conveyed hereunder, and to assist Purchaser in exercising all rights with regard thereto.

This Bill of Sale shall be binding upon the successors and assigns of Seller and shall inure to the benefit of the successors and assigns of Purchaser.

IN WITNESS WHEREOF, Seller has caused this Bill of Sale to be executed and delivered by duly authorized persons as of the date set forth above.

_____,
a _____

By: _____
Name:
Title:

ACKNOWLEDGEMENT TO
BILL OF SALE

STATE OF)
: ss.:
COUNTY OF)

On this day of , 20 , before me, the undersigned officer, personally appeared , who, I am satisfied, are the individuals named in the foregoing instrument as the authorized signatory of and, on behalf of did acknowledge that they signed, sealed and delivered the foregoing instrument as their voluntary act and deed and as the voluntary act and deed of said , for the purposes therein contained.

WITNESS my hand and Notarial seal this day of , 20 .

Notary Public

EXHIBIT "F"

TENANT NOTICE

, 20

BY CERTIFIED MAIL,
RETURN RECEIPT REQUESTED

Orva Hosiery Stores, Inc.
155 East 86th Street
New York, New York 10028
Attention: [ ]

Re: 151-155 East 86th Street, New York, NY – Lease dated as of January 27, 1984, between Town Squash, Inc. (predecessor in interest to Town Sports International LLC), as landlord, and Orva Hosiery Stores, Inc., as tenant, as amended by that certain Lease Modification dated as of March 31, 1995, that certain Second Amendment to Lease dated as of October 31, 2003 and that certain Third Amendment to Lease dated as of April 14, 2008 (the "Third Amendment"; collectively, the "Lease")

Ladies and Gentlemen:

Please be advised that Town Sports International, LLC (" Seller ") has sold to [ ], a Delaware limited liability company (" Purchaser "), the referenced property in which you occupy certain premises (the " Premises ") as a tenant pursuant to the Lease from Seller or its predecessor-in-interest.

In connection with such sale, Seller has assigned to Purchaser its interest as the landlord in, and Purchaser has assumed all obligations of the landlord accruing from and after the date hereof under, the Lease. Accordingly, you are hereby directed to perform all of your obligations under the Lease from and after the date hereof to and for the benefit of Purchaser.

Effective immediately, all notices and other communications under the Lease shall be sent to Purchaser at the following address:

[ ]
[ ]
[ ]
Attention: [ ]
Email: [ ]

and all rental and other payments that become due from and after the date hereof should be made payable to Purchaser and should be sent to Purchaser, as landlord, at the following address:

[ ]
[ ]
[ ]
Attention: [ ]

Please have your insurance broker deliver to Purchaser at Purchaser's address for notices set forth above, a revised certificate of insurance replacing Seller as the additional named insured with that of Purchaser.

If you have any questions, please contact [ ] at [ ].

Sincerely,

TOWN SPORTS INTERNATIONAL, LLC

By: _____
Name:
Title:

cc: Mishaan Dayon & Lieblich
1370 Broadway, Suite 802
New York, New York 10018
Attention: Saul A. Mishaan, Esq.

EXHIBIT "G-1"

PERMITTED ENCUMBRANCES

1. Building restrictions and zoning regulations and ordinances and amendments and additions thereto adopted by any governmental authority having or asserting jurisdiction thereover, affecting the Property at the date hereof.

2. Any presently existing easement or right of use created in favor of any public utility corporation for electricity, steam, gas, telephone or other service in any street or avenue abutting the Property and the right of said utility companies to use and maintain cables, terminal boxes, lines, service connections, poles, mains and other facilities in, upon and across the Property.

3. Covenants, restrictions, agreements and easements of record affecting the Property as of the Effective Date.

4. The following as shown on that certain Survey made by Boro Land Surveying, P.C., dated November 13, 2013: (a) encroachments upon and projections over East 86 th Street by signs, ornamental stone, metal store front, flagpole, sprinkler, water meter, awning sign and drain; and; and (b) party wall straddles a portion of the northwesterly record line.

5. Taxes not yet due and payable, subject to apportionment pursuant to Paragraph 15 of the Agreement.

6. The Orva Lease.

7. Variations between tax map and record description.

EXHIBIT "G-2"

EXISTING VIOLATIONS

1. Violation #V0101302CZSTF03DP, dated January 3, 2002.
2. Violation #V010302CZSTF06DP, dated January 3, 2002.
3. Violation #V082213E9027/479933, dated August 22, 2013.
4. Violation #56128, dated February 15, 1991.
5. Violation #63068, dated September 24, 1993.
6. Violation #10646235H, dated March 11, 1999.
7. Violation # 10646795X, dated June 3, 1999.
8. Violation #10920790X, dated April 7, 2010.
9. Violation #1174832J, dated April 7, 2010.
10. Violation #E244389, dated September 1, 2009.
11. Violation #E24438957, dated September 24, 2013.
12. Violation # E244507, dated April 6, 2009.

EXHIBIT "H"

HOLDBACK ESCROW AGREEMENT

THIS HOLDBACK ESCROW AGREEMENT (this " **Agreement** ") is made and entered into as of , , by and among **TOWN SPORTS INTERNATIONAL, LLC** , a New York limited liability company (" **Seller** "), [ ], a [ ] (" **Purchaser** "), and **FIDELITY NATIONAL TITLE INSURANCE COMPANY** (" **Escrow Agent** ").

W I T N E S S E T H :

WHEREAS , Purchaser and Seller entered into that certain Agreement of Sale dated as of , 2013 (the " **Purchase Agreement** "), pursuant to which Seller agreed to sell to Purchaser all of Seller's right, title and interest in, to and under the Property (as defined in the Purchase Agreement), subject to the terms and conditions more particularly set forth therein; and

WHEREAS , pursuant to Paragraph 8(f) of the Purchase Agreement, Seller has delivered to Escrow Agent the Holdback Escrow Amount (the " **Escrow Funds** "); and

WHEREAS , Escrow Agent is willing to hold the Escrow Funds in escrow on the terms and conditions hereinafter set forth.

NOW, THEREFORE , the parties hereto agree as follows:

1. All capitalized terms used herein, but not otherwise defined herein, shall have the meanings ascribed to such terms in the Purchase Agreement.

2. Escrow Agent hereby acknowledges receipt of the Escrow Funds to be held in escrow in accordance with the terms and conditions of this Agreement. Escrow Agent shall hold the Escrow Funds, together with all interest earned thereon, in an interest-bearing escrow account, in accordance with the following:

(a) Escrow Agent shall hold the Escrow Funds, together with all interest earned thereon, in a federally-insured interest-bearing account at JPMorgan Chase Bank. Escrow Agent shall have no liability for any fluctuations in the interest rate paid on the Escrow Funds, and is not a guarantor thereof. Escrow Agent shall have no liability in the event of the failure, insolvency or inability of the depositary to pay said funds, or accrued interest upon demand for withdrawal. Additionally, Escrow Agent shall have no responsibility for levies by any taxing authority(ies) based upon the Federal Taxpayer I.D. Numbers used to establish the account or accounts to hold the Deposit.

(b) In the event that there have been no Survival Claims (as hereinafter defined) asserted by Purchaser on or prior to [, 2014] [1] (the " **Outside Date** "), on the first business day following the Outside Date, Escrow Agent is hereby instructed to release to Seller, without further instructions, the Escrow Funds then remaining. In the event that any Survival Claim shall have been asserted on or prior to the Outside Date, then Escrow Agent shall continue to hold the Escrow Funds, but if the actual damages asserted by Purchaser in respect of such Survival Claim are less than the amount of Escrow Funds, then Escrow Agent is hereby instructed to release to Seller within two (2) business days after the Outside Date the portion of the Escrow Funds in excess of the amount of such Survival Claims. Upon the final determination or settlement of all Survival Claims asserted on or prior to the Outside Date, the amount of the Escrow Funds not required to be disbursed to Purchaser pursuant to the final determination or settlement of all such Survival Claims in the aggregate shall be released by Escrow Agent to Seller.

(c) If Escrow Agent receives a written request signed by Seller or Purchaser (the " **Noticing Party** ") stating that the Noticing Party is entitled to all or a portion of the Escrow Funds, Escrow Agent shall deliver (by reputable overnight courier) a copy of such request to the other party hereto (the " **Non-Noticing Party** "). The Non-Noticing Party shall have the right to object to such request for the Escrow Funds by written notice of objection delivered to Escrow Agent within five (5) business days after the date of Escrow Agent's delivery of such copy to the Non-Noticing Party, but not thereafter. If Escrow Agent shall not have so received a written notice of objection from the Non-Noticing Party within the time herein prescribed, Escrow Agent shall deliver the Escrow Funds (or such portion thereof as was requested by the Noticing Party) to the Noticing Party. If Escrow Agent shall have received a written notice of objection within the time herein prescribed, Escrow Agent shall refuse to comply with any requests or demands on it and shall continue to hold the Escrow Funds, together with any interest earned thereon, until Escrow Agent receives either (i) a written notice signed by both Seller and Purchaser , stating who is entitled to the Escrow Funds (or the portion so specified), or (ii) the final non-appealable order or judgment of a court of competent jurisdiction directing disbursement of the Escrow Funds in a specific manner, in either of which events Escrow Agent shall then disburse the Escrow Funds in accordance with such order. Escrow Agent shall not be or become liable in any way or to any person for its refusal to comply with any such requests or demands until and unless it has received a direction of the nature described in clauses (i) or (ii) immediately above. Anything herein to the contrary notwithstanding, Escrow Agent shall not, at any time prior to the Business Day immediately following the Outside Date, release to Seller any portion of the Escrow Funds without the prior written consent of Purchaser.

(d) Any notice to Escrow Agent shall be sufficient only if received by Escrow Agent within the applicable time period set forth herein. All mailings and notices from Escrow Agent to Seller and/or Purchaser, or from Seller and/or Purchaser to Escrow Agent,

[1] 180 days after the Closing Date under the Purchase Agreement.

provided for in this Agreement shall be addressed to the party to receive such notice at its notice address set forth in Section 3 hereof (with copies to be similarly sent to the additional parties therein indicated).

(e) Notwithstanding the foregoing, if Escrow Agent shall have received a written notice of objection as provided for in clause (c) immediately above within the time therein prescribed, or shall have received at any time before actual disbursement of the Escrow Funds (or the applicable portion thereof), a written notice signed by either Seller or Purchaser disputing entitlement to the Escrow Funds, or shall otherwise believe in good faith at any time that a disagreement or dispute has arisen between the parties hereto over entitlement to the Escrow Funds (whether or not litigation has been instituted), Escrow Agent shall have the right, upon written notice to both Seller and Purchaser, (i) to deposit the Escrow Funds with the Clerk of the Court in which any litigation is pending and/or (ii) to take such reasonable affirmative steps as it may, at its option, elect in order to terminate its duties as Escrow Agent, including, without limitation, the depositing of the Escrow Funds with a court of competent jurisdiction and the commencement of an action for interpleader, the costs thereof to be borne by whichever of Seller or Purchaser is the losing party, and thereupon Escrow Agent shall be released of and from all liability hereunder except for any previous gross negligence or willful misconduct.

