

TOWN SPORTS INTERNATIONAL HOLDINGS, INC.

To The Shareholders of Town Sports International:

On June 17, 2015, I was designated Executive Chairman of Town Sports International ("Town Sports", "the Company", "NYSC, BSC, WSC, PSC", "we" and "our"). In the time since, we have operated with a heightened sense of urgency to revitalize the Company. We have conducted an exhaustive examination of the Company's operations and strategy. We have evaluated management, installed a new executive team, made customer service the absolute priority, launched a new marketing and branding strategy, and incorporated new incentive plans that focus on unit level economics. In this letter, I will explain our strategy and share details about our challenges, opportunities and goals.

During the second half of 2015, we set forth the following goals: form a strong management team, implement an efficient cost structure, improve club level economics and set the stage to reverse the severe sales declines. As discussed below, we believe that the pricing strategy adopted prior to my arrival has significantly contributed to this decline.

Our Long Term Strategy: Maximize The Value of Town Sports International

Senior leadership is now focused on free cash flow generation and return on invested capital. This focus will benefit all stakeholders including creditors and shareholders and is in sync with our ultimate long term goal which is to increase and maximize the per share value of Town Sports International. Over the short and long run, capital allocation will be a critical determinant of our future success.

As we move forward with our strategy, we have placed a moratorium on new club openings. I believe the current growth rate of new supply, especially from the budget gyms and boutique studios, has impaired the industry's economics. At some point, the supply of budget gyms will exceed consumer demand. It appears that rivals are shunning fundamentals that are critical for long-term health in order to enhance short-term growth targets. This is especially prevalent in franchise models where the franchisee is an owner-operator that is willing to accept a return that would be unacceptable to Town Sports.

Unfortunately, profit margins in the industry will likely continue to suffer unless this supply dynamic corrects itself through consolidation and closures. Given this view, we believe the biggest opportunity for Town Sports is to improve the unit level economics of our current clubs in operation. Historically, the Company has relied on new locations to increase membership. Current management is now focused on increasing membership solely through our existing clubs. Management's goal is to "*profitably*" expand our membership base. In order to achieve this goal, we must remain focused on our member's needs, provide exceptional customer service and deliver more value to the marketplace than our competitors.

Due to continued new supply and intense competition, the Company responded by materially reducing prices. These price changes were implemented during the second half of 2014 and the first half of 2015. Unfortunately, the Company did not generate the required volume to make up for the lower pricing. In some cases, prices were reduced by 70%, which required the Company to triple its sales volume to maintain profitability. In hindsight, this was not feasible given the competition in the market.

Furthermore, the Company's cost structure did not reflect the lower pricing. In fact, expenses were escalating. Finally, the Company has several uneconomical leases that required us to open clubs that will

likely never generate a positive return on investment. These events culminated in a significant reduction in the Company's profitability and led to significant cash burn.

Most importantly, we do not believe the lower price points accurately reflect the Company's product. New York Sports Club and its sister brands BSC, WSC and PSC serve as a "middle market" option for hundreds of thousands of members with a geographic footprint that is unmatched in the Northeast. In addition, our clubs provide innovative fitness programming with a broad array of excellent classes including dance, cycling, strength conditioning, boxing, yoga, Pilates and step classes. The breadth and quality of our classes provide a tremendous value proposition to our members.

We raised prices in select markets in October 2015 by approximately 25% on all new enrollments. We believe that the Company's current prices are a better reflection of our club's value and that New York Sports Club and its affiliates now offer more classes, more locations and more value than any of our competitors.

We intend to lead and dominate the middle market for premium fitness while providing unmatched value and convenience to our customers. During 2015, we increased our membership base to a record level of 541,000 as we added approximately 64,000 net members. This is a strong improvement from a 13,000 member loss in 2014. Approximately 280,000, or 52% of our members have a Passport Membership which offers enhanced privileges and greater convenience than our standard membership. Finally, we had more than 30 million member visits to our clubs during 2015. Our presence in the Northeast market is substantial.

Our Quest For Efficiency

Our philosophy on expense discipline is straightforward and simple. I would like to emphasize the word *simple* but not *easy*. The Company will spend money on strategic priorities, including sales driving initiatives, marketing, research and development etc., and spend this money in good times as well as bad. However, we will relentlessly eliminate non-strategic expenses. We must be ruthless in our quest to eliminate inefficiencies. Our executives, general managers and team members must focus on the elimination of all non-strategic costs with a constant suspicion of every single expense.

In the last eight months, we have left no stone unturned. Immense business judgment is required to achieve a low cost structure while maintaining and enhancing sales. It is essential that cost reductions do not impair the quality of our service or product. We have instructed our managers to act and think like owners and to scour through their profit and loss statements for savings and revenue generating opportunities.

