MOBILE TELESYSTEMS OJSC
Form 6-K
April 05, 2011

FORM 6-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer
April 5, 2011

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

Commission file number: 333-12032

Mobile TeleSystems OJSC

(Exact name of Registrant as specified in its charter)

Russian Federation

(Jurisdiction of incorporation or organization)

4, Marksistskaya Street
Moscow 109147
Russian Federation

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

Press release

Mobile TeleSystems Announces Financial Results for the Fourth Quarter and Full Year Ended December 31, 2010

April 5, 2011

Moscow, Russian Federation Mobile TeleSystems OJSC (MTS - NYSE: MBT), the leading telecommunications provider in Russia and the CIS, today announces its unaudited US GAAP financial results for the three months and full year ended December 31, 2010.

Key Financial Highlights of Q4 2010 and FY 2010(1)

- Consolidated revenues up 2.9% q-o-q to $2,995 million and up 14.5% y-o-y to $11,293 million
- Consolidated OIBDA(2) down 12.0% q-o-q to $1,159 million with 38.7% OIBDA margin and up 8.6% y-o-y to $4,873 million with 43.1% OIBDA margin
- Consolidated net income(3) of $156 million in Q4 2010 and a net income of $1,381 million for FY 2010
- Free cash-flow(4) positive with $1,529 million for FY 2010

Key Corporate and Industry Highlights

- Voluntarily repayment of the second tranche of the syndicated loan in the amount of $161.5 mln; the loan was originally signed in April 2006 and carried a 5-year maturity
- Redemption of the $400 mln 2010 Eurobond
- Placement of the series 07 and series 08 ruble-denominated bonds totaling RUB 25 bln
- Transfer of MTS ordinary shares to the A1 listing on the Moscow Interbank Currency Exchange

- Purchase of 100% stake in Sistema-Telecom for RUB 11.59 bln ($379.01 mln(5)) from Sistema and its wholly-owned subsidiary

- MTS recognized as the most valuable brand in Russia with a value of $7.753 bln by InterBrand, the world s leading brand consultancy

- Acquisitions of local alternative operators in Novosibirsk and Saint Petersburg

- Signing of an agreement with Sberbank to open two non-revolving lines of credit for a total amount of RUB 100 bln

- Suspension of operations in Turkmenistan

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(1) Because TS-Retail, Metro-Telecom and Sistema Telecom were acquired from JSC Sistema, the majority owner of both MTS and acquired entities, the acquisitions were accounted for as transactions between entities under common control. Similar to a pooling of interest, whereby the assets and liabilities of entities acquired from Sistema were recorded at Sistema s carrying value, MTS historical financial information was recast to include the acquired entities for all periods presented.

(2) See Attachment A for definitions and reconciliation of OIBDA and OIBDA margin to their most directly comparable US GAAP financial measures.

(3) Attributable to the Group.

(4) See Attachment B for reconciliation of free cash-flow to net cash provided by operating activity.

(5) According to the average exchange rate of 30.57 RUB/USD for the 60-day period from September 4, 2010 to November 4, 2010

- Approval of statutory merger of Comstar with MTS by the companies respective Extraordinary General Meetings of shareholders
- Completion of share buyback in March 2011 related to the statutory merger of Comstar with MTS
- Appointment of Andrei Dubovskov, former Head of Business Unit MTS Ukraine, as President and CEO of MTS
- Conversion of Comstar ordinary shares into MTS ordinary shares on April 1, 2011 and subsequent completion of the statutory merger of Comstar with MTS

Commentary

Andrei Dubovskov, MTS President and CEO, commented, 2010 was a year of transition for MTS. With the completion of our statutory merger with Comstar last week, MTS has transformed itself from a simple mobile operator to a full-fledged telecommunications provider, offering mobile, fixed, internet and content products and services. For the year, in US GAAP terms, we exceeded our revenue guidance by four (4) percentage points. Revenue increased 14% to 11.3 billion US dollars. Revenues in Russia including mobile, retail and fixed businesses increased 12% to 286.4 billion rubles. In our mobile business, growth was driven by: subscriber acquisitions, general growth in consumption of voice and data products, and strong handset sales In Q4 2010, revenue from the sale of handsets, modems and accessories exceeded $276 million US dollars - a 68% increase quarter-on-quarter. The increase was largely driven by the launch of premium handsets and smartphones.

Alexey Kornya, MTS Vice President and Chief Financial Officer, said In 2010, Group OIBDA grew by 9% to reach $4.9 billion US dollars. For the year, our OIBDA margin was 43.1%, which is in line with the guidance we gave in April of last year. In Russia, our Q4 2010 mobile OIBDA margin decreased from 45.8% to 37.4% sequentially. We attribute margin deterioration to traditional seasonal factors, such as lower roaming revenues and traditional holiday promotions. However, the margin erosion also was based on certain commercial decisions we made to protect our leadership and stabilize the market. Higher gross additions increased our spending on dealer commissions. By March, however, we have reduced our sales through alternative channels and aim to see improvement by Q2. In addition, higher than anticipated handset sales a 68% rise from Q3 2010 also pressured our Q4 margins, but based on certain operational KPIs, our retail network did break even for the year. We anticipate margin improvement in 2011 through the optimization of this critical sales channel.

He added, In 2010 CAPEX to sales reached 23% or $2.7 billion US dollars as we continued to build-out our 3G and fixed networks in Russia. We expect CAPEX for 2011 to come in at 22-24% as a percentage of revenues. We will be roughly doubling the number of 3G base stations and advancing certain high-profile projects, like the digitization of our fixed-line networks, namely those in Moscow and other large urban centers.

Continued Mr. Dubovskov, Obviously MTS has changed, and our financial performance is reflective of this. However, the change has allowed us to create a platform that will usher in a new era for MTS. To date we have been focused on an acquisition model of business. This has served us with the growth of subscribers and the changes in distribution over the years. Having now established ourselves in both the fixed-line space and retail, we can now begin to focus on retention and loyalty as key operational goals of our business.

He continued, Overall, in terms of revenue we see about 10% growth for 2011. We anticipate that Group OIBDA margin will be 42-43% for the year. As we enter the second quarter, we do anticipate that margins will remain pressured. However, we do forecast significant improvement in the second half of the year. We aim to push more tariffs that promote on-net traffic and better monetize off-net calling. Network enhancement will

drive more profitable data usage through our networks. In addition, our ability to launch true convergent products, eliminating redundancy at both MTS and Comstar, will further drive usage and support our churn-reduction efforts.

This press release provides a summary of some of the key financial and operating indicators for the period ended December 31, 2010. For full disclosure materials, please visit http://www.mtsgsm.com/resources/reports/.