(f) Escrow Agent is acting hereunder without charge as an accommodation to Seller and Purchaser, it being understood and agreed that Escrow Agent shall not be liable for any error in judgment or any act done or omitted by it in good faith or pursuant to court order, or for any mistake of fact or law. Escrow Agent shall not incur any liability in acting upon any document or instrument believed thereby to be genuine. Escrow Agent is hereby released and exculpated from all liability hereunder, except only for willful misconduct or gross negligence. Escrow Agent may assume that any person purporting to give it any notice on behalf of any party has been authorized to do so. Escrow Agent shall not be liable for, and Seller and Purchaser hereby jointly and severally agree to indemnify Escrow Agent against, any loss, liability or expense, including reasonable attorney's fees, arising out of any dispute under this Agreement, including the cost and expense of defending itself against any claim arising hereunder.

(g) Delivery of the Escrow Funds in accordance with the terms of this Agreement shall be made by wire transfer of immediately available federal funds or by certified, unendorsed check by Escrow Agent or by cashier's check, at the option of the party receiving the Escrow Funds (or applicable portion thereof).

3. Except as specified in Section 2 hereof, all notices, certificates and other communications permitted hereunder shall be in writing and may be served and given personally (with signed delivery receipt obtained) or by reputable overnight courier providing proof of delivery, addressed as follows and shall be deemed delivered as set forth in the Agreement:

If to Seller:	Town Sports International, LLC 5 Penn Plaza 4 th Floor New York, New York 10001 Attention: General Counsel
With a copy to:	Cole, Schotz, Meisel, Forman & Leonard, P.A. Court Plaza North 25 Main Street Hackensack, New Jersey 07602-0800 Attention: Michael E. Jones, Esq.
If to Purchaser:	[ ] [ ] [ ] [ ] Attention: [ ]
With a copy to:	[ ] [ ] [ ] Attention: [ ]
If to Escrow Agent:	Fidelity National Title Insurance Company 485 Lexington Avenue, 18th Floor New York, New York 10017 Attention: Lawrence Holmes

Each party may, by notice as aforesaid, designate such other person or persons and/or such other address or addresses for the receipt of notices. Except as specified in Section 2 hereof, copies of all notices, certificates or other communications relating to this Agreement in respect to which Escrow Agent is not the addressee or sender shall be sent to Escrow Agent in the manner hereinabove set forth. Notices shall be deemed served and received upon the earlier of the first business day following the date of deposit with a reputable overnight delivery service providing proof of delivery, or upon delivery in person (with signed delivery receipt obtained). A party's failure or refusal to accept service of a notice shall constitute delivery of the notice. Notices may be given by counsel for each party and each such notice so given by counsel shall have the same force and effect as if sent by such party.

4. This Agreement shall be binding on and inure to the benefit of all parties hereto and their respective successors and permitted assigns and may not be modified or amended orally, but only in writing signed by all parties hereto. Neither Seller nor Purchaser may assign its rights or obligations under this Agreement to any party other than a party to whom

Seller or Purchaser, as applicable, assigns its right, title and interest in, to and under the Purchase Agreement to the extent permitted thereunder and no permitted assignment by Seller or Purchaser shall be effective unless and until such party shall have delivered to Escrow Agent (i) written notice of such assignment and (ii) an assumption agreement with respect to all of the obligations of the assigning party hereunder.

5. The undersigned hereby submit to personal jurisdiction in the State of New York for all matters, if any, which shall arise with respect to this Agreement, and waive any and all rights under the law of any other state or country to object to jurisdiction within the State of New York or to institute a claim of *forum non conveniens* with respect to any court in the State of New York for the purposes of litigation with respect to this Agreement. EACH PARTY HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT OR COUNTERCLAIM ARISING IN CONNECTION WITH OR OTHERWISE RELATING TO THIS AGREEMENT.

6. Each part of this Agreement is intended to be severable. If any term, covenant, condition or provision of this Agreement is held to be unlawful, invalid or unenforceable by a court of competent jurisdiction, to the extent permitted by law, such illegality, invalidity or unenforceability shall not affect the remaining provisions of this Agreement, which shall remain in full force and effect and shall be binding upon the parties.

7. This Agreement may be executed in any number of counterparts, each counterpart for all purposes being deemed an original, and all such counterparts shall together constitute only one and the same agreement.

8. Notwithstanding anything herein to the contrary, interest earned on the Escrow Funds shall be disbursed to the party entitled to the Escrow Funds or, if both parties are entitled to a portion of the Escrow Funds, the interest earned on the Escrow Funds shall be disbursed ratably based on the portion of the Escrow Funds received by each such party.

9. Nothing herein is intended to modify or amend the provisions of Paragraph 8(f) of the Purchase Agreement, and in the event of a conflict between the provisions hereof and the provisions of such Paragraph 8(f) as to rights or obligations of Seller and Purchaser, the provisions of such Paragraph 8(f) shall govern.

10. Purchaser, at its sole cost and expense, shall pay any and all charges, fees, costs and expenses of the Escrow Agent in connection with this Agreement and the performance of Escrow Agent’s duties hereunder. Notwithstanding the immediately preceding sentence, the Escrow Agent hereby acknowledges and agrees that the Escrow Agent will not impose any such charges, fees, costs or expenses hereunder.

[Remainder of Page Intentionally Left Blank]

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

SELLER :

TOWN SPORTS INTERNATIONAL, LLC

By: _____
Name:
Title:

PURCHASER :

[ ]

By: _____
Name:
Title:

ESCROW AGENT :

FIDELITY NATIONAL TITLE INSURANCE COMPANY

By: _____
Name:
Title:

EXHIBIT "I"

TENANT ESTOPPEL

(LETTERHEAD OF ORVA HOSIERY STORES, INC.)

February , 2014

Town Sports International, LLC
5 Penn Plaza, 4 th Floor
New York, New York 10001
Attention: Real Estate Department

Ladies and Gentlemen:

Reference is made to that certain tenant estoppel dated December 17, 2013 executed by Orva Hosiery Stores, Inc. (" Tenant "), a copy of which is attached hereto as Exhibit A (the " Orva Estoppel ").

The undersigned hereby ratifies, affirms, reaffirms, confirms and acknowledges the certifications made in the Orva Estoppel by Tenant with the following update to the certification set forth in Paragraph 4 thereof:

> The monthly base rent due under the Lease is $ and has been paid through the month of . All additional rent and other sums or charges due and payable under the Lease by Tenant have been paid in full and no such additional rents or other sums or charges have been paid for more than one (1) month in advance of the due date thereof.

The undersigned individual hereby certifies that he or she is duly authorized to sign, acknowledge and deliver this letter on behalf of Tenant.

Tenant acknowledges that Town Sports International, LLC, as landlord (together with its successors and assigns, " Landlord "), and Landlord's lenders, successors and assigns will rely on this letter. The information contained in this letter shall be for the benefit of Landlord and Landlord's lenders, successors and assigns.

Very truly yours,

ORVA HOSIERY STORES, INC.

By: _____
Name:
Title:

EXHIBIT A

ORVA ESTOPPEL

(To Be Attached)

EXHIBIT "J"

SELLER CERTIFICATE

(LETTERHEAD OF TOWN SPORTS INTERNATIONAL, LLC)

February , 2014

Monty Two East 86th Street Associates LLC
505 Park Avenue, Suite 1700
New York, New York 10022
Attention: Roy Stillman and Chris Sullivan

Ladies and Gentlemen:

Reference is made to that certain tenant estoppel dated December 17, 2013 executed by Orva Hosiery Stores, Inc. (" Tenant "), a copy of which is attached hereto as Exhibit A (the " Orva Estoppel ").

The undersigned hereby ratifies, affirms, reaffirms, confirms and acknowledges the certifications made in the Orva Estoppel by Tenant with the following update to the certification set forth in Paragraph 4 thereof:

> The monthly base rent due under the Lease is $ and has been paid through the month of . All additional rent and other sums or charges due and payable under the Lease by Tenant have been paid in full and no such additional rents or other sums or charges have been paid for more than one (1) month in advance of the due date thereof.

The undersigned individual hereby certifies that he or she is duly authorized to sign, acknowledge and deliver this letter on behalf of Town Sports International, LLC (" TSI ").

TSI acknowledges that Monty Two East 86th Street Associates LLC (together with its successors and assigns, " Purchaser "), and Purchaser's lenders, successors and assigns will rely on this letter. The information contained in this letter shall be for the benefit of Purchaser and Purchaser's lenders, successors and assigns.

Very truly yours,

TOWN SPORTS INTERNATIONAL, LLC

By: _____
Name:
Title:

EXHIBIT A

ORVA ESTOPPEL

(To Be Attached)

EXHIBIT "K"

NON-FOREIGN PERSON AFFIDAVIT

Section 1445 of the Internal Revenue Code provides that a purchaser of a United States real property interest must withhold tax if the seller is a foreign person. To inform the purchaser that withholding of tax is not required upon the disposition of a United States real property interest by , a ("Seller"), the undersigned hereby certifies the following on behalf of Seller:

1. Seller is not a foreign corporation, foreign partnership, foreign trust, or foreign estate (as those terms are defined in the Internal Revenue Code and Income Tax Regulations);

2. Seller's United States employer identification number is ; and

3. Seller's address is .

Seller understands that this certification may be disclosed to the Internal Revenue Service by the purchaser and that any false statement contained herein could be punished by fine, imprisonment, or both.

Under penalties of perjury, I declare that I have examined this certification and to the best of my knowledge and belief it is true, correct, and complete, and I further declare that I have authority to sign this document on behalf of Seller.

[NO FURTHER TEXT ON THIS PAGE]

Subscribed and sworn to before me this day of , 2014.

Notary Public

My commission expires:

_____ (Seller)

By: _____ (Seal)
Name: _____
Title: _____

EXHIBIT "L"

INTENTIONALLY OMITTED

EXHIBIT "M"

TERMINATION PAYMENT ESCROW AGREEMENT

TERMINATION PAYMENT ESCROW AGREEMENT

THIS TERMINATION PAYMENT ESCROW AGREEMENT (this " **Agreement** ") is made and entered into as of , , by and among TOWN SPORTS INTERNATIONAL, LLC, a New York limited liability company (" **Seller** "), [ ], a [ ] (" **Purchaser** "), and FIDELITY NATIONAL TITLE INSURANCE COMPANY (" **Escrow Agent** ").