We have reduced the Company's cost structure by more than \$30 million since I became Executive Chairman. However, we do not have a target or end date for our cost savings initiatives. Management will continuously look to reduce expenses in order to improve the Company's profitability. Our goal is for Town Sports International to become the most efficient company in the industry.

Operations

There is no silver bullet for turning around Town Sports. Competition is fierce and our managers and team members must execute hundreds of tasks everyday in order for the Company to compete effectively. The fitness landscape has changed over the past five years with increased consumer demand for boutique fitness facilities. The industry has evolved as a result of this demand shift and a surge of new competition from industry participants. As health and fitness needs continue to change, our Company must not only adapt, but get ahead of the curve. In order to succeed, we must be relevant and responsive, better relate to our customers and communities, and embrace technological innovation that not only transforms our business, but leads the industry. We plan to offer new and unique capabilities to our customers inside and outside of our clubs as we strive to differentiate ourselves from the competition.

As we elevate the various brands of Town Sports, we want to secure what makes our brand special and communicate to the marketplace why we are a unique value. We intend to embrace our roots as an accessible, straightforward brand that delivers exceptional benefits and convenience to our members while bringing the best out of every body.

Internally, we are embodying all of these ideals and advancements. Over the past six months, our team has begun to instill these practices in their everyday routines. Our general managers have been instructed to emulate the best of the best when it comes to customer service. While it will take time to make other changes to the Company, our managers and team members are able to accentuate a positive attitude and first class customer service immediately. The list below includes 10 essentials that ensure our members feel great when they are in our clubs.

These Are Our Club House Rules:

1. **Smile and say hello!** Be sure to greet everyone who enters the club by name. Have a good day/night!
2. **Keep it clean.** It's everyone's responsibility to keep the club spotless and looking pristine.
3. **Fast track maintenance.** Work together to get visible maintenance issues resolved ASAP.
4. **Make an impact.** Every team member should deliver excellent service.
5. **Get it started!** Start classes and training sessions on time and with energy.
6. **Be memorable.** Engage with our members and use their name. It goes a long way.
7. **Wear your pride.** Always wear your uniform and take pride in it.
8. **Be helpful.** Solve any member issues quickly. Their problem is your problem to solve.
9. **No hard feelings.** When members cancel, have them leave feeling good about their experience, our brand and the Company.
10. **Bring the best out of every body.** Build a better body. Build a better life.

We have focused our attention over the past few months to ensure that our service, hospitality and cleanliness have improved. If this is not the case when you visit our clubs or if any of these aspects are not up to your standards please let us know. We want to hear your feedback immediately. Please email heretohelp@tsiclubs.com. While it may not be feasible for me to respond to every email, I will read them all.

Strategic initiatives

We aim to become the number one fitness destination in the Northeast. We are in the process of transforming NYSC and its affiliates into a personalized, high quality fitness experience accessible at a tremendous value. We are utilizing technology along with conventional methods to create a more customized, efficient and accessible club for our members. Our mission is to provide the best fitness experience in the world by creating an environment where our clubs satisfy all the fitness needs of our members whether they are seeking standard club access, premium group exercise classes or personal attention from top certified personal trainers in their market.

Town Sports will provide fitness ala-carte. Members will be able to determine what type of fitness experiences they want included in their membership. Offerings will include free and paid group exercise classes, paid team training, boutique fitness experiences, niche group exercise classes including prenatal yoga, Pilates, and live streaming classes featuring celebrity trainers.

Fitness That Fits You

Our goal is to provide a new kind of club that offers “fitness that fits you”. We intend to utilize new digital tools and personal touches to get to know our members like no other gym in order to deliver customized routines and support to our members. We will present all members with questionnaires that will utilize an algorithm to suggest what the best “fitness experience” might be for them. Members will then receive a recommendation regarding which fitness program is best suited to help him or her reach their goals.

The biggest differentiator between Town Sports and many of our competitors is our group exercise program. In addition to creating new premium paid offerings, we are also in the process of revamping our own group exercise platform. We are focusing on adding new and exciting programs as well as expanding current programs that are successful and loved by our members.

Our goal is to make NYSC, BSC, WSC and PSC the top destination for fitness professionals. As we expand our fitness portfolio, many opportunities will arise for top level talent and trainers to become integral parts of the Company. We will nurture and grow brands and modalities that will differentiate Town Sports in the industry. Finally, we will continue to seek to acquire high level Personal Training talent to work for Town Sports at the club level. Given our membership base of 541,000 members, we are confident that we can continue to attract top Personal Training talent.