Financial Summary(6)

USD million	Q4 10	Q4 09	y-o-y	Q3 10	q-o-q	2010	2009	y-o-y
Revenues	2,995.1	2,723.5	10.0%	2,910.8	2.9%	11,293.2	9,867.3	14.5%
- mobile	*2,277.8*	*2,186.7*	*4.2%*	*2,322.1*	*-1.9%*	*8,899.2*	*8,017.6*	*11.0%*
- handsets & accs	*276.8*	*120.3*	*130.1%*	*165.0*	*67.8%*	*707.2*	*353.9*	*99.8%*
- fixed	*440.4*	*416.5*	*5.7%*	*423.6*	*4.0%*	*1,686.9*	*1,495.7*	*12.8%*
Adjusted OIBDA(7)	1,159.2	1,201.8	-3.5%	1,317.5	-12.0%	4,872.9	4,486.5	8.6%
- margin	*38.7%*	*44.1%*	*-5.4pp*	*45.3%*	*-6.6pp*	*43.1%*	*45.5%*	*-2.4pp*
Net operating income	493.0	617.2	-20.1%	803.7	-38.7%	2,734.6	2,555.9	7.0%
- margin	*16.5%*	*22.7%*	*-6.2pp*	*27.6%*	*-11.1pp*	*24.2%*	*25.9%*	*-1.7pp*
Net income/(loss)	156.3	-22.9	n/a	483.5	-67.7%	1,380.6	1,014.2	36.1%
- margin	*5.2%*	*n/a*	*n/a*	*16.6%*	*-11.4pp*	*12.2%*	*10.3%*	*1.9pp*

Russia Highlights

RUB mln	Q4 10	Q4 09	y-o-y	Q3 10	q-o-q	2010	2009	y-o-y
Revenues(8)	77,822.8	66,732.1	16.6%	73,752.0	5.5%	286,407.3	254,748.7	12.4%
- mobile	*64,428.1*	*55,151.9*	*16.8%*	*61,304.8*	*5.1%*	*236,722.8*	*210,344.3*	*12.5%*
- fixed	*14,380.5*	*12,291.5*	*17.0%*	*13,363.3*	*7.6%*	*53,123.6*	*47,368.6*	*12.1%*
Adjusted OIBDA(9)	29,372.1	30,142.6	-2.6%	33,580.6	-12.5%	124,261.9	118,313.6	5.0%
- mobile	*24,082.9*	*25,268.2*	*-4.7%*	*28,072.1*	*-14.2%*	*102,801.1*	*99,310.2*	*3.5%*
- fixed	*5,289.3*	*4,965.9*	*6.5%*	*5,508.5*	*-4.0%*	*21,460.9*	*19,095.0*	*12.4%*
Adjusted OIBDA margin	37.7%	45.2%	-7.5pp	45.5%	-7.8pp	43.4%	46.4%	-3.0pp
- mobile	*37.4%*	*45.8%*	*-8.4pp*	*45.8%*	*-8.4pp*	*43.4%*	*47.2%*	*-3.8pp*
- fixed	*36.8%*	*40.6%*	*-3.8pp*	*41.2%*	*-4.4pp*	*40.4%*	*40.4%*	*stable*
Net income/(loss)	7,363.1	-2,545.4	n/a	12,804.5	-42.5pp	40,055.6	26,642.9	+50.3pp
- margin	*9.5%*	*n/a*	*n/a*	*17.4%*	*-7.9pp*	*14.0%*	*10.5%*	*+3.5pp*

	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	2009	2010
ARPU (RUB)(10)	248.4	236.7	253.9	269.4	261.9	247.5	252.8
MOU (min)	219	211	230	244	259	213	234
Churn rate (%)	12.4%	10.4%	9.8%	13.5%	12.7%	38.3%	45.9%
SAC (RUB)	494.9	534.4	612.8	508.2	656.6	583.4	581.7
- dealer commission	*288.4*	*351.0*	*399.9*	*341.0*	*461.5*	*338.0*	*393.0*
- adv & mktg	*206.5*	*183.4*	*212.9*	*167.2*	*195.1*	*245.5*	*188.6*

(6) Because TS-Retail, Metro-Telecom and Sistema Telecom were acquired from JSC Sistema, the majority owner of both MTS and acquired entities, the acquisitions were accounted for as transactions between entities under common control. Similar to a pooling of interest, whereby the assets and liabilities of entities acquired from Sistema were recorded at Sistema s carrying value, MTS historical financial information was recast to include the acquired entities for all periods presented.

(7) Adjusted OIBDA results for Q4 2009 and Q4 2010 do not include long-lived and other assets impairment loss and acquisition related costs in the amount of $86.4 million and $137.8 million respectively.

(8) Revenue, gross of intercompany.

(9) Adjusted OIBDA results for Q4 2009 do not include long-lived assets impairment loss and acquisition related costs in the amount of $86.4 million.

(10) ARPU is now calculated by dividing our service revenues for a given period, including interconnect, guest roaming fees and connection fees, by the average number of our subscribers during that period and dividing by the number of months in that period.

Ukraine Highlights

UAH mln	Q4 10	Q4 09	y-o-y	Q3 10	q-o-q	2010	2009	y-o-y
Revenues	2,138.9	2,107.7	1.5%	2,303.8	-7.2%	8,511.0	8,172.7	4.1%
OIBDA	969.0	927.1	4.5%	1,144.0	-15.3%	3,954.9	3,681.3	7.4%
- margin	*45.3%*	*44.0%*	*+1.3pp*	*49.7%*	*-4.4pp*	*46.5%*	*45.0%*	*+1.5pp*
Net income	119.9	205.5	-41.7%	364.2	-67.1%	752.0	640.3	17.4%
- margin	*5.6%*	*9.8%*	*-4.2pp*	*15.8%*	*-10.2pp*	*8.8%*	*7.8%*	*+1.0pp*

	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	2009	2010
ARPU (UAH)	38.32	35.21	39.49	41.57	37.59	36.95	38.10
MOU (min)	506	527	541	541	550	462	535
Churn rate (%)	9.7%	9.4%	7.2%	6.6%	8.2%	40.0%	31.0%
SAC (UAH)	56.8	66.9	64.3	58.0	68.1	54.0	64.1
- dealer commission	*22.3*	*34.2*	*31.8*	*29.4*	*32.8*	*23.9*	*31.9*
- adv & mktg	*22.7*	*21.2*	*21.4*	*17.8*	*24.9*	*19.1*	*21.2*
- handset subsidy	*2.6*	*2.1*	*1.8*	*1.3*	*1.6*	*1.5*	*1.7*
- SIM card & voucher	*9.2*	*9.4*	*9.2*	*9.5*	*8.9*	*9.5*	*9.2*

Uzbekistan Highlights(11)

USD mln	Q4 10	Q4 09	y-o-y	Q3 10	q-o-q	2010	2009	y-o-y
Revenues	116.3	105.2	10.6%	114.9	1.2%	448.0	404.9	10.6%
OIBDA	62.0	56.7	9.4%	64.4	-3.7%	248.7	222.7	11.7%
- margin	*53.3%*	*53.9%*	*-0.6pp*	*56.1%*	*-2.8pp*	*55.5%*	*55.0%*	*+0.5pp*
Net income	27.3	26.8	1.8%	27.6	-1.2%	111.1	108.5	2.4%
- margin	*23.5%*	*25.5%*	*-2.0pp*	*24.0%*	*-0.5pp*	*24.8%*	*26.8%*	*-2.0pp*

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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 March 31, 2017
$