W I T N E S S E T H:

WHEREAS, Purchaser and Seller entered into that certain Agreement of Sale dated as of , 2013 (the " **Purchase Agreement** "), pursuant to which Seller agreed to sell to Purchaser all of Seller's right, title and interest in, to and under the Property (as defined in the Purchase Agreement), subject to the terms and conditions more particularly set forth therein; and

WHEREAS, pursuant to Paragraph 15(e)(ii) of the Purchase Agreement, Seller has delivered to Escrow Agent the sum of One Million Seven Hundred Fifty Thousand and 00/100 ($1,750,000.00) Dollars (the " **Escrow Funds** "), which sum represents fifty (50%) percent (" **Seller's Termination Payment Share** ") of the termination payment provided for in Section 5 of the Third Amendment (the " **Termination Payment** "); and

WHEREAS, Escrow Agent is willing to hold the Escrow Funds in escrow on the terms and conditions hereinafter set forth.

NOW, THEREFORE, the parties hereto agree as follows:

1. All capitalized terms used herein, but not otherwise defined herein, shall have the meanings ascribed to such terms in the Purchase Agreement.

2. Escrow Agent hereby acknowledges receipt of the Escrow Funds to be held in escrow in accordance with the terms and conditions of this Agreement. Escrow Agent shall hold the Escrow Funds, together with all interest earned thereon, in an interest-bearing escrow account, in accordance with the following:

(a) Escrow Agent shall hold the Escrow Funds, together with all interest earned thereon, in a federally-insured interest-bearing account at JPMorgan Chase Bank. Escrow Agent shall have no liability for any fluctuations in the interest rate paid on the Escrow Funds, and is not a guarantor thereof. Escrow Agent shall have no liability in the event of the

failure, insolvency or inability of the depositary to pay said funds, or accrued interest upon demand for withdrawal. Additionally, Escrow Agent shall have no responsibility for levies by any taxing authority(ies) based upon the Federal Taxpayer I.D. Numbers used to establish the account or accounts to hold the Escrow Funds.

(b) (i) As a condition to the release of the Escrow Funds, Purchaser shall execute and deliver: (1) to Seller the Termination Payment Certification; and (2) to Escrow Agent the Termination Payment Certification Package. Immediately following the later to occur of (x) Escrow Agent's receipt of the Termination Payment Certification Package, and (y) Seller's confirmation to the Escrow Agent of Seller's receipt of the Termination Payment Certification or Purchaser's delivery to the Escrow Agent of a receipt evidencing that Seller was furnished with the Termination Payment Certification, Escrow Agent shall release to the Tenant, without the consent of Seller or Purchaser, funds in the amount of the Termination Payment listed in the Termination Payment Certification. Seller's Termination Payment Share shall be paid out of the Escrow Funds and any balance (" **Excess Escrow Funds** ") shall be returned to Seller by the Escrow Agent simultaneously with the release to the Tenant of the applicable portion of the Escrow Funds from escrow.

(ii) Purchaser's Termination Payment Share shall, upon the Escrow Agent's receipt thereof, be held and disbursed by the Escrow Agent in accordance with: (1) the terms of this Agreement relating to the Escrow Funds; and (2) Paragraph 15(e)(ii) of the Purchase Agreement.

(iii) Notwithstanding anything to the contrary contained herein, if for any reason Purchaser has not delivered the Termination Payment Certification to Seller and the Termination Payment Certification Package to Escrow Agent on or before the last day of the twenty-third (23 rd) month anniversary of the date hereof (the " **Outside Date** "), then Escrow Agent is hereby instructed to release to Seller, on the first business day following the Outside Date and without further instructions, the Escrow Funds deposited by Seller hereunder.

(c) All mailings and notices from Escrow Agent to Seller and/or Purchaser, or from Seller and/or Purchaser to Escrow Agent, provided for in this Agreement shall be in writing addressed to the party to receive such notice at its notice address set forth in Section 3 hereof (with copies to be similarly sent to the additional parties therein indicated).

(d) Escrow Agent is acting hereunder without charge as an accommodation to Seller and Purchaser, it being understood and agreed that Escrow Agent shall not be liable for any error in judgment or any act done or omitted by it in good faith or pursuant to court order, or for any mistake of fact or law. Escrow Agent shall not incur any liability in acting upon any document or instrument believed thereby to be genuine. Escrow Agent is hereby released and exculpated from all liability hereunder, except only for willful misconduct or gross negligence. Escrow Agent may assume that any person purporting to give it any notice on behalf of any party

has been authorized to do so. Escrow Agent shall not be liable for, and Seller and Purchaser hereby jointly and severally agree to indemnify Escrow Agent against, any loss, liability or expense, including reasonable attorney's fees, arising out of any dispute under this Agreement, including the cost and expense of defending itself against any claim arising hereunder.

(e) Delivery by Escrow Agent to the Tenant of Seller's Termination Payment Share and Purchaser's Termination Payment Share in accordance with the terms of this Agreement, and delivery by Escrow Agent to Seller of any Excess Escrow Funds, shall be made by wire transfer of immediately available federal funds or by certified, unendorsed check by Escrow Agent or by cashier's check, based on the information set forth in the Termination Payment Certification Package.

(f) Delivery by Escrow Agent to Seller of any Excess Escrow Funds shall be made by wire transfer of immediately available federal funds or by certified, unendorsed check by Escrow Agent or by cashier's check, based on written instructions furnished by Seller to Escrow Agent (which instructions may be given by email to Lawrence Holmes at larry.holmes@fnf.com) on the date on which Seller receives the Termination Payment Certification.

3 All notices and other communications permitted hereunder shall be in writing and may be served and given personally (with signed delivery receipt obtained) or by reputable overnight courier providing proof of delivery, addressed as follows and shall be deemed delivered as set forth in the Agreement:

If to Seller:	Town Sports International, LLC 5 Penn Plaza 4th Floor New York, New York 10001 Attention: General Counsel
With a copy to:	Cole, Schotz, Meisel, Forman & Leonard, P.A. Court Plaza North 25 Main Street Hackensack, New Jersey 07602-0800 Attention: Michael E. Jones, Esq.
If to Purchaser:	[ ] [ ] [ ] [ ] Attention: [ ]

With copy to:	[ ] [ ] [ ] [ ] Attention: [ ]
If to Escrow Agent:	Fidelity National Title Insurance Company 485 Lexington Avenue, 18th Floor New York, New York 10017 Attention: Lawrence Holmes

Each party may, by notice as aforesaid, designate such other person or persons and/or such other address or addresses for the receipt of notices. Notices shall be deemed served and received upon the earlier of the first business day following the date of deposit with a reputable overnight delivery service providing proof of delivery or upon delivery in person (with signed delivery receipt obtained). A party's failure or refusal to accept service of a notice shall constitute delivery of the notice. Notices may be given by counsel for each party and each such notice so given by counsel shall have the same force and effect as if sent by such party.

4. This Agreement shall be binding on and inure to the benefit of all parties hereto and their respective successors and permitted assigns and may not be modified or amended orally, but only in writing signed by all parties hereto. Neither Seller nor Purchaser may assign its rights or obligations under this Agreement to any party other than a party to whom Seller or Purchaser, as applicable, assigns its right, title and interest in, to and under the Purchase Agreement to the extent permitted thereunder and no permitted assignment by Seller or Purchaser shall be effective unless and until such party shall have delivered to Escrow Agent (i) written notice of such assignment and (ii) an assumption agreement with respect to all of the obligations of the assigning party hereunder.

5. The undersigned hereby submit to personal jurisdiction in the State of New York for all matters, if any, which shall arise with respect to this Agreement, and waive any and all rights under the law of any other state or country to object to jurisdiction within the State of New York or to institute a claim of forum non conveniens with respect to any court in the State of New York for the purposes of litigation with respect to this Agreement. EACH PARTY HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT OR COUNTERCLAIM ARISING IN CONNECTION WITH OR OTHERWISE RELATING TO THIS AGREEMENT.

6. Each part of this Agreement is intended to be severable. If any term, covenant, condition or provision of this Agreement is held to be unlawful, invalid or unenforceable by a court of competent jurisdiction, to the extent permitted by law, such illegality, invalidity or unenforceability shall not affect the remaining provisions of this Agreement, which shall remain in full force and effect and shall be binding upon the parties.

7. This Agreement may be executed in any number of counterparts, each counterpart for all purposes being deemed an original, and all such counterparts shall together constitute only one and the same agreement.

8. Notwithstanding anything herein to the contrary, interest earned on the Escrow Funds shall be disbursed to Seller.

9. Purchaser, at its sole cost and expense, shall pay any and all charges, fees, costs and expenses of the Escrow Agent in connection with this Agreement and the performance of Escrow Agent’s duties hereunder. Notwithstanding the immediately preceding sentence, the Escrow Agent hereby acknowledges and agrees that the Escrow Agent will not impose any such charges, fees, costs or expenses hereunder.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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

SELLER:

TOWN SPORTS INTERNATIONAL, LLC

By: _____
Name: _____
Title: _____

PURCHASER:

_____

By: _____
Name: _____
Title: _____

ESCROW AGENT:

FIDELITY NATIONAL TITLE INSURANCE COMPANY

By: _____
Name: _____
Title: _____

EXHIBIT "N"

FRIEDLAND BUILDING LETTER AGREEMENT

TOWN SPORTS INTERNATIONAL, LLC
5 PENN PLAZA
NEW YORK, NEW YORK 10001

, 2013

Monty Two East 86th Street Associates LLC
505 Park Avenue
Suite 1700
New York, New York 10022

Re: Agreement of Sale dated as of [ ], 2013 between Town Sports International, LLC (" Seller ") and Monty Two East 86th Street Associates LLC (" Purchaser ") with respect to the real property and improvements located at 151 East 86th Street, New York, New York (the " Property ")

Dear Sir:

As you know, Seller's affiliate, TSI East 86, LLC (" Tenant "), currently leases from 161 East 86th Street Company LLC (" Landlord ") premises on the third and fourth floors of the building located at 157-161 East 86th Street, New York, New York (the " Adjacent Building ") pursuant to an Agreement of Lease dated as of June 15, 1994, as amended by a letter agreement dated as of June 15, 1994 (the " Letter Agreement "), a letter dated November 17, 1994 (the " Letter ") and that certain First Amendment of Lease dated as of March 10, 2006 (the " Adjacent Building Lease Amendment "; such Agreement of Lease, as amended by the Letter Agreement, the Letter and the Adjacent Building Lease Amendment, the " Adjacent Building Lease "). The third and fourth floors of the Adjacent Building are connected to the Property by doorways on each floor (the " Connecting Doors "). Section 62(g) of the Adjacent Building Lease requires that prior to the expiration or sooner termination of the Adjacent Building Lease, Tenant shall perform the work necessary to remove the Connecting Doors and related alterations and additions and restore the areas of the third and fourth floors of the Adjacent Building affected by the installation and/or removal of the Connecting Doors to substantially the same condition that existed prior to the installation of the Connecting Doors, which work will include, without limitation: (a) rebuilding the walls separating the Adjacent Building and the Property in the area of the Connecting Doors, (b) restoring all structural and non-structural elements, such as

supports, removed or installed in connection with the installation of the Connecting Doors, and (c) removing any ramps or elevations installed in connection with the Connecting Doors (collectively, the " Restoration Work "). Section 62(g) of the Adjacent Building Lease further provides that if Tenant fails to perform the Restoration Work, Landlord may upon ten (10) days prior notice to Tenant perform the Restoration Work on Tenant's behalf and enter the Property and perform the Restoration Work on the Property.