Boutique Partnerships

We intend to embrace the fitness trends that our customers desire. Our club formats are flexible and can easily adapt and respond to the changing demands of the marketplace. This flexibility allows us to compete against private studios with unique specialty offerings by adapting the space formats in our own clubs to match the offerings provided by these private studios. In addition, we intend to utilize our valuable real estate to form partnerships with premium boutique fitness providers. Town Sports is prepared to offer its expansive geographic footprint and access to more than 500,000 members to these boutique operators. A partnership with Town Sports will allow the boutiques to super charge their growth using a capital light model while significantly reducing their risk. This is especially true in Town Sports’

high barrier to entry urban markets where real estate and build out costs can be prohibitive. We believe it is a true, win-win partnership and model.

Our first partnership utilizing the “shop in shop” concept is with Cyc Fitness ("Cyc"). The "shop in shop" model leads to benefits for both parties including leveraging co-location public relations and marketing, mutually beneficial foot traffic, member conversion opportunities, merchandise sales, ride and personal training packages, etc.

Cyc is a boutique indoor cycling fitness concept that offers a series of exhilarating, beat-based rides that activate the whole body, the whole time. The workout incorporates calorie burning endurance intervals and weighted sectors inspired by more than 20 different sports movements from boxing, rowing, volleyball and more. Each unique ride and motivating playlist are designed to get riders Cyc'd! Cyc is differentiated from its competition as it targets a younger demographic consisting of 18-34 year old young professionals and students. The average age of a Cyc rider at the time of account registration is 25 years old.

Financial Performance

Our achievements on the cost structure helped drive fourth quarter Adjusted EBITDA to \$10 million. This was the highest quarterly Adjusted EBITDA generated during 2015 despite revenue declining by 10% from the first to fourth quarter primarily through a material reduction to the cost structure. Over the past eight months we have reduced costs and increased our member base. Now we must increase revenues.

(\$ in 000's)				2015			
	2015	2014	Decline	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Revenue	\$424,323	\$453,842	-6.5%	\$111,424	\$108,296	\$103,764	\$100,839
Adjusted EBITDA	28,849	53,162	-45.7%	6,848	5,478	6,550	9,973
Margin	6.8%	11.7%	-42.0%	6.1%	5.1%	6.3%	9.9%

See below for reconciliations of Adjusted EBITDA.

During 2015, the Company generated \$24.8 million of cash from operations and spent \$30.5 million on capital expenditures. This is an improvement from the prior year when the Company generated \$4.7 million of cash from operations and spent \$42.1 million on capital expenditures. Both 2015 and 2014 resulted in negative free cash flow of \$5 and \$37 million respectively.

(\$ in 000's)	2015	2014
Cash Flow from Operations	\$24,870	\$4,758
Capital Expenditures	30,471	42,054
Free Cash Flow	(\$5,601)	(\$37,296)

It is important to note that cash flow in 2015 was augmented by tax refunds and lease termination payments of approximately \$14 million while 2014 paid taxes of \$23.5 million. These were one-time, non-recurring items. Management is extremely focused on improving free cash flow generation.

Capital Allocation

We inherited a balance sheet that was recently described as “untenable” by our rating agency. The Company had \$307 million of debt and \$98 million of cash at the end of 2Q15 and was burning through cash. In December 2015, we purchased \$29.8 million principal amount of debt outstanding under the 2013 Senior Credit Facility in the open market for \$10.9 million, or 37% of face value, and such debt was subsequently transferred to Town Sports International, LLCs and canceled.

As of December 31, 2015, our cash balance was \$76.2 million, approximately \$30.3 million of which was held at the holding company, for a net debt balance of \$199.2 million, a 7.3% decrease compared to \$214.8 million on December 31, 2014. It is important to note that the \$275 million of debt is a liability of the operating subsidiary, Town Sports International, LLC.

The Company has several options to reduce debt, including lease terminations and the disposition of assets. There are no sacred cows. As stated previously, during the second and third quarter, we received approximately \$14 million of cash proceeds from three lease terminations and tax refunds.

One of our biggest challenges in the future will be how we manage the maintenance at our clubs. We will be strategic as we balance maintenance spend and remodels while maximizing returns on invested capital. Ideally, we would like all of our clubs to be in a like-new condition. In the years ahead, we intend to improve and enhance the look and feel of our clubs.

Execution & Results

Our success depends on execution. Execution on sales, execution on hospitality and execution on service are vital. We must execute at a speed that is faster, smarter and more productive than in the past. The general managers of the clubs have been empowered to become the most important leaders at the Company. This change entailed increasing their job responsibilities and setting appropriate performance metrics and benchmarks. Our philosophy is to pay for performance and create a culture that rewards success. This will result in the best performers earning more money and should attract players that are "results" oriented. Although we have made significant changes to the management team, we will continue to replace talent throughout the organization in order to assemble a team that is driven by results and executes at the highest level.