1,074

$
—

$
1,074

$
—

Interest rate swap liability as of December 31, 2016
$
1,511

$
—

$
1,511

$
—

The swap contract liability of $1,074 and $1,511 is recorded as a component of other liabilities as of March 31, 2017 and December 31, 2016, respectively, with the offset to accumulated other comprehensive income ($608 and $854, net of taxes, as of March 31, 2017 and December 31, 2016, respectively) on the accompanying condensed consolidated balance sheet.
There were no significant reclassifications out of accumulated other comprehensive income during the three months ended March 31, 2017 and 2016, and the Company does not expect that significant derivative losses included in accumulated other comprehensive income at March 31, 2017 will be reclassified into earnings within the next 12 months.
5. Concentration of Credit Risk
Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and the interest rate swap. Although the Company deposits its cash with more than one financial institution, as of March 31, 2017, $36,722 of the cash balance of $59,872 was held at one financial institution. The Company has not experienced any losses on cash and cash equivalent accounts to date, and the Company believes that, based on the credit ratings of these financial institutions, it is not exposed to any significant credit risk related to cash at this time.
The counterparty to the Company's interest rate swap is a major banking institution with a credit rating of investment grade or better and no collateral is required, and there are no significant risk concentrations. The Company believes the risk of incurring losses on derivative contracts related to credit risk is unlikely.
6. Loss Per Share
Basic earnings (loss) per share ("EPS") is computed by dividing net earnings (loss) applicable to common stockholders by the weighted average numbers of shares of common stock outstanding during the period. Diluted EPS is computed

similarly to basic EPS, except that the denominator is increased for the assumed exercise of dilutive stock options and unvested restricted stock calculated using the treasury stock method.

	Three Months Ended March 31,	
	2017	2016
Weighted average number of common shares outstanding — basic	26,610,21[illegible]	25,072,716
Effect of dilutive share based awards	—	—
Weighted average number of common shares outstanding — diluted	26,610,21[illegible]	25,072,716
Loss per share:		
Basic	$(0.11)	$ (0.28)
Diluted	$(0.11)	$ (0.28)

For the three months ended March 31, 2017 and 2016, there was no effect of dilutive stock options and unvested restricted common stock on calculation of diluted EPS as the Company had a net loss for these periods. As a result, the Company reported basic and diluted loss per share of $0.11 and $0.28 for the three months ended March 31, 2017 and 2016, respectively. If the Company had not been in a net loss position, there would have been anti-dilutive shares of 51,739 and 1,132,268 in the three months ended March 31, 2017 and 2016, respectively.

Table of Contents

7. Stock-Based Compensation

The Company’s 2006 Stock Incentive Plan, as amended and restated in April 2015 (the “2006 Plan”), authorizes the Company to issue up to 3,500,000 shares of common stock to employees, non-employee directors and consultants pursuant to awards of stock options, stock appreciation rights, restricted stock, in payment of performance shares or other stock-based awards. In May 2016, the Company further amended the 2006 Plan to increase the aggregate number of shares of common stock issuable under the 2006 Plan by 1,000,000 shares to a total of 4,500,000. The Company has approved an amendment to the 2006 Plan, subject to the receipt of shareholder approval at the Company's upcoming annual meeting, to increase the number of shares available for issuance thereunder from 4,500,000 to 6,500,000.

Under the 2006 Plan, stock options must be granted at a price not less than the fair market value of the stock on the date the option is granted, generally are not subject to re-pricing, and will not be exercisable more than ten years after the date of grant. Options granted under the 2006 Plan generally qualify as “non-qualified stock options” under the U.S. Internal Revenue Code. As of March 31, 2017, there were 427,171 shares available to be issued under the 2006 Plan. At March 31, 2017, the Company had 162,091 stock options outstanding and 1,457,581 shares of restricted stock outstanding under the 2006 Plan.

Stock Option Awards

The Company did not grant any stock options during the three months ended March 31, 2017.

Total compensation expense, classified within Payroll and related on the condensed consolidated statements of operations, related to stock options outstanding was $5 and $68 for the three months ended March 31, 2017 and 2016. As of March 31, 2017, a total of $52 in unrecognized compensation expense related to stock options is expected to be recognized over a weighted-average period of 2.5 years.

Restricted Stock Awards

On March 10, 2017, the Company issued 26,000 shares of restricted stock under the 2006 Plan. The fair value per share for such restricted stock awards was $4.15, representing the closing stock price on the date of grant. These shares will vest in three equal installments on each of the first three anniversaries dates of the grants.

Beginning January 1, 2017, the Company adopted ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting.” As a result of this updated guidance, the Company elected to account for forfeitures of share-based payments by recognizing forfeitures of awards as they occur. The total compensation expense, classified within Payroll and related on the condensed consolidated statements of operations, related to restricted stock was $303 and $334 for the three months ended March 31, 2017 and 2016, respectively. In the three months ended March 31, 2017, the Company adjusted the forfeiture estimates to reflect actual forfeitures. The forfeiture adjustment reduced stock-based compensation expense by $141 for the three months ended March 31, 2017.

As of March 31, 2017, a total of $3,696 in unrecognized compensation expense related to restricted stock awards is expected to be recognized over a weighted-average period of 2.4 years.

Stock Grants

The Company issued 56,940 and 52,000 shares of common stock to members of the Company’s Board of Directors in respect of their annual retainer on February 1, 2017 and March 8, 2017, respectively. The fair value of the shares issued on February 1, 2017 and March 8, 2017 was $2.81 and $4.00 per share, respectively, and was expensed upon the date of grant. The total compensation expense, classified within general and administrative expenses, related to Board of Directors common stock grants was $368 and $246 for the three months ended March 31, 2017 and 2016, respectively.

8. Fixed Asset Impairment

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

13

Table of Contents

In the three months ended March 31, 2017 and 2016, the Company has determined that there were no adverse changes in our markets or other triggering events that would cause an evaluation of our assets and as such no impairment was recorded.

9. Goodwill and Other Intangibles

Goodwill was allocated to reporting units that closely reflect the regions served by the Company's four trade names: New York Sports Clubs ("NYSC"), Boston Sports Clubs ("BSC"), Washington Sports Clubs ("WSC") and Philadelphia Sports Clubs ("PSC"), with certain more remote clubs that do not benefit from a regional cluster being considered single reporting units ("Outlier Clubs"), and the Company's three clubs located in Switzerland being considered a single reporting unit ("SSC"). As of March 31, 2017, only the SSC region has a remaining goodwill balance.

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

Beginning January 1, 2017, the Company early adopted ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment." This standard eliminated the second step of the goodwill impairment test, where a determination of the fair value of individual assets and liabilities of a reporting unit was needed to measure the goodwill impairment. As a result of this updated guidance, the Company's annual goodwill impairment test as of February 28, 2017 was performed by comparing the fair value of the Company's reporting unit with its carrying amount and then recognizing an impairment charge, as necessary, for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. The February 28, 2017 annual impairment test supported the goodwill balance and as such no impairment of goodwill was required.

For the February 28, 2017 impairment test, fair value was determined by using an income approach, as this was deemed to be the most indicative of the Company's fair value. Under this income approach, the Company determined fair value based on estimated future cash flows of the SSC reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn, which are unobservable Level 3 inputs. The discounted estimates of future cash flows include significant management assumptions such as revenue growth rates, operating margins, weighted average cost of capital, and future economic and market conditions. The estimated weighted-average cost of capital of SSC was 11.2% as of February 28, 2017. 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, 2017 will prove to be accurate predictions of the future. If the Company's assumptions regarding forecasted revenue or margin growth rates of certain reporting units are not achieved, the Company may be required to record goodwill impairment charges in future periods, whether in connection with the Company's next annual impairment testing or prior to that, if any such change constitutes a triggering event outside the quarter when the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result.