Purchaser acknowledges having been provided with Section 62(g) of the Adjacent Building Lease and the portions of the Adjacent Building Lease Amendment making modifications to Section 62(g). Purchaser specifically acknowledges that at the time it acquires fee title to the Property it will permit Landlord access to the Property to perform the Restoration Work subject to and in accordance with the terms of Section 62(g) of the Friedland Lease.

Seller shall cause Tenant to: (a) perform the Restoration Work prior to the earlier to occur of: (i) expiration or sooner termination of the Adjacent Building Lease, and (ii) the date TSI East 86 TH Street II, LLC (the " Club Tenant ") vacates and surrenders the Property to Landlord pursuant to the terms of the lease dated as of December , 2013 between Purchaser and the Club Tenant; and (b) provide Purchaser with copies of any and all notices which Tenant receives from Landlord with respect to the performance of the Restoration Work. If Tenant fails to perform the Restoration Work pursuant to the terms of the Adjacent Building Lease and the first sentence of this paragraph, then Purchaser shall have the right to perform the Restoration Work and be reimbursed, upon demand, for all costs and expenses incurred by Purchaser in connection therewith.

Purchaser acknowledges that Seller will provide an executed copy of this letter agreement to Landlord.

We would appreciate if you would confirm your agreement to the foregoing terms by signing a copy of this letter agreement in the space provided below and returning an original to us. This letter agreement may be executed in one or more counterparts and by email (e.g., PDF) or facsimile, provided that any aggregate number of counterparts having at least one original, PDF or facsimile signature of each party affixed, shall constitute one and the same letter agreement.

Sincerely,

Town Sports International, LLC

By: _____
Name: _____
Title: _____

Agreed and Accepted on this day of 2013:

Monty Two East 86 th Street Associates LLC

By: _____
Name:
Title:

EXHIBIT "O-1"

GROUND LEASE CERTIFICATION (EFFECTIVE DATE)

December , 2013

Town Sports International, LLC
5 Penn Plaza
4 th Floor
New York, New York 10001

Ladies and Gentlemen:

As an inducement for Town Sports International, LLC (" TSI ") to enter into that certain Agreement of Sale dated as of December , 2013 (the " Agreement of Sale ") with Monty Two East 86 th Street Associates LLC (" Purchaser ") for property located at 151 East 86 th Street (including 151-155 East 86 th Street), New York, New York (" Property "), Purchaser and Purchaser's affiliate, Monty Two East 86 th Street Associates LLC (" Ground Lessee "), certify to TSI as of the date hereof as follows:

Ground Lessee has entered into that certain Agreement of Lease dated as of the date hereof (the " Ground Lease ") between Jane H. Goldman, Allan H. Goldman, Amy Goldman Fowler and Diane Goldman Kemper, as co-executors of the Estate of Lillian Goldman, and The Lillian Goldman Family, L.L.C., as lessor (" Ground Lessor "), and Ground Lessee, as lessee, in respect of the property located at 1283-1289 Lexington Avenue a/k/a 147-149 East 86 th Street, New York, New York (the " Goldman Property "). The fully executed Ground Lease is being held in escrow and will be released from escrow concurrent with the release from escrow of the fully executed Agreement of Sale. The term of the Ground Lease commences on the date hereof and, upon the commencement of such term, the Ground Lease will be in full force and effect. The term of the Ground Lease is scheduled to expire one (1) day prior to the one hundred (100) year anniversary of the Substantial Completion Date (as such term is defined in the Ground Lease).

Ground Lessee is an affiliate of Stillman Development International, LLC and Purchaser.

Neither party to the Ground Lease has the right to terminate the Ground Lease for any reason during the term thereof other than as a result of: (a) a default (following the expiration of any applicable notice and cure period) by either party under the Ground Lease or the purchase and sale agreement between Ground Lessor, as seller, and an affiliate of Ground Lessee, as purchaser, for the acquisition of: (i) the air space parcel located above the property subject to the Ground Lease; and (ii) the development rights appurtenant to such air space parcel; (b) the occurrence of a taking or condemnation by eminent domain or similar proceeding; or (c) the occurrence of a fire or other casualty during the last ten (10) years of the term of the Ground Lease.

Ground Lessee has the right under the Ground Lease, subject to the terms thereof, to demolish the existing improvements located on the Goldman Property and to construct a new building (the " New Building ") on the Property and the Goldman Property, as contemplated by the New Club Lease [as defined in the Initial Lease (as defined in the Agreement of Sale)].

Pursuant to the terms of the Ground Lease, the New Building will be submitted to a condominium form of ownership.

The undersigned individuals hereby certify that he or she is duly authorized to sign, acknowledge and deliver this letter on behalf of the Purchaser and the Ground Lessee, respectively.

Very truly yours,

MONTY TWO EAST 86 TH STREET ASSOCIATES LLC

By: _____
Name:
Title:

MONTY THREE EAST 86 TH STREET ASSOCIATES LLC

By: _____
Name:
Title:

EXHIBIT "O-2"

GROUND LEASE CERTIFICATION (CLOSING DATE)

, 2014

Town Sports International, LLC
5 Penn Plaza
4 th Floor
New York, New York 10001

Ladies and Gentlemen:

As an inducement for Town Sports International, LLC (" TSI ") to consummate the closing of the transaction contemplated by that certain Agreement of Sale dated as of December , 2013 (the " Agreement of Sale ") with Monty Two East 86 th Street Associates LLC (" Purchaser ") for property located at 151 East 86 th Street (including 151-155 East 86 th Street), New York, New York (" Property "), Purchaser and Purchaser's affiliate, Monty Two East 86 th Street Associates LLC (" Ground Lessee "), certify to TSI as of the date hereof as follows:

Ground Lessee has entered into that certain Agreement of Lease dated as of December [ ], 2013 (the " Ground Lease ") between Jane H. Goldman, Allan H. Goldman, Amy Goldman Fowler and Diane Goldman Kemper, as co-executors of the Estate of Lillian Goldman, and The Lillian Goldman Family, L.L.C., as lessor (collectively, " Ground Lessor "), and Ground Lessee, as lessee, in respect of the property located at 1283-1289 Lexington Avenue a/k/a 147-149 East 86 th Street, New York, New York (the " Goldman Property ").

Ground Lessee is an affiliate of Stillman Development International, LLC and Purchaser.

The Ground Lease is in full force and effect.

The term of the Ground Lease is scheduled to expire one (1) day prior to the one hundred (100) year anniversary of the Substantial Completion Date (as such term is defined in the Ground Lease).

Neither party to the Ground Lease has the right to terminate the Ground Lease for any reason during the term thereof other than as a result of: (a) a default (following the expiration of any applicable notice and cure period) by either party under the Ground Lease or the purchase and sale agreement between Ground Lessor, as seller, and an affiliate of Ground Lessee, as purchaser, for the acquisition of: (i) the air space parcel located above the property subject to the Ground Lease; and (ii) the development rights appurtenant to such air space parcel; (b) the occurrence of a taking or condemnation by eminent domain or similar proceeding; or (c) the occurrence of a fire or other casualty during the last ten (10) years of the term of the Ground Lease.

Ground Lessee has the right under the Ground Lease, subject to the terms thereof, to demolish the existing improvements located on the Goldman Property and to construct a new building (the " New Building ") on the Property and the Goldman Property, as contemplated by the New Club Lease [as defined in the Initial Lease (as defined in the Agreement of Sale)].

Pursuant to the terms of the Ground Lease, the New Building will be submitted to a condominium form of ownership.

The undersigned individuals hereby certify that he or she is duly authorized to sign, acknowledge and deliver this letter on behalf of the Purchaser and the Ground Lessee, respectively.

Very truly yours,

MONTY TWO EAST 86 TH STREET ASSOCIATES LLC

By: _____
Name:
Title:

MONTY THREE EAST 86 TH STREET ASSOCIATES LLC

By: _____
Name:
Title:

EXHIBIT "P"

MEMORANDUM OF AGREEMENT OF SALE

THIS MEMORANDUM OF AGREEMENT OF SALE dated as of the day of December, 2013 by and between **TOWN SPORTS INTERNATIONAL, LLC** , a New York limited liability company having an address at 5 Penn Plaza, 4 th Floor, New York, New York 10001 (" **Seller** ") and **MONTY TWO EAST 86 TH STREET ASSOCIATES LLC** , a Delaware limited liability company having an address at 505 Park Avenue, Suite 1700, New York, New York 10022 (" **Purchaser** ").

RECITALS

As of the date hereof, Seller and Purchaser have entered into a certain unrecorded Agreement of Sale for the sale and purchase of certain real property (the " **Agreement** "). Seller and Purchaser are entering into this Memorandum of Agreement of Sale pursuant to the provisions of Paragraph 2 of Section 294 of the Real Property Law of the State of New York.

NOW, THEREFORE , Seller and Purchaser hereby set forth the following information with respect to the Agreement:

1. **Seller** . The name of the Seller is Town Sports International, LLC.

2. **Purchaser** . The name of the Purchaser is Monty Two East 86 th Street Associates LLC.

3. **Premises** . Seller agrees to sell and convey to Purchaser, and Purchaser agrees to purchase from Seller, the fee interest in and to that certain parcel of land with the buildings and improvements situated thereon, located at 151-155 East 86 th Street, New York, New York, and more particularly described on Exhibit A annexed hereto (the " **Premises** "), together with all rights, easements and appurtenances thereto.

4. **Provisions of the Agreement.** This Memorandum of Agreement of Sale is subject to all the terms and provisions of the Agreement.

5. **Purpose of Memorandum of Contract.** This Memorandum of Contract is prepared for the purpose of recordation in the Office of the New York City Register for the County of New York the (the " **Register's Office** ") in order to give notice of the terms, provisions and conditions of the Agreement pursuant to Paragraph 2 of Section 294 of the Real Property Law of the State of New York and it is not intended to define, limit or modify the Agreement. For further details reference should be made to the Agreement, a copy of which is in the possession of each of Seller and Purchaser.

6. **Title to the Premises.** Title to the Premises is currently owned by Seller.

7. **Termination of this Memorandum of Agreement of Sale** . This Memorandum of Agreement of Sale shall terminate upon the earlier of: (i) the recordation of a termination of this Memorandum of Agreement of Sale in the Register's Office; or (ii) the recordation of a deed, in the Register's Office, which conveys to Purchaser title to the Premises.