Town Sports was founded in 1973 during a challenging period for New York City's economy. Throughout the following decades, the Company continued to grow and became part of the fabric of New York City. Over time, New York Sports Club developed into an iconic brand before losing its identity due to a myriad of factors.

All employees, investors and stakeholders should understand that my interests are tied to theirs in regard to the turnaround of Town Sports as I am one of the largest shareholders through PW Partners Atlas Funds. I want to be clear that we are on a mission to rejuvenate New York Sport Clubs and its affiliates and transform the Company into a thriving enterprise. Like Hugh Glass in *The Revenant*, who was written off as dead after a vicious bear attack, we will never give up. We will continue to work tirelessly to create a Company where all employees, partners, owners and members are proud to proclaim "I Built This".

The Annual Meeting and Shareholder Communication

We will host an annual meeting where we will spend time to answer shareholder questions. In addition, we will disseminate relevant information through press releases, 10Qs, 10K and proxy statements. The annual meeting will be held on Thursday, May 12, 2016 in New York City. We will begin at 10:00 AM and continue until all questions are answered. To be fair to all shareholders, as well as to be efficient with management's time, we will utilize the annual meeting to communicate with shareholders in lieu of one-on-one communication. This letter contains certain forward-looking statements about our Company and our strategy. For more information about our Company and risks attendant to our business, please see our 2015 Annual Report on Form 10K, available on our website, <http://investor.mysportsclubs.com/>.

March 7, 2016

Patrick Walsh
Chairman of the Board

We have included the table below to provide a reconciliation of Net Income (Loss) to Adjusted EBITDA as used in this letter. EBITDA consists of net income (loss) plus interest expense (net of interest income), provision (benefit) for corporate income taxes, and depreciation and amortization. Adjusted EBITDA is the Company's EBITDA excluding certain additional items. Each of EBITDA and Adjusted EBITDA, as we define it, may not be identical to similarly titled measures used by some other companies. EBITDA and Adjusted EBITDA have material limitations as analytical tools and should not be considered in isolation or as a substitute for net income (loss), operating income (loss), cash flows from operating activities or other cash flow data prepared in accordance with GAAP. The items excluded from EBITDA and Adjusted EBITDA, but included in the calculation of reported net income and operating income, are significant and must be considered in performing a comprehensive assessment of our performance. We do not, and investors should not, place undue reliance on EBITDA or Adjusted EBITDA as a measure of our performance.

Reconciliation of Net Income (Loss) to Adjusted EBITDA						
	2015					2014
	Q1	Q2	Q3	Q4	Full -Year	Full -Year
Net income (loss)	(12,764)	(31,068)	(22,006)	86,996	21,158	(68,989)
Interest expense, net of interest income	5,170	5,188	5,204	5,017	20,579	19,039
Provision (benefit) for corporate income taxes	264	(14,992)	(2,338)	2,715	(14,351)	52,611
Depreciation and amortization	11,674	12,178	12,190	11,845	47,887	47,307
EBITDA	4,344	(28,694)	(6,950)	106,573	75,273	49,968
Impairment of fixed assets	1,137	1,014	12,420	-	14,571	4,569
Impairment of goodwill	-	31,558	-	-	31,558	137
Gain on sale of building	-	-	-	(77,146)	(77,146)	-
Gain on lease termination	-	-	-	(2,967)	(2,967)	-
(Gain) loss on extinguishment of debt	-	-	-	(17,911)	(17,911)	493
Cost related to our cost savings initiatives	-	-	-	1,109	1,109	-
Separation expense related to former Executive Officers and other	-	-	523	492	1,015	-
Severance related to headcount reduction	-	-	508	352	860	-
Non-cash rental income from former tenant (1)	(492)	(492)	(492)	(450)	(1,926)	(596)
Rent related to building financing arrangement (2)	(188)	(187)	(188)	(187)	(750)	(229)
Net occupancy loss (gain) related to club closures	154	1,109	729	108	2,100	(1,180)
Stock awards granted to the new members of the Board of Directors	200	-	-	-	200	-
Legal and other costs in connection with changes to the Board of Directors	385	314	-	-	699	-
Separation accrual related to our former Executive Chairman	1,308	-	-	-	1,308	-
Separation accrual related to our former Chief Executive Officer	-	856	-	-	856	-
Adjusted EBITDA	6,848	5,478	6,550	9,973	28,849	53,162
(1) Represents non-cash rental income from our former tenant in connection with the East 86th Street building financing arrangement.						
(2) Rent paid in connection with our club at the East 86th Street Property is recorded as interest expense on the consolidated statement of operations.						