Solely for purposes of establishing inputs for the fair value calculation described above related to goodwill impairment testing, the Company made the following assumptions. The Company developed long-range financial forecasts (three years) for all reporting units and assumed known changes in the existing club base. Terminal growth rates were calculated for years beyond the three year forecast. As of February 28, 2017, the Company used a terminal growth rate of 2%.

The Company's next annual impairment test will be performed as of February 28, 2018 or earlier, should circumstances change which would indicate the fair value of goodwill is below its carrying amount.

Table of Contents

The changes in the carrying amount of goodwill from December 31, 2016 through March 31, 2017 are detailed in the charts below.

	NYSC	BSC	SSC	Outlier Clubs	Total
Goodwill	$31,549	$15,775	$1,175	$3,982	$52,481
Changes due to foreign currency exchange rate fluctuations	—	—	(167)	—	(167)
Less: accumulated impairment of goodwill	(31,549)	(15,775)	—	(3,982)	(51,306)
Balance as of December 31, 2016	—	—	1,008	—	1,008
Changes due to foreign currency exchange rate fluctuations	—	—	19	—	19
Balance as of March 31, 2017	$—	$—	$1,027	$—	$1,027

Amortization expense was $5 and $9 for the three months ended March 31, 2017 and 2016. Intangible assets are as follows:

	As of March 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
Membership lists	11,344	(11,344)	—
Management contracts	250	(151)	99
Trade names	40	(9)	31
	$11,634	$ (11,504)	$ 130

	As of December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Intangible Assets
Membership lists	$11,344	$ (11,344)	$ —
Management contracts	250	(146)	104
Trade names	40	(9)	31
	$11,634	$ (11,499)	$ 135

10. Income Taxes

For the three months ended March 31, 2017, the Company recorded an income tax benefit inclusive of valuation allowance of $199 and $817 for the three months ended March 31, 2017 and 2016, respectively, reflecting an effective income tax rate of 6% for the three months ended March 31, 2017 and 11% for the three months ended March 31, 2016. The 2017 income tax benefit was due to the carryback of the 2017 financial loss on the 2016 tax return. For the three months ended March 31, 2017 and 2016, the Company calculated its income tax benefit using the estimated annual effective tax rate methodology.

As of both March 31, 2017 and December 31, 2016, the Company had a net deferred tax liability of $61. The Company maintained a full valuation allowance against its U.S. net deferred tax assets as of both March 31, 2017 and December 31, 2016.

As of March 31, 2017, the Company had $1,154 of unrecognized tax benefits and it is reasonably possible that the entire amount could be realized by the Company in the year ending December 31, 2017, since the income tax returns may no longer be subject to audit in 2017.

From time to time, the Company is under audit by federal, state, and local tax authorities and the Company may be liable for additional tax obligations and may incur additional costs in defending any claims that may arise. The Company was recently notified by the Internal Revenue Service that it intends to examine federal income tax returns for the years ended December 31, 2014 and 2015.

The following state and local jurisdictions are currently examining our respective returns for the years indicated: New York State (2006 through 2014), and New York City (2006 through 2012). In a revised letter dated December 12, 2016, the Company received from the State of New York a revised assessment related to tax years 2006-2009 for $4,722, inclusive of

15

Table of Contents

$2,044 of interest. The Company disagreed with the proposed assessment and has scheduled a conciliation conference with the State of New York to appeal the assessment. The Company has not recorded a tax reserve related to the proposed assessment. It is difficult to predict the final outcome or timing of resolution of any particular matter regarding these examinations. An estimate of the reasonably possible change to unrecognized tax benefits within the next 12 months cannot be made.

11. Commitments and Contingencies

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

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, construction matters, employee relations claims and landlord tenant disputes. The results of litigation are inherently unpredictable. Any claims against the Company, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources. The results of these other lawsuits, claims and proceedings cannot be predicted with certainty. The Company establishes accruals for loss contingencies when it has determined that a loss is probable and that the amount of loss, or range of loss, can be reasonably estimated. Any such accruals are adjusted thereafter as appropriate to reflect changes in circumstances. The Company concluded that an accrual for any such matters is not required as of March 31, 2017.

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

Introduction

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

Based on the number of clubs, we are one of the leading owners and operators of fitness clubs in the Northeast and Mid-Atlantic regions of the United States and one of the largest fitness club owners and operators in the United States. As of March 31, 2017, the Company, through its subsidiaries, operated 149 fitness clubs ("clubs"). Our clubs collectively served approximately 551,000 members as of March 31, 2017. As of March 31, 2017, we owned and operated a total of 101 clubs under the "New York Sports Clubs" brand name within a 120-mile radius of New York City, including 35 locations in Manhattan where we are the largest fitness club owner and operator, 28 clubs in the Boston region under our "Boston Sports Clubs" brand name, 12 clubs (one of which is partly-owned) in the Washington, D.C. region under our "Washington Sports Clubs" brand name, five clubs in the Philadelphia region under our "Philadelphia Sports Clubs" brand name, and three clubs in Switzerland. We also had one partly-owned club that operated under a different brand name in Washington, D.C. as of March 31, 2017. We employ localized brand names for our clubs to create an image and atmosphere consistent with the local community and to foster recognition as a local network of quality fitness clubs rather than a national chain.

We develop clusters of clubs to serve densely populated major metropolitan regions and we service such populations by clustering clubs near the highest concentrations of our target customers' areas of both employment and residence. Our clubs are located for maximum convenience to our members in urban or suburban areas, close to transportation hubs or office or retail centers. Our members include a wide age demographic covering the student market to the active mature market. In each of our

Table of Contents

markets, we have developed clusters by initially opening or acquiring clubs located in the more central urban markets of the region and then branching out from these urban centers to suburbs and neighboring communities.

Revenue and operating expenses

We have two principal sources of revenue:

- Membership revenue: Our largest sources of revenue are dues inclusive of monthly membership fees, annual maintenance fees, initiation and processing fees paid by our members. In addition, we collect usage fees on a per visit basis for non-passport members using non-home clubs. These dues and fees comprised 77.2% of our total revenue for the three months ended March 31, 2017. We recognize revenue from membership dues in the month when the services are rendered. We recognize revenue from initiation and processing fees over the estimated average membership life and annual fees over a twelve month period.
- Ancillary club revenue: For the three months ended March 31, 2017, we generated 16.7% of our revenue from personal training and 4.7% of our revenue from other ancillary programs and services consisting of Sports Clubs for Kids, racquet sports and Small Group Training programs. 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 1.4% of our total revenue for the three months ended March 31, 2017) 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, provide laundry services, and generate management fees from certain club facilities that we do not wholly own. We refer to these revenues as Fees and other revenue.

Our performance is dependent in part on our ability to continually attract and retain members at our clubs. In the three months ended March 31, 2017 and 2016, our monthly average attrition rate was 3.9% and 3.5%, 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 condensed consolidated statements of operations and are not included in general and administrative expenses. Approximately 45% of general and administrative expenses relate directly to club operations including phone and data lines, computer maintenance, business licenses, office and sales supplies, general liability insurance, recruiting and training.