8. **Counterparts.** This Memorandum of Agreement of Sale may be executed in any number of counterparts, each of which shall be an original with the same force and effect as if the signature thereto and hereto were upon the same instrument.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

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

SELLER :

TOWN SPORTS INTERNATIONAL, LLC

By: _____
Name:
Title:

PURCHASER :

MONTY TWO EAST 86 TH STREET ASSOCIATES LLC

By: _____
Name:
Title:

State of)
) ss.:
County of)

On the day of in the year 2013 before me, the undersigned, a Notary Public in and for said State, personally appeared , personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

Notary Public

State of)
) ss.:
County of)

On the day of in the year 2013 before me, the undersigned, a Notary Public in and for said State, personally appeared , personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

Notary Public

EXHIBIT A

Description of Premises

ALL that certain plot, piece or parcel of land, situate, lying and being in the Borough of Manhattan, City, County and State of New York, bounded and described as follows:

BEGINNING at a point on the northerly side of 86 th Street, distant 62 feet 2-2/3 inches easterly from the corner formed by the intersection of the westerly side of Lexington Avenue with the said northerly side of 86 th Street;

RUNNING THENCE northerly parallel with the easterly side of Lexington Avenue, 100 feet 8 1/2 inches to the center line of the block;

THENCE easterly along said center line of the block parallel with the northerly side of 86 th Street and part of the distance through a party wall, 76 feet 8 inches;

THENCE southerly again parallel with the easterly side of Lexington Avenue, 100 feet 8-1/2 inches to the northerly side of 86 th Street; and

THENCE westerly along the said northerly side of 86 th Street, 76 feet 8 inches to the point or place of BEGINNING.

EXHIBIT "Q"

TERMINATION OF MEMORANDUM OF AGREEMENT OF SALE

Reference is made to the Agreement of Sale dated as of December , 2013 (the " **Agreement** "), together with all amendments thereto, pertaining to the sale of that certain parcel of land with the buildings and improvements thereon located at 151-155 East 86 th Street, New York, New York and more particularly described on Schedule A attached hereto and made a part hereof (" **Premises** ") as to which a Memorandum of Agreement of Sale was previously recorded. All capitalized terms used herein, but not otherwise defined herein, shall have the meanings ascribed to such terms in the Agreement.

SELLER:	**Town Sports International, LLC**
PURCHASER:	**Monty Two East 86 th Street Associates LLC**
DESCRIPTION OF PREMISES:	See attached Schedule A
RECORDING REFERENCE:	Memorandum of Agreement of Sale dated as of December , 2013 and recorded on , 2014 as CRFN .

The Seller and Purchaser each agree that effective as of 12:00 A.M. on , 2014 (the " **Termination Date** "), the Agreement shall be deemed terminated and of no further force or effect. This Termination of Memorandum of Agreement of Sale (this " **Memorandum** ") hereby gives record notice that the Memorandum of Agreement of Sale described above with respect to the Premises is hereby terminated and is of no further force or effect.

This Memorandum may be executed in any number of counterparts, each of which shall be an original with the same force and effect as if the signature thereto and hereto were upon the same instrument.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF , this Memorandum is executed as of the day of .

SELLER :

TOWN SPORTS INTERNATIONAL, LLC

By: _____
Name:
Title:

PURCHASER :

MONTY TWO EAST 86 TH STREET ASSOCIATES LLC

By: _____
Name:
Title:

State of)
) ss.:
County of)

On the day of in the year 2013 before me, the undersigned, a Notary Public in and for said State, personally appeared , personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

Notary Public

State of)
) ss.:
County of)

On the day of in the year 2013 before me, the undersigned, a Notary Public in and for said State, personally appeared , personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

Notary Public

SCHEDULE A

Description of Premises

ALL that certain plot, piece or parcel of land, situate, lying and being in the Borough of Manhattan, City, County and State of New York, bounded and described as follows:

BEGINNING at a point on the northerly side of 86 th Street, distant 62 feet 2-2/3 inches easterly from the corner formed by the intersection of the westerly side of Lexington Avenue with the said northerly side of 86 th Street;

RUNNING THENCE northerly parallel with the easterly side of Lexington Avenue, 100 feet 8 1/2 inches to the center line of the block;

THENCE easterly along said center line of the block parallel with the northerly side of 86 th Street and part of the distance through a party wall, 76 feet 8 inches;

THENCE southerly again parallel with the easterly side of Lexington Avenue, 100 feet 8-1/2 inches to the northerly side of 86 th Street; and

THENCE westerly along the said northerly side of 86 th Street, 76 feet 8 inches to the point or place of BEGINNING.

EXHIBIT "R"

TERMINATION OF MEMORANDUM ESCROW AGREEMENT

THIS TERMINATION OF MEMORANDUM ESCROW AGREEMENT (this " **Agreement** ") is made and entered into as of December , 2013, by and among **TOWN SPORTS INTERNATIONAL, LLC** , a New York limited liability company (" **Seller** "), **MONTY TWO EAST 86 TH STREET ASSOCIATES LLC** , a Delaware limited liability company (" **Purchaser** "), and **FIDELITY NATIONAL TITLE INSURANCE COMPANY** (" **Escrow Agent** ").

W I T N E S S E T H :

WHEREAS , Purchaser and Seller entered into that certain Agreement of Sale dated as of , 2013 (the " **Purchase Agreement** "), pursuant to which Seller agreed to sell to Purchaser all of Seller's right, title and interest in, to and under the Property (as defined in the Purchase Agreement), subject to the terms and conditions more particularly set forth therein; and

WHEREAS , pursuant to Paragraph 35 of the Purchase Agreement, Purchaser and Seller have: (a) agreed to record a memorandum of the Purchase Agreement (the " **Memorandum** "); and (b) delivered into escrow an original termination of the Memorandum executed and acknowledged by Purchaser and Seller (the " **Termination of Memorandum** "); and

WHEREAS , Escrow Agent is willing to hold the Termination of Memorandum in escrow on the terms and conditions hereinafter set forth.

NOW, THEREFORE , the parties hereto agree as follows:

1. All capitalized terms used herein, but not otherwise defined herein, shall have the meanings ascribed to such terms in the Purchase Agreement.

2. Escrow Agent hereby acknowledges receipt of the Termination of Memorandum to be held in escrow in accordance with the terms and conditions of this Agreement. Escrow Agent shall hold the Termination of Memorandum in accordance with the following:

(a) If Escrow Agent receives a written request signed by Seller stating that Seller is entitled to receive and record the Termination of Memorandum, Escrow Agent shall deliver (by reputable overnight courier) a copy of such request to Purchaser within one (1) business day of Escrow Agent's receipt from Seller of such request. Purchaser shall have the right to object, in good faith, to such request by written notice of objection delivered to Escrow Agent within five (5) business days after the date of Escrow Agent's delivery of such copy to Purchaser, but not thereafter. If Escrow Agent shall not have so received a written notice of objection from Purchaser within such five (5)-business day period, Escrow Agent shall release and deliver to Seller the Termination of Memorandum without the requirement of any further instruction from the parties. If Escrow Agent shall have received a written notice of objection from Purchaser within such five (5)-business day period, Escrow Agent shall not release the Termination of Memorandum to Seller nor otherwise comply with any demands or instructions

of Seller, and shall continue to hold the Termination of Memorandum in escrow until Escrow Agent receives either (i) a written notice signed by both Seller and Purchaser , instructing Escrow Agent to release the Termination of Memorandum from escrow, in which case Escrow Agent shall release the Termination of Memorandum in accordance with such instructions, or (ii) the final non-appealable order or judgment of a court of competent jurisdiction directing Escrow Agent to continue to hold or to release of the Termination of Memorandum in a specific manner, in either of which events Escrow Agent shall then comply with such order. If, pursuant to clauses (i) or (ii) of the immediately preceding sentence, Escrow Agent is instructed to release the Termination of Memorandum from escrow, Escrow Agent is hereby authorized to add the following information to the Termination of Memorandum: (A) the recording information for the Memorandum; and (B) the Termination Date (as such term is defined in the Termination of Memorandum) in accordance with the instructions provided to Escrow Agent. Escrow Agent shall not be or become liable in any way or to any person for its refusal to comply with any such requests or demands until and unless it has received a direction of the nature described in clauses (i) or (ii) immediately above.

(b) Any notice to Escrow Agent shall be effective only if received by Escrow Agent within the applicable time period set forth herein. All mailings and notices from Escrow Agent to Seller and/or Purchaser, or from Seller and/or Purchaser to Escrow Agent, provided for in this Agreement shall be addressed to the party to receive such notice at its notice address set forth in Section 3 hereof (with copies to be similarly sent to the additional parties therein indicated).

(c) Notwithstanding the foregoing, if Escrow Agent shall have received a written notice of objection as provided for in clause (a) immediately above within the time therein prescribed, or shall have received at any time before the release of the Termination of Memorandum, a written notice signed by either Seller or Purchaser disputing the proposed release of the Termination of Memorandum, or shall otherwise believe in good faith at any time that a disagreement or dispute has arisen between the parties hereto over the Termination of Memorandum (whether or not litigation has been instituted), Escrow Agent shall have the right, upon written notice to both Seller and Purchaser, (i) to deliver the Termination of Memorandum with the Clerk of the Court in which any litigation is pending and/or (ii) to take such reasonable affirmative steps as it may, at its option, elect in order to terminate its duties as Escrow Agent, including, without limitation, the delivery of the Termination of Memorandum with a court of competent jurisdiction and the commencement of an action for interpleader, the costs thereof to be borne by whichever of Seller or Purchaser is the losing party, and thereupon Escrow Agent shall be released of and from all liability hereunder except for any previous gross negligence or willful misconduct.

(d) Escrow Agent is acting hereunder without charge as an accommodation to Seller and Purchaser, it being understood and agreed that Escrow Agent shall not be liable for any error in judgment or any act done or omitted by it in good faith or pursuant to court order, or for any mistake of fact or law. Escrow Agent shall not incur any liability in acting upon any document or instrument believed thereby to be genuine. Escrow Agent may assume that any person purporting to give it any notice on behalf of any party has been authorized to do so. Escrow Agent shall not be liable for, and Seller and Purchaser hereby

jointly and severally agree to indemnify Escrow Agent against, any loss, liability or expense, including reasonable attorney's fees, arising out of any dispute under this Agreement, including the cost and expense of defending itself against any claim arising hereunder, except to the extent arising out of or caused by Escrow Agent's gross negligence or willful misconduct.

3. Except as specified in Section 2 hereof, all notices, certificates and other communications permitted hereunder shall be in writing and may be served and given personally (with signed delivery receipt obtained) or by reputable overnight courier providing proof of delivery, addressed as follows and shall be deemed delivered as set forth in the Agreement:

If to Seller:	Town Sports International, LLC 5 Penn Plaza 4 th Floor New York, New York 10001 Attention: General Counsel
With a copy to:	Cole, Schotz, Meisel, Forman & Leonard, P.A. Court Plaza North 25 Main Street Hackensack, New Jersey 07602-0800 Attention: Michael E. Jones, Esq.
If to Purchaser:	Monty Two East 86 th Street Associates LLC 505 Park Avenue, Suite 1700 New York, New York 10022 Attention: Roy Stillman and Chris Sullivan
With a copy to:	Pillsbury Winthrop Shaw Pittman LLP 1540 Broadway New York, New York 10022 Attention: Marc S. Shapiro, Esq.
If to Escrow Agent:	Fidelity National Title Insurance Company 485 Lexington Avenue, 18th Floor New York, New York 10017 Attention: Lawrence Holmes

Each party may, by notice as aforesaid, designate such other person or persons and/or such other address or addresses for the receipt of notices. Except as specified in Section 2 hereof, copies of all notices, certificates or other communications relating to this Agreement in respect to which Escrow Agent is not the addressee or sender shall be sent to Escrow Agent in the manner hereinabove set forth. Notices shall be deemed served and received upon the earlier of the first business day following the date of deposit with a reputable overnight delivery service providing proof of delivery, or upon delivery in person (with signed delivery receipt obtained). A party's failure or refusal to accept service of a notice shall constitute delivery of the notice. Notices may be given by counsel for each party and each such notice so given by counsel shall have the same force and effect as if sent by such party.

4. This Agreement shall be binding on and inure to the benefit of all parties hereto and their respective successors and permitted assigns and may not be modified or amended orally, but only in writing signed by all parties hereto. Neither Seller nor Purchaser may assign its rights or obligations under this Agreement to any party other than a party to whom Seller or Purchaser, as applicable, assigns its right, title and interest in, to and under the Purchase Agreement to the extent permitted thereunder and no permitted assignment by Seller or Purchaser shall be effective unless and until such party shall have delivered to Escrow Agent (i) written notice of such assignment, and (ii) an assumption agreement with respect to all of the obligations of the assigning party hereunder.

5. The undersigned hereby submit to personal jurisdiction in the State of New York for all matters, if any, which shall arise with respect to this Agreement, and waive any and all rights under the law of any other state or country to object to jurisdiction within the State of New York or to institute a claim of *forum non conveniens* with respect to any court in the State of New York for the purposes of litigation with respect to this Agreement. EACH PARTY HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT OR COUNTERCLAIM ARISING IN CONNECTION WITH OR OTHERWISE RELATING TO THIS AGREEMENT.

6. Each part of this Agreement is intended to be severable. If any term, covenant, condition or provision of this Agreement is held to be unlawful, invalid or unenforceable by a court of competent jurisdiction, to the extent permitted by law, such illegality, invalidity or unenforceability shall not affect the remaining provisions of this Agreement, which shall remain in full force and effect and shall be binding upon the parties.

7. This Agreement may be executed in any number of counterparts, each counterpart for all purposes being deemed an original, and all such counterparts shall together constitute only one and the same agreement.

8. Nothing herein is intended to modify or amend the provisions of Paragraph 35 of the Purchase Agreement, and in the event of a conflict between the provisions hereof and the provisions of such Paragraph 35 as to rights or obligations of Seller and Purchaser, the provisions of such Paragraph 35 shall govern.

10. Purchaser, at its sole cost and expense, shall pay any and all charges, fees, costs and expenses incurred by the Escrow Agent in connection with this Agreement and the performance of Escrow Agent’s duties hereunder, including recording fees. Notwithstanding the immediately preceding sentence, the Escrow Agent hereby acknowledges and agrees that the Escrow Agent will perform its obligations under this Agreement without charging a separate escrow fee.

11. This Agreement shall terminate upon the delivery by the Escrow Agent of the release of the Termination of Memorandum pursuant to Section 2(a) or 2(c), as applicable.

[Remainder of Page Intentionally Left Blank]

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

SELLER :

TOWN SPORTS INTERNATIONAL, LLC

By: _____
Name:
Title:

PURCHASER :

MONTY TWO EAST 86 TH STREET ASSOCIATES LLC

By: _____
Name:
Title:

ESCROW AGENT :

FIDELITY NATIONAL TITLE INSURANCE COMPANY

By: _____
Name:
Title:

Exhibit 10.28

Scott Milford
Sr. VP, Human Resources
Phone 212.246.6700
Fax 212.664.1704
scott.milford@tsiclubs.com

December 2, 2013

Mr. Terry Kew
Town Sports International, LLC
5 Penn Plaza, 4th Floor
New York, NY 10001

Dear Terry:

This Separation Agreement (" **Agreement** ") will confirm our discussions regarding your separation from employment with Town Sports International, LLC and its parents, affiliates and subsidiaries (the " **Company** ") on mutually agreeable terms as set forth below. You and the Company (collectively, the " **Parties** ") agree that this Agreement represents the full and complete agreement concerning your separation from employment with the Company.

1. Separation .

a. Your last day of employment with the Company will be December 2, 2013 (" **Separation Date** "). You will be paid your regular wages through and including the Separation Date.

b. Your participation in the Company's medical and dental programs on behalf of yourself and your eligible dependents will continue through December 31, 2013. Thereafter, you will be eligible to continue your health insurance coverage pursuant to federal COBRA law. Information regarding COBRA will be sent to you separately by the Company's COBRA administrator.

2. Separation Payments . In accordance with the terms of your Offer Letter, dated March 9, 2012, provided that you sign and return this Agreement within forty-five (45) days of the Separation Date, without revoking it, and subject to all of the terms and conditions of this Agreement:

a. The Company will continue to pay you your base salary (at the rate currently in effect) for a period of one (1) year from the Separation Date (" **Payments** "). The Payments will be made consistent with the Company's normal payroll practices and will be less applicable taxes and withholdings. The Company will begin making the Payments to you following the Company's receipt of a signed and notarized original of this Agreement from you and the expiration of the Revocation Period (defined below) without revocation. The first payment shall include any prior payments that you would have received if the Agreement had been effective on the Separation Date.

b. You acknowledge and agree that the Payments described above constitute adequate consideration for all of the terms of this Agreement and do not include any benefit, monetary or otherwise, that was earned or accrued or to which you were already entitled without signing this Agreement.

3. Exemption from Section 409A . The intent of the Payments described above is to provide for separation pay that is exempt from Section 409A of the Internal Revenue Code of 1986, as amended pursuant to the separation pay exemption set forth in Treasury Regulation Section 1.409A-1(b)(9), and shall be interpreted consistent with the requirements of those regulations. That means that, among other things, all severance pay shall be paid in full no later than the end of the second calendar year following the calendar year in which the separation from service occurs, and the total amount of taxable severance pay shall not exceed the lesser of two times your base rate of pay or two times the dollar limit set forth in Code Section 401(a)(17).

4. Release and Waiver of Claims .

a. In consideration of your receipt and acceptance of the Payments above and the other promises made by the Company in this Agreement, you, on behalf of yourself and your heirs, executors, administrators, successors and assigns, unconditionally and generally release the Company, its parents, affiliates, subsidiaries, related entities, and its and their current and former owners, officers, directors, agents and employees (" **Releasees** ") from or in connection with, and you hereby waive and/or settle, with prejudice, any and all causes of action, suits, controversies, or any liability, claims or demands, known or unknown and of any nature whatsoever and which you ever had, now have or shall or may have as of the date of this Agreement, including, without limitation, those arising directly or indirectly pursuant to or out of any aspect of your employment with the Company, including the separation thereof.

b. Specifically, without limitation of the foregoing, the release and waiver of claims under this Agreement shall include and apply to any rights and/or claims (i) arising under any contract or employment arrangement, express or implied, written or oral; (ii) for wrongful dismissal or termination of employment; (iii) arising under any applicable federal, state, local or other statutes, orders, laws, ordinances, regulations or the like, or case law, that relate to employment or employment practices, including, but not limited to, those that prohibit discrimination based upon age, race, religion, sex, national origin, disability or any other unlawful bases, including without limitation, the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Civil Rights Acts of 1866 and 1871, the Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the National Labor Relations Act, the Employee Retirement Income Security Act of 1974, the Worker Adjustment and Relocation Notice Act, the Vietnam Era Veterans' Readjustment Assistance Act, the New York Labor Law, the New York State Human Rights Law, the New York City Human Rights Law, all as amended, and any other statutes, orders, laws, ordinances, or regulations applicable to your employment, of any state or city in which any Releasee is subject to jurisdiction, and/or any political subdivision thereof; (iv) arising under any other federal, state, local or other statutes, orders, laws, ordinances, regulations or the like, or case law; (v) for tortious or harassing conduct, infliction of mental distress, interference with contract, unjust enrichment, fraud, libel or slander; and (vi) for damages, including without limitation, punitive or compensatory damages, or for attorneys' fees, expenses, costs, wages, injunctive or equitable relief.

c. You and the Company acknowledge that the above release and waiver of claims shall not apply to (i) the obligation of the Company to provide the consideration described above in accordance with the terms of this Agreement; (ii) your vested benefits pursuant to applicable plans, if any; (iii) your right to continue healthcare insurance under COBRA; (iv) your right to receive benefits for occupational illness or injury under the Workers' Compensation Law; (v) your right to receive unemployment benefits; (vi) your right to pursue any rights or claims that arise after you sign this Agreement; (vii) your right to challenge the validity of this Release under the Older Workers Benefit Protection Act (" **OWBPA** "); and (viii) any other claims that, under controlling law, may not be released by private settlement.

d. Although you are releasing claims that you may have under the OWBPA and the Age Discrimination in Employment Act (" **ADEA** "), you understand that you may challenge the knowing and voluntary nature of this Release under the OWBPA and the ADEA. You understand, however, that if you pursue a claim against any Releasee under the OWBPA and/or the ADEA, the Releasee may be entitled to restitution, recoupment, or set off (hereinafter "reduction") against a monetary award obtained by you. A reduction never can exceed the amount you recover, or the separation benefits you received for signing this Release, whichever is less. You also recognize that the Releasee may be entitled to recover costs and attorneys' fees incurred as specifically authorized under applicable law.

5. No Claims Filed and Covenant Not to Sue .

a. Except as otherwise stated below, you agree and covenant not to file any suit, complaint, claim, grievance or demand for arbitration against any Releasee, either individually or as a member of a class in any class or collective action, in any court or other forum with regard to any claim, demand, liability or obligation arising out of your employment, or separation from employment, with the Company.

b. You further represent and warrant that you have not filed or commenced any suits, complaints, claims, grievances or demands for arbitration of any kind that are currently pending against any Releasee with any federal, state or local court or any administrative or regulatory body.

c. If any claim is brought on your behalf against any Releasee involving any claim released by this Agreement, or if you are named as a member of any class in a case in which any claim or claims are asserted against any Releasee involving any claim released by this Agreement, you shall, upon notice of same, immediately provide the Company with written notification of said claim, and withdraw in writing and with prejudice from said claim or class.

d. Nothing in this Agreement shall be construed to prohibit you from filing a charge or complaint with, or participating in any investigation or proceeding conducted by, the Equal Employment Opportunity Commission, National Labor Relations Board, or any other federal, state or local agency charged with the enforcement of any employment laws. By signing this Agreement, you are waiving any right to individual relief based on claims asserted in such a charge or complaint.

6. Confidentiality and Confidential Information .

a. You agree that you shall keep confidential and shall not disclose to any person (other than to your immediate family, attorney, financial advisor and accountant, each of whom shall be directed by you not to disclose such information), any and all information concerning the existence or terms of this Agreement, except in the circumstance of providing information in response to a subpoena or order issued by a court or a government agency, or as otherwise required by law.

b. You acknowledge that during your employment, you have acquired proprietary, private and/or otherwise confidential information (" **Confidential Information** ," as defined and described in this sub-paragraph). Confidential Information shall mean all non-public information, whether or not created or maintained in written or electronic form that constitutes, relates or refers to the Company, any current or former employee of the Company, and any aspect of the operation of the business of the Company, including without limitation, all financial, operational and statistical information. All of the foregoing are illustrative and Confidential Information shall not be limited to those illustrations. You agree not to disclose Confidential Information in any form to a third party and shall give immediate notice to the Company if compelled by law to reveal any Confidential Information to any third party.

c. You represent and agree that, on or before your Separation Date, you will return to the Company and not retain any copies of documents, records or materials of any kind, whether written or electronically created or stored, which contain, relate to or refer to any Confidential Information.

7. Non-Disparagement . You agree that you will not make, directly or indirectly, to any person or entity, including but not limited to the Company's past and/or present employees, board members and/or the press, any negative or disparaging oral or written statements about, or do anything which damages the Company, its officers or directors, or its services, good will, reputation or financial status, or which damages it in any of its business relationships. Written statements include, but are not limited to, posts made on message boards, blogs, listservs, Web sites, Web forums, or similar electronic medium. Nothing in this paragraph shall preclude you from testifying honestly if required by law to testify in a proceeding or complying with any other law.

8. Non-Competition and Non-Solicitation . You understand and agree that, during the one (1) year time period during which you are receiving Payments, you are bound by the non-competition and non-solicitation provisions set forth in the Restricted Stock Agreements (Paragraph 12) entered into between you and Town Sports International Holdings, Inc., including those dated May 18, 2012 and March 11, 2013.

9. Breach . You acknowledge that the Company would be irreparably injured by your violation of Paragraph 5, 6, 7 or 8 and agree that in the event of any such breach or threatened breach, the Company shall, in addition to any other remedies available to it, be entitled to (i) a temporary restraining order and/or preliminary and/or permanent injunction, or other equivalent relief, restraining you from any actual or threatened breach of Paragraph 5, 6, 7 or 8; and (ii) recover from you damages, attorneys' fees, costs and any other available remedies.

10. Non-Admission . This Agreement is not, and shall not be construed as, an admission by the Company of any wrongdoing or illegal acts or omissions, and the Company expressly denies that it engaged in any wrongdoing or illegal or acts or omissions with respect to your employment or the separation of your employment. You hereby represent and agree that you shall not, directly or indirectly make any written or oral statements, suggestions or representations that the Company has made or implied any such admission.

11. No Future Employment . You agree that, from your Separation Date forward, you will not knowingly apply for any position of employment (whether temporary, full-time, part-time, or otherwise), position as a consultant or independent contractor, or in any other way seek any employment at or work from the Company (collectively, " **Employment with the Company** "). Without waiver of the foregoing, the existence of this Agreement shall be a valid, lawful, non-discriminatory basis for the Company's rejection of any such application for Employment with the Company or, in the event that you obtain such employment, to terminate such Employment with the Company.

12. Equity . Your separation pursuant to this Agreement will be treated as a "Termination Without Cause" under the TSI Holdings' 2006 Stock Incentive Plan. Any unvested shares of restricted Common Stock will be forfeited on the Separation Date without any payment.

13. Expenses . You will be reimbursed for any reimbursable expenses you incur prior to the Separation Date in accordance with the Company's Reimbursable Expenses Policy. You agree that you will turn in your expense report to the Chief Executive Officer, with all required receipts, for all expenses incurred by you up until your Separation Date no later than December 15, 2013.

14. Continued Cooperation . After your Separation Date, you agree that you will be available, upon reasonable notice, to respond to questions and provide assistance to the Company regarding any business that remained unfinished as of your Separation Date. In addition, after your Separation Date, you agree to cooperate with, and to be readily available to, the Company to assist in any matter, including government agency investigations, court litigation, arbitrations or potential litigation or arbitrations, about which you may have knowledge. If you receive a subpoena or other legal process relating in any way to same, you will immediately provide the Company with notice of the contact or the service of such subpoena or other legal process, and shall cooperate with the Company in responding thereto. In the event that you fail to comply with the terms of this Paragraph, the Company reserves the right to stop making the Payments and/or require you to repay the Payments, in addition to seeking compensation in connection with any other damages caused by your non-compliance.

15. Time to Review . You understand and agree that you have been given at least twenty-one (21) days to consider the terms of this Agreement before signing it. If you sign this Agreement before the full 21-day period has expired, you knowingly and voluntarily waive the remainder of the 21-day consideration period, if any, following the date you sign this Agreement. You acknowledge that you have not been asked by the Company to shorten the time-period for consideration of whether to sign this Agreement, and that the Company has not threatened to withdraw or alter the benefits due to you prior to the expiration of the 21-day period. You further agree that any changes to the Agreement, whether material or immaterial, do not restart the running of the 21-day consideration period.

16. Revocation Period .

a. If you sign this Agreement, you have the right to change your mind and revoke it within seven (7) calendar days after signing it (" **Revocation Period** ") by returning it with written revocation notice to Sara Sheinkin, Esq., Employment Counsel, Town Sports International, 5 Penn Plaza, 4th Floor, New York, New York 10001. You understand that this Agreement will not be effective until after the expiration of the Revocation Period, and that you will not be entitled to the Payments described in this Agreement unless and until this Agreement becomes effective.

b. If you decide to revoke, your written revocation notice should clearly state that "I hereby revoke my agreement to the Separation Agreement that I signed on [fill in date]," and you must sign your name to the notice. To be effective, (a) the notice of revocation must be received by Ms. Sheinkin no later than the close of business on the seventh calendar day after you signed the Agreement, or else (b) Ms. Sheinkin must be notified by facsimile (212-664-1704) by the close of business on the seventh calendar day after you signed the Agreement, that the written notice with your original signature has been mailed, and the original written notice must be received by Ms. Sheinkin within five (5) calendar days thereafter. If any of those days should fall on a weekend or a legal holiday, then the required communication must be received no later than the first business day after the weekend or holiday.

17. Remedies . Except as prohibited by law, the Company shall be excused from any obligation to provide any part of the Payments to you in the event that (i) the release set forth in this Agreement is determined to be void or unenforceable, in whole or in part; or (ii) you are found to have made a material misstatement in any term, condition, representation or acknowledgment in this Agreement, or you commit a breach of any term, condition or covenant in this Agreement, except otherwise stated therein, in either of which event you shall also be liable for any damages and costs suffered or incurred by the Company by reason of such misstatement or breach.

18. Entire Agreement . This Agreement constitutes the sole and complete understanding and agreement between the Parties with respect to issues addressed in this Agreement, except that any post-termination provisions of the Restricted Stock Agreements entered into between you and Town Sports International Holdings, Inc., including those dated May 18, 2012 and March 11, 2013, remain in full force and effect.

19. Amendments . This Agreement may not be amended except in writing signed by both Parties.

20. Arbitration . You agree that any and all disputes that you raise arising out of or relating in any way to the validity, interpretation or enforcement of this Agreement, or any unreleased claims relating to your employment, other than disputes which by statute are not arbitrable, shall be resolved through binding arbitration pursuant to the Company's Dispute Resolution Program in effect on the date you execute this Agreement.

21. Severability . Except as otherwise stated in this Agreement, in the event that any provision of this Agreement is judicially declared to be invalid or unenforceable, only such provision or provisions shall be invalid or unenforceable without invalidating or rendering unenforceable the remaining provisions of the Agreement, which shall remain in full force and effect to the fullest extent permitted by law.

22. Acknowledgments . By your signature on this Agreement, you affirm and acknowledge that:

a. You have carefully read, and understand, this Agreement.

b. You have been advised by the Company to consult with an attorney before executing this Agreement and have had an adequate opportunity to do so, and to review this Agreement and to consider whether to sign this Agreement.

c. You understand that, by signing this Agreement, you are giving up certain rights, including the right to pursue any claims pursuant to the ADEA.

d. You are not entitled to any payments and/or benefits that are not specifically listed in this Agreement, except for those benefits in which you have vested rights pursuant to the terms of any applicable plans or applicable law.

e. You have not relied upon any representations, statements, or omissions made by any of the Company's agents, attorneys or representatives with regard to the subject matter, basis or effect of this Agreement or otherwise, other than those expressly stated in this Agreement.

f. You have read and understand all of the terms of this Agreement, and agree that such terms are fair, reasonable and are not the result of any fraud, duress, coercion, pressure or undue influence exercised by or on behalf of the Company; and you have agreed to and entered into this Agreement and all of its terms, knowingly, freely and voluntarily.

g. You have been given up to twenty-one (21) days to consider your rights and obligations under this Agreement and to consult with an attorney and/or any other advisor of your choice, and advised of the seven (7) day Revocation Period.

23. Counterparts . The Agreement may be executed in two (2) signature counterparts, each of which will constitute an original, but all of which taken together will constitute but one and the same instrument.

Sincerely,

/s/ Scott Milford
Scott Milford

Read, Accepted and Agreed:

TERRY KEW

/s/ Terry Kew Date: 12/13/13

STATE OF NY)
: ss.:
COUNTY OF NY)

On the day of , 2013 before me personally came Terry Kew, to me known and known to me to be the individual described in and who executed the foregoing instrument, and duly acknowledged to me that he executed the same.

Notary Public

Exhibit 21

Company	State of Incorporation	Doing Business As
Parent		
TSI Holdings II, LLC	DE	*n/a*
Town Sports International, LLC	NY	*n/a*
Subsidiaries		
BFX West 15th Street, LLC	DE	BFX Studio
Boutique Fitness, LLC	DE	BFX Boutique Fitness Experience
TSI 217 Broadway, LLC	DE	NYSC
TSI Alexandria, LLC	DE	WSC
TSI Alexandria West, LLC	DE	*n/a*
TSI Allston, LLC	DE	BSC
TSI Andover, LLC	DE	BSC
TSI Ardmore, LLC	DE	PSC
TSI Arthro-Fitness Services, LLC	DE	NYSC
TSI Astoria, LLC	DE	NYSC
TSI Avenue A, LLC	DE	NYSC
TSI Back Bay, LLC	DE	BSC
TSI Battery Park, LLC	DE	NYSC
TSI Bay Ridge 86th Street, LLC	DE	NYSC
TSI Bayonne, LLC	DE	NYSC
TSI Bayridge, LLC	DE	NYSC
TSI Beacon Street, LLC	DE	BSC
TSI Bensonhurst, LLC	DE	NYSC
TSI Bethesda, LLC	DE	*n/a*
TSI Boylston, LLC	DE	BSC
TSI Broadway, LLC	DE	NYSC
TSI Brooklyn Belt, LLC	DE	NYSC
TSI Brunswick, LLC	DE	NYSC
TSI Bulfinch, LLC	DE	BSC
TSI Butler, LLC	DE	NYSC
TSI Canton, LLC	DE	BSC
TSI Carmel, LLC	DE	NYSC
TSI Cash Management, LLC	DE	*n/a*
TSI Central Square, LLC	DE	BSC
TSI Cherry Hill, LLC	DE	PSC
TSI Chevy Chase, LLC	DE	WSC
TSI Clarendon, LLC	DE	WSC
TSI Clarendon Street, LLC	DE	BSC
TSI Clifton, LLC	DE	NYSC
TSI Cobble Hill, LLC	DE	NYSC
TSI Colonia, LLC	DE	NYSC
TSI Columbia Heights, LLC	DE	WSC
TSI Commack, LLC	DE	NYSC
TSI Connecticut Avenue, LLC	DE	WSC
TSI Court Street, LLC	DE	NYSC
TSI Croton, LLC	DE	NYSC
TSI Danbury, LLC	DE	NYSC
TSI Davis Square, LLC	DE	BSC
TSI Deer Park, LLC	DE	NYSC
TSI Dobbs Ferry, LLC	DE	NYSC
TSI Dorchester, LLC	DE	BSC
TSI Downtown Crossing, LLC	DE	BSC
TSI Dupont Circle, Inc.	DE	*n/a*
TSI Dupont II, Inc.	DE	*n/a*

Company	State of Incorporation	Doing Business As
TSI East 23, LLC	DE	NYSC
TSI East 31, LLC	DE	NYSC
TSI East 34, LLC	DE	NYSC
TSI East 36, LLC	DE	NYSC
TSI East 41, LLC	DE	NYSC
TSI East 48, LLC	DE	NYSC
TSI East 51, LLC	DE	NYSC
TSI East 59, LLC	DE	NYSC
TSI East 76, LLC	DE	NYSC
TSI East 86, LLC	DE	NYSC
TSI East 86th Street II, LLC	DE	NYSC
TSI East 91, LLC	DE	NYSC
TSI East Brunswick, LLC	DE	NYSC
TSI East Meadow, LLC	DE	NYSC
TSI Englewood, LLC	DE	NYSC
TSI F Street, LLC	DE	WSC
TSI Fairfax, LLC	DE	WSC
TSI Fenway, LLC	DE	BSC
TSI First Avenue, LLC	DE	NYSC
TSI Fit Acquisition, LLC	DE	*n/a*
TSI Forest Hills, LLC	DE	NYSC
TSI Fort Lee, LLC	DE	NYSC
TSI Framingham, LLC	DE	BSC
TSI Franklin (MA), LLC	DE	BSC
TSI Franklin Park, LLC	DE	NYSC
TSI Freehold, LLC	DE	NYSC
TSI Gallery Place, LLC	DE	WSC
TSI Garden City, LLC	DE	NYSC
TSI Garnerville, LLC	DE	NYSC
TSI Georgetown, LLC	DE	WSC
TSI Germantown, LLC	DE	WSC
TSI Glendale, LLC	DE	NYSC
TSI Glover, LLC	DE	WSC
TSI Grand Central, LLC	DE	NYSC
TSI Great Neck, LLC	DE	NYSC
TSI Greenpoint, LLC	DE	NYSC
TSI Greenwich, LLC	DE	NYSC *and AMFIT Physical Therapy*
TSI Hartsdale, LLC	DE	NYSC
TSI Hawthorne, LLC	DE	NYSC
TSI Herald, LLC	DE	NYSC
TSI Hicksville, LLC	DE	NYSC
TSI Highpoint, LLC	DE	PSC
TSI Hoboken, LLC	DE	NYSC
TSI Hoboken North, LLC	DE	NYSC
TSI Holdings (CIP), LLC	DE	*n/a*
TSI Holdings (DC), LLC	DE	*n/a*
TSI Holdings (IP), LLC	DE	*n/a*
TSI Holdings (MA), LLC	DE	*n/a*
TSI Holdings (MD), LLC	DE	*n/a*
TSI Holdings (NJ), LLC	DE	*n/a*
TSI Holdings (PA), LLC	DE	*n/a*
TSI Holdings (VA), LLC	DE	*n/a*
TSI Huntington, LLC	DE	NYSC
TSI Insurance, Inc.	NY	*n/a*
TSI International, Inc.	DE	*n/a*
TSI Irving Place, LLC	DE	NYSC
TSI Jamaica Estates, LLC	DE	NYSC
TSI Jersey City, LLC	DE	NYSC

Company	State of Incorporation	Doing Business As
TSI K Street, LLC	DE	WSC
TSI Larchmont, LLC	DE	NYSC
TSI Lexington (MA), LLC	DE	BSC
TSI Lincoln, LLC	DE	NYSC
TSI Livingston, LLC	DE	NYSC
TSI Long Beach, LLC	DE	NYSC
TSI Lynnfield, LLC	DE	BSC
TSI M Street, LLC	DE	WSC
TSI Mahwah, LLC	DE	NYSC
TSI Mamaroneck, LLC	DE	NYSC
TSI Market Street, LLC	DE	PSC
TSI Marlboro, LLC	DE	NYSC
TSI Matawan, LLC	DE	NYSC
TSI Mercer Street, LLC	DE	NYSC
TSI Midwood, LLC	DE	NYSC
TSI Montclair, LLC	DE	NYSC
TSI Morris Park, LLC	DE	NYSC
TSI Murray Hill, LLC	DE	NYSC
TSI Nanuet, LLC	DE	NYSC
TSI Natick, LLC	DE	BSC
TSI New Rochelle, LLC	DE	NYSC
TSI Newark, LLC	DE	NYSC
TSI Newbury Street, LLC	DE	BSC
TSI Newton, LLC	DE	BSC
TSI No Sweat, LLC	DE	*n/a*
TSI North Bethesda, LLC	DE	WSC
TSI Norwalk, LLC	DE	NYSC
TSI Oceanside, LLC	DE	NYSC
TSI Old Bridge, LLC	DE	NYSC
TSI Parsippany, LLC	DE	NYSC
TSI Plainsboro, LLC	DE	NYSC
TSI Port Jefferson, LLC	DE	NYSC
TSI Princeton, LLC	DE	NYSC
TSI Princeton North, LLC	DE	NYSC
TSI Providence Downtown, LLC	DE	BSC I
TSI Providence Eastside, LLC	DE	BSC II
TSI Radnor, LLC	DE	PSC
TSI Ramsey, LLC	DE	NYSC
TSI Reade Street, LLC	DE	NYSC
TSI Rego Park, LLC	DE	NYSC
TSI Ridgewood, LLC	DE	NYSC
TSI Rodin Place, LLC	DE	PSC
TSI Scarsdale, LLC	DE	NYSC
TSI Seaport, LLC	DE	NYSC
TSI Sheridan, LLC	DE	NYSC
TSI Silver Spring, LLC	DE	WSC
TSI Smithtown, LLC	DE	NYSC
TSI Society Hill, LLC	DE	PSC
TSI Soho, LLC	DE	NYSC
TSI Somers, LLC	DE	NYSC
TSI Somerset, LLC	DE	NYSC
TSI South Bethesda, LLC	DE	WSC
TSI South End, LLC	DE	BSC
TSI South Park Slope, LLC	DE	NYSC
TSI South Station, LLC	DE	BSC
TSI Springfield, LLC	DE	NYSC
TSI Stamford Downtown, LLC	DE	NYSC
TSI Stamford Post, LLC	DE	NYSC

Company	State of Incorporation	Doing Business As
TSI Stamford Rinks, LLC	DE	NYSC
TSI Staten Island, LLC	DE	NYSC
TSI Sterling, LLC	DE	WSC
TSI Summer Street, LLC	DE	BSC and Boston Racquet Club
TSI Sunnyside, LLC	DE	NYSC
TSI Syosset, LLC	DE	NYSC
TSI University Management, LLC	DE	*n/a*
TSI Varick Street, LLC	DE	NYSC
TSI Wall Street, LLC	DE	NYSC
TSI Waltham, LLC	DE	BSC
TSI Washington, Inc.	DE	WSC
TSI Water Street, LLC	DE	NYSC
TSI Watertown, LLC	DE	BSC
TSI Wayland, LLC	DE	BSC
TSI Wellesley, LLC	DE	BSC
TSI Wellington Circle, LLC	DE	BSC
TSI West 14, LLC	DE	NYSC
TSI West 16, LLC	DE	NYSC
TSI West 23, LLC	DE	NYSC
TSI West 38, LLC	DE	NYSC
TSI West 41, LLC	DE	NYSC
TSI West 44, LLC	DE	NYSC
TSI West 48, LLC	DE	NYSC
TSI West 52, LLC	DE	NYSC
TSI West 73, LLC	DE	NYSC
TSI West 76, LLC	DE	NYSC
TSI West 80, LLC	DE	NYSC
TSI West 94, LLC	DE	NYSC
TSI West 115th Street, LLC	DE	NYSC
TSI West 125, LLC	DE	NYSC
TSI West 145th Street, LLC	DE	NYSC
TSI West Caldwell, LLC	DE	NYSC
TSI West End, LLC	DE	NYSC
TSI West Hartford, LLC	DE	NYSC
TSI West Newton, LLC	DE	BSC
TSI West Nyack, LLC	DE	NYSC
TSI West Springfield, LLC	DE	WSC
TSI Westborough, LLC	DE	BSC
TSI Westport, LLC	DE	NYSC
TSI Westwood, LLC	DE	NYSC
TSI Weymouth, LLC	DE	BSC
TSI White Plains City Center, LLC	DE	NYSC
TSI White Plains, LLC	DE	NYSC
TSI Whitestone, LLC	DE	NYSC
TSI Williamsburg, LLC	DE	*n/a*
TSI Woburn, LLC	DE	BSC
TSI Woodmere, LLC	DE	NYSC

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-135048, 333-151965 and 333-175884) and Form S-3 (No. 333-167377) of Town Sports International Holdings, Inc. of our report dated March 14, 2014 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

New York, New York
March 14, 2014

Exhibit 31.1

CERTIFICATIONS

I, Robert Giardina, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2013 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/ ROBERT GIARDINA
Robert Giardina
Chief Executive Officer

March 14, 2014

Exhibit 31.2

CERTIFICATIONS

I, Daniel Gallagher, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2013 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/ Daniel Gallagher
Daniel Gallagher
President, Chief Operating Officer and Chief Financial Officer

March 14, 2014

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Town Sports International Holdings, Inc. (the "Company") on Form 10-K for the period ended December 31, 2013 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert Giardina, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; 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/ Robert Giardina
Robert Giardina
Chief Executive Officer

March 14, 2014

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Town Sports International Holdings, Inc. (the "Company") on Form 10-K for the period ended December 31, 2013 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel Gallagher, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; 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/ Daniel Gallagher
Daniel Gallagher
President, Chief Operating Officer and
Chief Financial Officer

March 14, 2014