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

As of March 31, 2017, 148 of our fitness clubs were wholly-owned by us and our consolidated financial statements include the operating results of all such clubs. One location in Washington, D.C. was partly-owned by us, with our profit sharing percentage approximating 45%, and is treated as an unconsolidated affiliate for which we apply the equity method of accounting. We also partly-owned another location in Washington D.C. that is not part of the WSC region with a profit sharing percentage approximating 20% (after priority distributions) for which the equity accounting method is also applied. In addition, we provide management services at locations where we do not have an equity interest which include three fitness clubs located in colleges and universities and seven managed sites.

Table of Contents

Historical Club Count

The following table sets forth the changes in our club count during each of the quarters in 2016, the full-year 2016, and the first quarter of 2017.

	2016					2017
	Q1	Q2	Q3	Q4	Full Year	Q1
Wholly owned clubs operated at beginning of period	151	150	148	147	151	149
New clubs opened	—	—	1	—	1	1
BFX Studio locations converted to clubs	—	—	—	2	2	—
Clubs closed	(1)	(2)	(2)	—	(5)	(2)
Wholly owned clubs operated at end of period	150	148	147	149	149	148
Partly-owned clubs operated at end of period(1)	1	1	1	1	1	1
Total clubs operated at end of period (1)(2)	151	149	148	150	150	149

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

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

Comparable Club Revenue

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

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

	2016				2017
	Q1	Q2	Q3	Q4	Q1
Comparable club revenue	(7.6)%	(4.5)%	(3.0)%	(2.2)%	0.7%

The comparable club revenue increase in the three months ended March 31, 2017 was primarily due to higher average dues per membership and an increase in member count in comparable clubs. The comparable club revenue increase was partially offset by decreased initiation and processing fees, personal training revenue and other ancillary club revenue. The comparable club revenue decline experienced in 2016 was primarily due to lower average dues per membership, partially offset by an increase in membership sales volume and annual fees.

Table of Contents

Consolidated Results of Operations

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

	Three Months Ended March 31,	
	2017	2016
Revenue	100.0 %	100.0 %
Operating expenses:		
Payroll and related	37.7	38.9
Club operating	45.6	47.0
General and administrative	6.4	6.8
Depreciation and amortization	10.4	11.0
	100.1	103.7
Operating loss	(0.1)	(3.7)
Interest expense	3.2	4.0
Equity in the earnings of investees and rental income	(0.1)	(0.1)
Loss before benefit for corporate income taxes	(3.2)	(7.6)
Benefit for corporate income taxes	(0.2)	(0.8)
Net loss	(3.0)%	(6.8)%

Three Months Ended March 31, 2017 compared to Three Months Ended March 31, 2016

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

	Three Months Ended March 31,				
	2017		2016		
	Revenue	% Revenue	Revenue	% Revenue	% Variance
Membership dues	$75,487	76.2 %	$74,508	73.5 %	1.3 %
Initiation and processing fees	986	1.0	2,041	2.0	(51.7)
Membership revenue	76,473	77.2	76,549	75.5	(0.1)
Personal training revenue	16,518	16.7	17,904	17.7	(7.7)
Other ancillary club revenue (1)	4,680	4.7	5,353	5.3	(12.6)
Ancillary club revenue	21,198	21.4	23,257	23.0	(8.9)
Fees and other revenue (2)	1,409	1.4	1,539	1.5	(8.4)
Total revenue	$99,080	100.0 %	$101,345	100.0 %	(2.2)%

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

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

Revenue decreased $2.3 million, or 2.2%, in the three months ended March 31, 2017 compared to the three months ended March 31, 2016, primarily related to the impact of club closures as well as declines in initiation and processing fees, personal training revenue and other ancillary club revenue. The revenue decrease was partially offset by an increase in membership dues. In the three months ended March 31, 2017 compared to the three months ended March 31, 2016, revenue decreased approximately $3.8 million at closed clubs, partially offset by a $1.2 million increase in revenue from our clubs that were opened in the last 24 months, and a $326,000 increase in revenue at our clubs operating longer than 24 months.

Membership dues revenue increased $1.0 million, or 1.3%, in the three months ended March 31, 2017 compared to the three months ended March 31, 2016, primarily reflecting an increase in annual fees.

Initiation and processing fees revenue decreased $1.1 million, or 51.7%, in the three months ended March 31, 2017 compared to the three months ended March 31, 2016. Initiation and processing fees are amortized over the estimated average membership life and as a lesser amount of fees is collected, the revenue recognized will continue to decrease for the

19

Table of Contents

amortization period. The high initiation fees that were initially collected with the conversion to the lower pricing model in 2014 are no longer part of the calculation, which resulted in the decrease in revenue. The decrease was also due to the effect of higher estimated average membership life of 26 months for the three months ended March 31, 2017 versus 25 months for the same prior-year period, which resulted in initiation and processing fees being amortized over the longer time period and therefore less revenue was recognized.

Personal training revenue decreased $1.4 million, or 7.7%, in the three months ended March 31, 2017 compared to the three months ended March 31, 2016, primarily due to the impact of club closures and a decline in sales volume for our personal training products.

Other ancillary club revenue decreased $673,000, or 12.6%, in the three months ended March 31, 2017 compared to the three months ended March 31, 2016, primarily due to decreased revenue from our Small Group Training and Sports Clubs for Kids programs.

Comparable club revenue increased 0.7% in the three months ended March 31, 2017 as compared to the three months ended March 31, 2016, primarily due to higher average dues per membership and an increase in member count in comparable clubs. The comparable club revenue increase was partially offset by decreased initiation and processing fees, personal training revenue and other ancillary club revenue.

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

	Three Months Ended March 31, 2017	2016	% Variance
Payroll and related	$37,385	$39,386	(5.1)%
Club operating	45,174	47,630	(5.2)
General and administrative	6,330	6,866	(7.8)
Depreciation and amortization	10,309	11,185	(7.8)
Total operating expenses	$99,198	$105,067	(5.6)%

Operating expenses decreased due to the following factors:

Payroll and related. Payroll and related expenses decreased $2.0 million, or 5.1%, in the three months ended March 31, 2017 compared to the three months ended March 31, 2016, primarily reflecting club closures and other cost-savings initiatives, partially offset by the increase in minimum wage.

Club operating. Club operating expenses decreased $2.5 million, or 5.2%, in the three months ended March 31, 2017 compared to the three months ended March 31, 2016. This decrease was principally attributable to the following:

- Marketing expenses decreased $1.3 million mainly due to reduced spending in the three months ended March 31, 2017 related to our cost-savings initiatives.
- Utilities expenses decreased $636,000 during the three months ended March 31, 2017, primarily reflecting lower usage in electricity and gas, as well as the impact of club closures.
- Rent and occupancy expenses decreased $260,000 in the three months ended March 31, 2017 compared to the three months ended March 31, 2016. The decrease was driven by savings of $1.2 million related to closed clubs, partially offset by an increase of $770,000 at mature clubs primarily due to rent escalations and an increase of $179,000 related to newly opened and future clubs.

General and administrative. General and administrative expenses decreased $536,000, or 7.8%, in the three months ended March 31, 2017 compared to the three months ended March 31, 2016, primarily reflecting the results of our cost-savings initiatives.

Depreciation and amortization. In the three months ended March 31, 2017, compared to the three months ended March 31, 2016, depreciation and amortization expense decreased $876,000, or 7.8%, due to a decline in our depreciable fixed assets base resulting from club closures and impairment charges.

Table of Contents

Interest Expense
Interest expense decreased $1.0 million, or 23.8%, in the three months ended March 31, 2017 compared to the three months ended March 31, 2016, primarily reflecting the effect of principal payments made on, and purchases of debt outstanding under, the 2013 Term Loan Facility since March 31, 2016.
Benefit for Corporate Income Taxes
We recorded an income tax benefit inclusive of valuation allowance of $199,000 and $817,000 for the three months ended March 31, 2017 and 2016, respectively, reflecting an effective income tax rate of 6% for the three months ended March 31, 2017 and 11% for the three months ended March 31, 2016. For the three months ended March 31, 2017 and 2016, we calculated our income tax benefit using the estimated annual effective tax rate methodology.
Liquidity and Capital Resources
We experienced declining revenue from members in the past several years as the fitness industry was highly competitive in the geographic regions in which we competed. Also, the prior strategy of converting to a low-cost gym resulted in additional revenue pressure for the past few years. New members joined at lower monthly rates and cancellations of members paying higher rates negatively impacted our results and liquidity. In response to this, we implemented cost-savings initiatives in 2015, 2016 and 2017, which mitigated the impact the decline in revenue had on our profitability and cash flow from operations.
We continue to recover from our prior strategy of converting to a low-cost gym. We focus on increasing membership in existing clubs to increase revenue. We may consider additional actions within our control, including the sale of certain assets, club acquisitions, additional club closures and entering into arrangements with revenue generating partnerships, some of which will utilize a “shop-in-shop” concept. We may also consider additional strategic alternatives, including opportunities to reduce TSI, LLC’s existing debt and further cost-savings initiatives. Our ability to continue to meet our obligations is dependent on our ability to generate positive cash flow from a combination of initiatives, including those mentioned above. Failure to successfully implement these initiatives could have a material adverse effect on our liquidity and our operations, and we would need to implement alternative plans that could include additional asset sales, additional reductions in operating costs, further reductions in working capital, debt restructurings and deferral of capital expenditures. There can be no assurance that such alternatives would be available to us or that we would be successful in their implementation.
As of March 31, 2017, we had $59.9 million of cash and cash equivalents. Financial instruments that potentially subject us to concentrations of credit risk consist of cash and cash equivalents. Although we deposit our cash with more than one financial institution, as of March 31, 2017, $36.7 million was held at one financial institution. We have not experienced any losses on cash and cash equivalent accounts to date and we do not believe that, based on the credit ratings of the aforementioned institutions, we are exposed to any significant credit risk related to cash at this time.
Historically, we have satisfied our liquidity needs through cash generated from operations and various borrowing arrangements. Principal liquidity needs have included the acquisition and development of new clubs, debt service requirements, debt purchases and other capital expenditures necessary to upgrade, expand and renovate existing clubs. We believe that our existing cash and cash equivalents, cash generated from operations and our existing credit facility will be sufficient to fund capital expenditures, working capital needs and other liquidity requirements associated with our operations through at least the next 12 months.
Operating Activities. Net cash provided by operating activities for the three months ended March 31, 2017 increased $1.7 million compared to the three months ended March 31, 2016. Decreases in operating cash for the same periods included the following:

- Cash collected for membership dues increased $711,000.
- Cash collected for recurring annual fees increased $1.6 million.
- Cash collected from landlords for tenant improvement allowances increased $838,000.
- Cash paid for various operating expenses decreased due to our cost-savings initiatives including, among others, cash paid for marketing of $1.8 million, occupancy of $550,000 and utilities of $202,000.

• Cash paid for interest decreased $863,000.

21

Table of Contents

Offsetting decreases in operating cash included the following:

- Cash collected for income tax refunds decreased $3.7 million.
- Cash collected for member enrollment, including the initial annual fee paid upon joining, decreased by $1.1 million.
- Cash collected for personal training memberships decreased by $1.4 million.
- Cash paid for payroll increased $932,000.

Investing Activities. Net cash used in investing activities decreased $784,000 in the three months ended March 31, 2017 compared to the three months ended March 31, 2016, primarily due to the decreased activity in building new locations.

Financing Activities. Net cash used in financing activities decreased $196,000 in the three months ended March 31, 2017 compared to the three months ended March 31, 2016. In the three months ended March 31, 2017 and 2016, we made principal payments on the 2013 Term Loan Facility of $520,000 and $703,000, respectively.

As of March 31, 2017, our total principal amount of debt outstanding was $201.5 million. This substantial amount of debt could have significant consequences, including:

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

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

We believe that we have, or will be able to obtain or generate, sufficient funds to finance our current operating plans through the next 12 months. Any material acceleration or expansion of our plans through newly constructed clubs or acquisitions (to the extent such acquisitions include cash payments) may require us to pursue additional sources of financing. There can be no assurance that such financing will be available, available on acceptable terms, or permitted under the 2013 term loan facility.

2013 Senior Credit Facility

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

Table of Contents

Borrowings under the 2013 Term Loan Facility and the 2013 Revolving Loan Facility, at TSI, LLC's option, bear interest at either the administrative agent's base rate plus 2.5% or a LIBOR rate adjusted for certain additional costs (the "Eurodollar Rate") plus 3.5%, each as defined in the 2013 Senior Credit Facility. With respect to the outstanding term loans, the Eurodollar Rate has a floor of 1.00% and the base rate has a floor of 2.00%. Commencing with the last business day of the quarter ended March 31, 2014, TSI, LLC is required to pay 0.25% of the principal amount of the term loans each quarter, which may be reduced by voluntary prepayments. As of March 31, 2017, we have made a total of $22.5 million in principal payments on the 2013 Term Loan Facility.

On January 30, 2015, the 2013 Senior Credit Facility was amended (the "Amendment") to permit TSI Holdings to purchase term loans under the credit agreement. Any term loans purchased by TSI Holdings will be canceled in accordance with the terms of the credit agreement, as amended by the Amendment. We may from time to time purchase term loans in market transactions, privately negotiated transactions or otherwise; however we are under no obligation to make any such purchases. Any such transactions, and the amounts involved, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. As of March 31, 2017, TSI Holdings had a cash balance of approximately $506,000.

In December 2015, TSI Holdings purchased $29.8 million principal amount of debt outstanding under the 2013 Senior Credit Facility in the open market for $10.9 million, or 36.7% of face value. On April 21, 2016, TSI Holdings settled a transaction to purchase $8.7 million principal amount of debt outstanding under the 2013 Senior Credit Facility for $3.8 million, or 43.5% of face value. On May 6, 2016, TSI Holdings settled another transaction to purchase $62.4 million principal amount of debt outstanding under the 2013 Senior Credit Facility for $26.0 million, or 41.6% of face value. The April and May transactions created gains on extinguishment of debt in 2016 of $38.0 million with a tax effect of $13.5 million. The gain on extinguishment of debt was net of the write-off of deferred financing costs and debt discount of $545,000 and $1.6 million, respectively, and other costs related to the transaction. All of the above purchased debt was transferred to TSI, LLC and canceled.

The terms of the 2013 Senior Credit Facility provide for a financial covenant in the situation where the total utilization of the revolving loan commitments (other than letters of credit up to $5.5 million at any time outstanding) exceeds 25% of the aggregate amount of those commitments. In such event, TSI, LLC is required to maintain a total leverage ratio, as defined in the 2013 Senior Credit Facility, of no greater than 4.50:1.00. As of March 31, 2017, the total leverage ratio was below 4:50:1:00. Other than $3.9 million of letters of credit, we did not have any amounts utilized on the 2013 Revolving Loan Facility and therefore we were not subject to this financial covenant as of March 31, 2017. The terms of the 2013 Senior Credit Facility include a financial covenant under which the Company is not able to utilize more than 25%, or $11,250 in accordance with terms of the 2013 Revolving Loan Facility if the total leverage ratio exceeds 4:50:1:00 (calculated on a proforma basis to give effect to any borrowing). The 2013 Senior Credit Facility also contains certain affirmative and negative covenants, including covenants that may limit or restrict TSI, LLC and Holdings II's ability to, among other things, incur indebtedness and other liabilities; create liens; merge or consolidate; dispose of assets; make investments; pay dividends and make payments to shareholders; make payments on certain indebtedness; and enter into sale leaseback transactions, in each case, subject to certain qualifications and exceptions. In addition, at any time when the total leverage ratio is greater than 4.50:1.00, there are additional limitations on the ability of TSI, LLC and Holdings II to, among other things, make certain distributions of cash to TSI Holdings. The 2013 Senior Credit Facility also includes customary events of default (including non-compliance with the covenants or other terms of the 2013 Senior Credit Facility) which may allow the lenders to terminate the commitments under the 2013 Revolving Loan Facility and declare all outstanding term loans and revolving loans immediately due and payable and enforce its rights as a secured creditor.

TSI, LLC may prepay the 2013 Term Loan Facility and 2013 Revolving Loan Facility without premium or penalty in accordance with the 2013 Senior Credit Facility. Mandatory prepayments are required relating to certain asset sales, insurance recovery and incurrence of certain other debt and commencing in 2015 in certain circumstances relating to excess cash flow (as defined) for the prior fiscal year, as described below, in excess of certain expenditures. Pursuant to the terms of the 2013 Senior Credit Facility, we are required to apply net proceeds in excess of $30.0 million from sales of assets in any fiscal year towards mandatory prepayments of outstanding borrowings.

In addition, the 2013 Senior Credit Facility contains provisions that require excess cash flow payments, as defined therein, to be applied against outstanding 2013 Term Loan Facility balances. The excess cash flow is calculated annually for each fiscal year ending December 31 and paid 95 days after the fiscal year end. The applicable excess cash flow repayment percentage is applied to the excess cash flow when determining the excess cash flow payment. Earnings, changes in working capital and capital expenditure levels all impact the determination of any excess cash flow. The applicable excess cash flow

Table of Contents

repayment percentage is 50% when the total leverage ratio, as defined in the 2013 Senior Credit Facility, exceeds or is equal to 2.50:1.00; 25% when the total leverage ratio is greater than or equal to 2.00:1.00 but less than 2.50:1.00 and 0% when the total leverage ratio is less than 2.00:1.00. The excess cash flow calculation performed as of December 31, 2016 did not result in any required payments in April 2017. The next excess cash flow calculation would be due in April 2018, if applicable. We are still determining at this time whether such payment will be required.

As of March 31, 2017, the 2013 Term Loan Facility has a gross principal balance of $201.5 million and a balance of $196.6 million, net of unamortized debt discount of $3.6 million and unamortized debt issuance costs of $1.2 million. As of March 31, 2017, both the unamortized balance of debt issuance costs and unamortized debt discount are recorded as a contra-liability to long-term debt on the accompanying condensed consolidated balance sheet and are being amortized as interest expense using the effective interest method.

As of March 31, 2017, there were no outstanding 2013 Revolving Loan Facility borrowings and outstanding letters of credit issued totaled $3.9 million. The unutilized portion of the 2013 Revolving Loan Facility as of March 31, 2017 was $41.1 million, with borrowings under such facility subject to the conditions applicable to borrowings under our 2013 Senior Credit Facility, which conditions we may or may not be able to satisfy at the time of borrowing.

Financial Instruments

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

We originally entered into our interest rate swap arrangement on July 13, 2011 in connection with the 2011 Senior Credit Facility. In connection with entering into the 2013 Senior Credit Facility, we amended and restated the interest rate swap agreement initially entered into (and amended in August 2012 and November 2012). Effective as of November 15, 2013, the closing date of the 2013 Senior Credit Facility, the interest rate swap arrangement had a notional amount of $160.0 million and will mature on May 15, 2018. The swap effectively converts $160.0 million of the current outstanding principal of the total variable-rate debt under the 2013 Senior Credit Facility to a fixed rate of 5.384%, when including the applicable 3.50% margin. As permitted by FASB Accounting Standards Codification (“ASC”) 815, Derivatives and Hedging, we have designated this swap as a cash flow hedge, the effects of which have been reflected in our condensed consolidated financial statements for the three months ended March 31, 2017 and 2016. The objective of this hedge is to manage the variability of cash flows in the interest payments related to the portion of the variable-rate debt designated as being hedged.

When our derivative instrument was executed, hedge accounting was deemed appropriate and it was designated as a cash flow hedge at inception with re-designation being permitted under ASC 815, Derivatives and Hedging. Interest rate swaps are designated as cash flow hedges for accounting purposes since they are being used to transform variable interest rate exposure to fixed interest rate exposure on a recognized liability (debt). On an ongoing basis, we perform a quarterly assessment of the hedge effectiveness of the hedge relationship and measure and recognize any hedge ineffectiveness in the condensed consolidated statements of operations. For the three months ended March 31, 2017 and 2016, hedge ineffectiveness was evaluated using the hypothetical derivative method. There was no hedge ineffectiveness for the three months ended March 31, 2017 and 2016.

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

Table of Contents

Contractual Obligations

As of March 31, 2017, our contractual obligations listed in the table below and payments due by period 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)	$201,480	$2,082	$4,165	$195,233	$—
Interest payments on long-term debt (2)	34,366	10,584	18,205	5,577	—
Operating lease obligations (3)	585,497	90,771	162,541	131,240	200,945
Total contractual obligations	$821,343	$103,437	$184,911	$332,050	$200,945

Notes:

(1) Principal amounts paid each year may increase if annual excess cash flow amounts are required (as described above). Excess cash flow was calculated as of December 31, 2016 and no payment is currently required in April 2017.

(2) Based on interest rates pursuant to the 2013 Term Loan Facility and the interest swap agreement as of March 31, 2017.

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

(4) The table above does not reflect potential commitments in connection with our agreement with CYC Fitness Partners, LLC.

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

Working Capital

We had working capital deficit of $619,000 and $6.3 million as of March 31, 2017 and December 31, 2016. Major components of our working capital deficit on the current liability side are deferred revenues, accounts payable, corporate income taxes payable, accrued expenses (including, among others, accrued payroll and occupancy costs), and the current portion of long-term debt. As of March 31, 2017, these current liabilities more than offset the current assets, which consist of cash and cash equivalents, accounts receivable, and prepaid expenses and other current assets. The deferred revenue that is classified as a current liability relates to dues and services paid-in-full in advance and fees paid at the time of enrollment and totaled $38.9 million and $34.6 million at March 31, 2017 and December 31, 2016, respectively. Initiation and processing fees received are deferred and amortized over the estimated average membership life of a club member and all annual fees are deferred and amortized over a 12 month period. Prepaid dues and fees for prepaid services are generally realized over a period of up to 12 months. In periods when we increase the number of members and consequently increase the level of payments received in advance, we would expect to see increased deferred revenue balances. By contrast, any decrease in demand for our services or reductions in initiation fees collected would have the effect of reducing deferred revenue balances, which would likely require us to rely more heavily on other sources of funding. In either case, a significant portion of the deferred revenue is not expected to constitute a liability that must be funded with cash. At the time a member joins our club, we incur enrollment costs, a portion of which are deferred over the estimated average membership life or 12 months to the extent these costs are related to the first annual fee paid at the time of enrollment, or within the first month of membership. These costs are recorded as a long-term asset and as such do not affect working capital. We expect to record a working capital deficit in future periods and believe our cash and cash equivalents and our 2013 Senior Credit Facility, which includes a 2013 Revolving Loan Facility, are sufficient to fund our operating, investing and financing requirements for the next twelve months.

Recent Changes in or Recently Issued Accounting Pronouncements

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

Use of Estimates and Critical Accounting Policies

Other than as disclosed below, management believes there have been no other material changes during the period covered by this Quarterly Report to the items that we disclosed as our critical accounting policies and estimates in “Management’s

25

Table of Contents

Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Estimated Average Membership Life. Initiation and processing fees, as well as related direct and incremental expenses of membership acquisition, which may include sales commissions, bonuses and related taxes and benefits, are deferred and recognized, on a straight-line basis, in operations over the estimated average membership life or 12 months to the extent these costs are related to the first annual fee paid at the time of enrollment. Annual fees are amortized over 12 months. As of March 31, 2017, the average membership life was 26 months. The Company monitors factors that might affect the estimated average membership life including retention trends, attrition trends, membership sales volumes, membership composition, competition, and general economic conditions, and adjusts the estimate as necessary on a quarterly basis.

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

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

In the three months ended March 31, 2017 and 2016, the Company determined that there were no triggering events indicating that related carrying amounts may not be recoverable from undiscounted cash flows and as such no impairment charge was recorded. We believe our forecasts are stable, but we will continue to monitor the performance of the clubs on a quarterly basis. If we under-perform against forecasts, we may record impairment charges in future quarters.

Goodwill was allocated to reporting units that closely reflect the regions served by the Company's four trade names: New York Sports Clubs, Boston Sports Clubs, Washington Sports Clubs and Philadelphia Sports Clubs, with certain more remote clubs that do not benefit from a regional cluster being considered single reporting units, and the Company's three clubs located in Switzerland being considered a single reporting unit ("SSC"). As of March 31, 2017, only the SSC region has a remaining goodwill balance.

Beginning January 1, 2017, the Company early adopted ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment." This standard eliminated the second step of the goodwill impairment test, where a determination of the fair value of individual assets and liabilities of a reporting unit was needed to measure the goodwill impairment. As a result of this updated guidance, the Company's annual goodwill impairment test as of February 28, 2017 was performed by comparing the fair value of the Company's reporting unit with its carrying amount and then recognizing an impairment charge, as necessary, for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. The February 28, 2017 annual impairment test supported the goodwill balance and as such no impairment of goodwill was required.

For the February 28, 2017 impairment test, fair value was determined by using an income approach, as this was deemed to be the most indicative of the Company's fair value. Under this income approach, the Company determined fair value based on estimated future cash flows of the SSC reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn, which are unobservable Level 3 inputs. The discounted estimates of future cash flows include significant management assumptions such as revenue growth rates, operating margins, weighted average cost of capital, and future economic and market conditions. The estimated weighted-average cost of capital of SSC was 11.2% as of February 28, 2017. 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, 2017 will prove to be accurate predictions of the future. If the Company's assumptions regarding

Table of Contents

forecasted revenue or margin growth rates of certain reporting units are not achieved, the Company may be required to record goodwill impairment charges in future periods, whether in connection with the Company's next annual impairment testing or prior to that, if any such change constitutes a triggering event outside the quarter when the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result.

Solely for purposes of establishing inputs for the fair value calculation described above related to goodwill impairment testing, the Company made the following assumptions. The Company developed long-range financial forecasts (three years) for all reporting units and assumed known changes in the existing club base. Terminal growth rates were calculated for years beyond the three year forecast. As of February 28, 2017, the Company used a terminal growth rate of 2%.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, without limitation, statements regarding future financial results and performance, potential sales revenue, potential club closures, results of cost-savings initiatives, legal contingencies and tax benefits and contingencies, future declarations and payments of dividends, and the existence of adverse litigation and other risks, uncertainties and factors set forth under Item 1A., entitled "Risk Factors," in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and in our other reports and documents filed with the SEC. You can identify these forward-looking statements by the use of words such as "outlook," "believes," "expects," "potential," "continues," "may," "will," "should," "seeks," "approximately," "predicts," "intends," "plans," "estimat "target," "could," or the negative version of these words or other comparable words. These statements are subject to various risks and uncertainties, many of which are outside our control, including, among others, the level of market demand for our services, economic conditions affecting our business, the success of our pricing model, the geographic concentration of our clubs, competitive pressure, the ability to achieve reductions in operating costs and to continue to integrate acquisitions, outsourcing of certain aspects of our business, environmental matters, the application of Federal and state tax laws and regulations, any security and privacy breaches involving customer data, the levels and terms of the Company's indebtedness, and other specific factors discussed herein and in other SEC filings by us (including our reports on Forms 10-K and 10-Q filed with the SEC). We believe that all forward-looking statements are based on reasonable assumptions when made; however, we caution that it is impossible to predict actual results or outcomes or the effects of risks, uncertainties or other factors on anticipated results or outcomes and that, accordingly, one should not place undue reliance on these statements. Forward-looking statements speak only as of the date when made and we undertake no obligation to update these statements in light of subsequent events or developments. Actual results may differ materially from anticipated results or outcomes discussed in any forward-looking statement.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest rates on borrowings for the 2013 Term Loan Facility are for one-month periods in the case of Eurodollar borrowings. Our exposure to market risk for changes in interest rates relates to interest expense on variable rate debt. As of March 31, 2017, we had $201.5 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 are 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 March 31, 2017, a hypothetical 100 basis point interest increase would increase our annual interest cost by approximately $780,000.

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

Table of Contents

Item 4. Controls and Procedures

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

As of March 31, 2017, 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 defined above. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2017, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting: There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

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

ITEM 1A. Risk Factors

There have not been any material changes to the information related to the ITEM 1A. "Risk Factors" disclosure in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

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

Table of Contents

From time to time the Company may use its website as a channel of distribution of material company information. Financial and other material information regarding the Company is routinely posted on and accessible at http://investor.mysportsclubs.com. In addition, you may automatically receive email alerts and other information about the Company by enrolling through the "Email Alerts" section at http://investor.mysportsclubs.com.
The foregoing information regarding the Company website and its content is for convenience only. The content of its website is not deemed to be incorporated by reference into this report nor should it be deemed to have been filed with the Securities and Exchange Commission.

Table of Contents

SIGNATURES

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

TOWN SPORTS INTERNATIONAL
HOLDINGS, INC.

DATE: April 26, 2017

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

Table of Contents

INDEX TO EXHIBITS

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

Exhibit No.	Description of Exhibit
3.1	Amended and Restated Certificate of Incorporation of Town Sports International Holdings, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).
3.2	Third Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K, filed on September 17, 2014).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a – 14(a) and Rule 15d – 14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a – 14(a) and Rule 15d – 14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase