

# TOWN SPORTS INTERNATIONAL HOLDINGS INC

## FORM 10-Q (Quarterly Report)

Filed 04/28/10 for the Period Ending 03/31/10

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

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

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**Form 10-Q**

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

For the quarterly period ended March 31, 2010

or

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

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

Commission File Number 000-52013

**TOWN SPORTS INTERNATIONAL HOLDINGS, INC.**

*(Exact name of Registrant as specified in its charter)*

**Delaware**  
*(State or other Jurisdiction of  
Incorporation or Organization)*

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

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

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

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

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

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

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

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

As of April 23, 2010, there were 22,613,748 shares of Common Stock of the registrant outstanding.

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**TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**For the Three Months Ended March 31, 2010**

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## TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

March 31, 2010 and December 31, 2009

(All figures in \$'000s except share data)

(Unaudited)

	March 31, 2010	December 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 25,046	\$ 10,758
Accounts receivable (less allowance for doubtful accounts of \$2,415 and \$2,410 as of March 31, 2010 and December 31, 2009, respectively)	5,035	4,295
Inventory	298	224
Prepaid corporate income taxes	442	1,274
Prepaid expenses and other current assets	7,383	10,264
Total current assets	38,204	26,815
Fixed assets, net	328,401	340,277
Goodwill	32,636	32,636
Intangible assets, net	100	149
Deferred tax assets, net	52,480	50,581
Deferred membership costs	5,089	6,079
Other assets	10,466	10,929
Total assets	<u>\$467,376</u>	<u>\$ 467,466</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Current portion of long-term debt	\$ 1,850	\$ 1,850
Accounts payable	4,772	6,011
Accrued expenses	26,388	23,656
Accrued interest	2,778	6,573
Deferred revenue	38,813	35,346
Total current liabilities	74,601	73,436
Long-term debt	316,050	316,513
Deferred lease liabilities	70,642	71,438
Deferred revenue	2,040	1,488
Other liabilities	12,750	12,824
Total liabilities	476,083	475,699
Contingencies (Note 9)		
Stockholders' deficit :		
Common stock, \$.001 par value; issued and outstanding 22,613,748 and 22,603,199 shares at March 31, 2010 and December 31, 2009, respectively	23	23
Paid-in capital	(22,185)	(22,572)
Accumulated other comprehensive income (currency translation adjustment)	1,198	1,327
Retained earnings	12,257	12,989
Total stockholders' deficit	<u>(8,707)</u>	<u>(8,233)</u>
Total liabilities and stockholders' deficit	<u>\$467,376</u>	<u>\$ 467,466</u>

See notes to condensed consolidated financial statements.

**TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
For the three months ended March 31, 2010 and 2009  
(All figures in \$'000s except share and per share data)  
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
<b>Revenues:</b>		
Club operations	\$ 116,595	\$ 125,468
Fees and other	1,164	1,241
	<u>117,759</u>	<u>126,709</u>
<b>Operating Expenses:</b>		
Payroll and related	48,511	50,747
Club operating	43,468	46,610
General and administrative	8,939	8,347
Depreciation and amortization	13,654	14,296
Impairment of fixed assets	389	1,131
	<u>114,961</u>	<u>121,131</u>
Operating income	2,798	5,578
Interest expense	5,184	5,277
Interest income	(18)	(1)
Equity in the earnings of investees and rental income	(536)	(611)
(Loss) income before provision for corporate income taxes	(1,832)	913
(Benefit) provision for corporate income taxes	(1,100)	274
Net (loss) income	<u>\$ (732)</u>	<u>\$ 639</u>
<b>(Loss) earnings per share:</b>		
Basic	\$ (0.03)	\$ 0.03
Diluted	\$ (0.03)	\$ 0.03
<b>Weighted average number of shares used in calculating (loss) earnings per share:</b>		
Basic	22,605,236	23,207,417
Diluted	22,605,236	23,245,843
<b>Statements of Comprehensive (Loss) Income</b>		
Net (loss) income	\$ (732)	\$ 639
Foreign currency translation adjustments	(129)	(320)
Comprehensive (loss) income	<u>\$ (861)</u>	<u>\$ 319</u>

See notes to condensed consolidated financial statements.

**TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the three months ended March 31, 2010 and 2009  
(All figures in \$'000s)  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (732)	\$ 639
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	13,654	14,296
Impairment of fixed assets	389	1,131
Non-cash interest expense on Senior Discount Notes	—	1,203
Amortization of debt issuance costs	253	200
Non-cash rental expense, net of non-cash rental income	(934)	(245)
Compensation expense incurred in connection with stock options and common stock grants	369	415
Increase in deferred tax asset	(1,899)	(1,000)
Net change in certain operating assets and liabilities	5,485	2,042
Decrease in deferred membership costs	990	469
Landlord contributions to tenant improvements	100	1,958
(Decrease) increase in insurance reserves	(229)	1,512
Other	172	(41)
Total adjustments	<u>18,350</u>	<u>21,940</u>
Net cash provided by operating activities	<u>17,618</u>	<u>22,579</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(2,809)	(18,460)
Net cash used in investing activities	<u>(2,809)</u>	<u>(18,460)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings on Revolving Loan Facility	—	41,000
Repayment of borrowings on Revolving Loan Facility	—	(42,000)
Repayment of long term borrowings	(463)	(463)
Change in book overdraft	—	174
Repurchase of common stock	—	(5,355)
Tax benefit from stock option exercises	18	—
Net cash used in financing activities	<u>(445)</u>	<u>(6,644)</u>
Effect of exchange rate changes on cash	<u>(76)</u>	<u>(263)</u>
Net increase (decrease) in cash and cash equivalents	14,288	(2,788)
Cash and cash equivalents beginning of period	10,758	10,399
Cash and cash equivalents end of period	<u>\$ 25,046</u>	<u>\$ 7,611</u>
<b>Summary of the change in certain operating assets and liabilities:</b>		
Increase in accounts receivable	\$ (752)	\$ (958)
Increase in inventory	(74)	(179)
Decrease in prepaid expenses and other current assets	2,740	1,148
Increase (decrease) in accounts payable, accrued expenses and accrued interest	2,527	(1,550)
(Decrease) increase in accrued interest on Senior Discount Notes	(3,807)	2,538
Change in prepaid corporate income taxes and corporate income taxes payable	831	546
Increase in deferred revenue	4,020	497
Net change in certain working capital components	<u>\$ 5,485</u>	<u>\$ 2,042</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash payments for interest	<u>\$ 8,971</u>	<u>\$ 1,723</u>
Cash payments for income taxes	<u>\$ 30</u>	<u>\$ 460</u>

See notes to condensed consolidated financial statements.

**TOWN SPORTS INTERNATIONAL HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(In \$'000s except share and per share data)**  
**(Unaudited)**

**1. Basis of Presentation**

As of March 31, 2010, Town Sports International Holdings, Inc. (the “Company” or “TSI Holdings”), through its wholly-owned subsidiary, Town Sports International, LLC (“TSI, LLC”), operated 161 fitness clubs (“clubs”) comprised of 109 clubs in the New York metropolitan market under the “New York Sports Clubs” brand name, 25 clubs in the Boston market under the “Boston Sports Clubs” brand name, 18 clubs (two of which are partly-owned) in the Washington, D.C. market under the “Washington Sports Clubs” brand name, six clubs in the Philadelphia market under the “Philadelphia Sports Clubs” brand name and three clubs in Switzerland. The Company’s operating segments are New York Sports Clubs, Boston Sports Clubs, Philadelphia Sports Clubs, Washington Sports Clubs and Swiss Sports Clubs. The Company has determined that our operating segments have similar economic characteristics and meet the criteria which permit them to be aggregated into one reportable segment.

The condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). The condensed consolidated financial statements should be read in conjunction with the Company’s December 31, 2009 consolidated financial statements and notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (“US GAAP”). Certain information and footnote disclosures that are normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to SEC rules and regulations. The information reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the interim periods set forth herein. The results for the three months ended March 31, 2010 are not necessarily indicative of the results for the entire year ending December 31, 2010.

As disclosed in Note 2 — Correction of an Accounting Error to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed with the SEC, the results for the year ended December 31, 2009 include the correction of an accounting error that resulted in a cumulative charge to payroll and related expense and a related decrease in deferred membership costs on the Company’s consolidated statement of operations and consolidated balance sheet, respectively. The Company determined that the impact of this error on all prior periods, as well as the correction of the error in the quarter ended December 31, 2009, was immaterial to all periods and accordingly, the Company did not restate its prior period results. The Company is no longer deferring a portion of membership consultants’ salaries and related taxes and benefits, however it will continue to defer membership consultants’ commissions and bonuses and portions of taxes and benefits related to those commissions and bonuses. The results for the three months ended March 31, 2009 include an overstatement of payroll and related expense for costs related to prior periods of \$188, net of taxes.

Certain reclassifications were made to the reported amounts as of December 31, 2009 to conform to the presentation as of March 31, 2010 and to the reported amounts for the three months ended March 31, 2009 to conform to the presentation for the three months ended March 31, 2010.

**2. Recent Accounting Pronouncements**

In May 2009, the FASB issued guidance regarding subsequent events, which was subsequently updated in February 2010. This guidance established general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. In particular, this guidance set forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This guidance was effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009, and was therefore adopted by the Company for the second quarter 2009 reporting. The adoption did not have a significant impact on the subsequent events that the Company reports, either through recognition or disclosure, in the condensed consolidated financial statements. In February 2010, the FASB amended its guidance on subsequent events to remove the requirement to disclose the date through which an entity has evaluated subsequent events, alleviating conflicts with current SEC guidance. This amendment was effective immediately.

In September 2009, the FASB issued new accounting guidance related to the revenue recognition of multiple element arrangements. The new guidance states that if vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, companies will be required to develop a best estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. The accounting guidance will be applied prospectively and will become effective during the first quarter of 2011. The



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Company does not expect this accounting guidance to have a material impact on our financial position or results of operations.

Effective January 1, 2010, the Company adopted the FASB issued guidance which changes the way that companies account for Variable Interest Entities (“VIEs”). The adoption of this guidance did not have an impact on our consolidated financial statements. The Company has investments in two partly-owned clubs, Capitol Hill Squash Club Associates (“CHSCA”) and Kalorama Sports Management Associates (“KSMA”) (collectively, the “Affiliates”). The Company accounts for these Affiliates in accordance with the equity method of accounting.

The Company has a limited partnership interest in CHSCA, which provides the Company with approximately 20% of the CHSCA profits. The Company has a co-general partnership and limited partnership interests in KSMA, which entitles it to receive approximately 45% of the KSMA profits. The Affiliates have operations, which are similar, and related to, those of the Company. The Company has determined that the Affiliates are VIEs, however, the Company is not the primary beneficiary.

The Company’s maximum exposure to loss as a result of its involvement with the Affiliates is limited to its investment balance plus any outstanding intercompany receivable. The assets, liabilities, equity and operating results of the Affiliates and the Company’s pro rata share of the Affiliates’ net assets and operating results were not material for all periods presented.

### 3. Long-Term Debt

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Term Loan Facility	\$179,450	\$ 179,913
11% Senior Discount Notes	138,450	138,450
	<u>317,900</u>	<u>318,363</u>
Less: Current portion due within one year	1,850	1,850
Long-term portion	<u>\$316,050</u>	<u>\$ 316,513</u>

On February 27, 2007, the Company entered into a \$260,000 senior secured credit facility (the “2007 Senior Credit Facility”). The 2007 Senior Credit Facility consists of an \$185,000 term loan facility (the “Term Loan Facility”) and a \$75,000 revolving credit facility (the “Revolving Loan Facility”).

On July 15, 2009, the Company and TSI, LLC entered into the First Amendment to the 2007 Senior Credit Facility (the “Amendment”), which amended the definition of “Consolidated EBITDA” as defined in the 2007 Senior Credit Facility, to permit TSI, LLC (as Borrower), solely for purposes of determining compliance with the maximum total leverage ratio covenant, to add back the amount of non-cash charges relating to the impairment or write-down of fixed assets, intangible assets and goodwill. The Amendment also reduced the total Revolving Loan Facility by 15%, from \$75,000 to \$63,750. Additionally, the Company incurred an aggregate of approximately \$615 in fees and expenses related to the Amendment.

Borrowings under the Term Loan Facility, at TSI, LLC’s option, bear interest at either the administrative agent’s base rate plus 0.75% or its Eurodollar rate plus 1.75%, each as defined in the 2007 Senior Credit Facility. The Term Loan Facility matures on the earlier of February 27, 2014, or August 1, 2013, if the 11% Senior Discount Notes are still outstanding. TSI, LLC is required to repay 0.25% of principal, or \$463 per quarter. As of March 31, 2010, the Company has paid \$5,550 of the outstanding principal.

The Revolving Loan Facility expires on February 27, 2012 and borrowings under the facility currently, at TSI, LLC’s option, bear interest at the administrative agent’s base rate plus 1.25% or the Eurodollar rate plus 2.25%, as defined in the 2007 Senior Credit Facility. The Revolving Loan Facility contains a maximum total leverage covenant ratio of 4.25:1.00, which covenant is subject to compliance, on a consolidated basis, only during the period in which borrowings and letters of credit are outstanding thereunder. As of March 31, 2010, the Company’s leverage ratio was 2.39:1.00. As of March 31, 2010, there were no outstanding Revolving Loan Facility borrowings and outstanding letters of credit issued totaled \$15,056. The unutilized portion of the Revolving Loan Facility as of March 31, 2010 was \$48,694.

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### Fair Market Value

Based on quoted market prices, the 11% Senior Discount Notes and the Term Loan Facility had a fair value of approximately \$119,240 and \$168,683, respectively at March 31, 2010 and \$83,762 and \$165,519, respectively at December 31, 2009.

### 4. (Loss) Earnings Per Share

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

The following table summarizes the weighted average number of common shares for basic and diluted earnings (loss) per share (“EPS”) computations.

	Three Months Ended March 31,	
	2010	2009
Weighted average number of common share outstanding — basic	22,605,236	23,207,417
Effect of dilutive stock options	—	38,426
Weighted average number of common shares outstanding — diluted	<u>22,605,236</u>	<u>23,245,843</u>
(Loss) earnings per share:		
Basic	\$ (0.03)	\$ 0.03
Diluted	\$ (0.03)	\$ 0.03

For the three months ended March 31, 2009, we did not include options and restricted stock awards totaling 1,841,955 shares of the Company’s common stock in the calculations of diluted EPS because the exercise prices of those options were greater than the average market price and their inclusion would be anti-dilutive.

For the three months ended March 31, 2010, there was no effect of dilutive stock options and restricted common stock on the calculation of diluted loss per share as the Company had a net loss for this period.

### 5. Common Stock and Stock-Based Compensation

The Company’s 2006 Stock Incentive Plan, as amended and restated (the “2006 Plan”), authorizes the Company to issue up to 2,500,000 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. 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 of 1986, as amended. The 2006 Plan was approved by stockholders at the 2008 Annual Meeting of Stockholders on May 15, 2008. Certain options granted under the Company’s 2004 Common Stock Option Plan, as amended (the “2004 Plan”), generally qualify as “incentive stock options” under the U.S. Internal Revenue Code; the exercise price of a stock option granted under this plan may not be less than the fair market value of Common Stock on the option grant date.

At March 31, 2010, the Company had 277,480 and 1,879,023 shares of restricted stock and stock options outstanding under the 2004 Plan and the 2006 Plan, respectively.

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### Option Grants

Options granted during the three months ended March 31, 2010 to employees of the Company and members of the Company's Board of Directors were as follows:

<u>Date</u>	<u>Number of Options</u>	<u>Exercise Price</u>	<u>Black-Scholes Valuation</u>	<u>Volatility</u>	<u>Dividend Yield</u>	<u>Risk Free Interest Rate</u>	<u>Expected Term (Years)</u>
January 4, 2010	7,000	\$ 2.47	\$ 1.73	83.99%	0.0%	2.83%	5.50
January 4, 2010	7,500	\$ 2.47	\$ 1.81	83.99%	0.0%	3.18%	6.25
Total	<u>14,500</u>						

The total compensation expense, classified within Payroll and related on the condensed consolidated statements of operations, related to options outstanding under the 2006 Plan and the 2004 Plan was \$347 and \$385 for the three months ended March 31, 2010 and March 31, 2009, respectively.

As of March 31, 2010, a total of \$1,820 in unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 3.3 years.

### Restricted Stock Grants

The total compensation expense, classified within Payroll and related on the condensed consolidated statements of operations, related to restricted stock granted under the 2006 Plan and the 2004 Plan was \$9 for the three months ended March 31, 2010 and \$13 for the three months March 31, 2009.

As of March 31, 2010, a total of \$64 in unrecognized compensation expense related to restricted stock grants is expected to be recognized over a weighted-average period of 2.4 years. There was no restricted stock granted during the three months ended March 31, 2010.

### Non-Restricted Stock Grants

In the three months ended March 31, 2010, the Company issued non-restricted common stock grants to the Company's Board of Directors. The total fair value of the shares issued was expensed upon the grant dates. Total shares issued were:

<u>Date</u>	<u>Number of Shares</u>	<u>Price Per Share</u>	<u>Grant Date Fair Value</u>
March 25, 2010	3,049	\$4.10	\$13

## 6. 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 released guidance. The Company's long-lived assets and liabilities are grouped at the individual club level which is the lowest level for which there is identifiable cash flow. To the extent that estimated future undiscounted net cash flows attributable to the assets are less than the carrying amount, an impairment charge equal to the difference between the carrying value of such asset and its fair value is recognized. In the three months ended March 31, 2010, the Company tested seven underperforming clubs and recorded impairment losses of \$389 on leasehold improvements and furniture and fixtures at two of these clubs that experienced decreased profitability and sales levels below expectations and were therefore written down to their fair values of zero. The five clubs tested that did not have impairment charges had an aggregate of \$4,997 of net leasehold improvements and furniture and fixtures remaining as of March 31, 2010.

The fair values of fixed assets evaluated for impairment were calculated using Level 3 inputs using discounted cash flows, which are based on internal budgets and forecasts through the end of each respective lease. The most significant assumptions in those budgets and forecasts relate to estimated membership and ancillary revenue, attrition rates, and maintenance capital expenditures, which are estimated at approximately 3% of total revenues. The Company's non-financial assets and liabilities that are reported at fair value on a non-recurring basis in the accompanying condensed consolidated balance sheet, as of March 31, 2010, were as follows:

	Basis of Fair Value Measurements			
	Fair Value of Assets (Liabilities)	Quoted Prices in Active markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed assets	\$—	\$—	\$—	\$—

The impairment losses are included as a separate line in operating income on the condensed consolidated statement of operations.

## 7. Goodwill and Other Intangibles

Goodwill has been allocated to reporting units that closely reflect the regions served by our four trade names: New York Sports Clubs (“NYSC”), Boston Sports Clubs (“BSC”), Washington Sports Clubs (“WSC”) and Philadelphia Sports Clubs (“PSC”), with certain more remote clubs that do not benefit from a regional cluster being considered single reporting units (“Outlier Clubs”) and our three clubs located in Switzerland being considered a single reporting unit (“SSC”). The Company has one Outlier Club with goodwill. As of March 31, 2010, the BSC, WSC and PSC regions do not have goodwill balances.

In the three months ended March 31, 2010 and 2009, the Company performed its annual impairment test. The March 31, 2010 and 2009 impairment tests supported the recorded goodwill balances and as such no impairment of goodwill was required. The valuation of reporting units requires assumptions and estimates of many critical factors, including revenue and market growth, operating cash flows and discount rates.

Goodwill impairment testing is a two-step process. Step 1 involves comparing the fair value of the Company’s reporting units to their carrying amounts. If the fair value of the reporting unit is greater than its carrying amount, there is no impairment. If the reporting unit’s carrying amount is greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step 2 calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in Step 1. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized equal to the difference. The Company did not have a goodwill impairment charge in the reporting units with remaining goodwill as a result of the interim test given the profitability of these units.

Fair value was determined by using a weighted combination of two market-based approaches (weighted 25% each) and an income approach (weighted 50%), as this combination was deemed to be the most indicative of the Company’s fair value in an orderly transaction between market participants. Under the market-based approaches, the Company utilized information regarding the Company, the Company’s industry as well as publicly available industry information to determine earnings multiples and sales multiples that are used to value the Company’s reporting units. Under the income approach, the Company determined fair value based on estimated future cash flows of each reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and operating margins, discount rates and future market conditions, among others.

Solely for purposes of establishing inputs for the fair value calculations described above related to goodwill impairment testing, the Company made the following assumptions. The Company developed long-range financial forecasts (five years or longer) for all reporting units. The Company used discount rates ranging between 12.5% and 16.6%, compounded annual revenue growth ranging from 1.0% to 6.3% and a terminal growth rate of 3%. These assumptions were calculated separately for each reporting unit. Given the current economic and consumer environment and the uncertainties regarding the impact on the Company’s business, there can be no assurance that the Company’s estimates and assumptions regarding the duration of the ongoing economic downturn, or the period or strength of recovery, made for purposes of the Company’s goodwill impairment testing as of March 31, 2010, 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 additional goodwill

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impairment charges in future periods, whether in connection with the Company's next annual impairment testing in the quarter ended March 31, 2011 or prior to that, if any such change constitutes a triggering event outside the quarter when the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result. As of March 31, 2010, the implied fair value of NYSC was 30% greater than book value and the estimated fair value of SSC was 73% greater than book value.

The changes in the carrying amount of goodwill from January 1, 2009 through March 31, 2010 are detailed in the charts below.

	<u>NYSC</u>	<u>BSC</u>	<u>SSC</u>	<u>Outlier Clubs</u>	<u>Total</u>
<b>Balance as of January 1, 2009</b>					
Goodwill	\$31,403	\$ 15,766	\$ 1,070	\$ 3,982	\$ 52,221
Accumulated impairment of goodwill	—	(15,766)	—	(3,845)	(19,611)
	<u>31,403</u>	<u>—</u>	<u>1,070</u>	<u>137</u>	<u>32,610</u>
Changes due to foreign currency exchange rate fluctuations	—	—	26	—	26
Impairment of goodwill	—	—	—	—	—
<b>Balance as of December 31, 2009</b>					
Goodwill	31,403	15,766	1,096	3,982	52,247
Accumulated impairment of goodwill	—	(15,766)	—	(3,845)	(19,611)
	<u>31,403</u>	<u>—</u>	<u>1,096</u>	<u>137</u>	<u>32,636</u>
<b>Balance as of March 31, 2010</b>					
Goodwill	31,403	15,766	1,096	3,982	52,247
Accumulated impairment of goodwill	—	(15,766)	—	(3,845)	(19,611)
	<u>\$31,403</u>	<u>\$ —</u>	<u>\$ 1,096</u>	<u>\$ 137</u>	<u>\$ 32,636</u>

Intangible assets as of March 31, 2010 and December 31, 2009 are as follows:

	<u>March 31, 2010</u>	<u>December 31, 2009</u>
Covenants-not-to-compete	\$ 1,508	\$ 1,508
Accumulated amortization	(1,408)	(1,359)
	<u>\$ 100</u>	<u>\$ 149</u>

## 8. Income Taxes

The Company has determined our income tax provision for the three months ended March 31, 2010 on a discrete basis. The Company could not reliably estimate its 2010 effective annual tax rate because minor changes in annual estimated income before provision for corporate income taxes (pre-tax results) could have a significant impact on our annual estimated effective tax rate. Accordingly, the Company calculated its effective tax rate based on pre-tax results through the three months ended March 31, 2010.

As of March 31, 2010, \$751 represents the amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate in 2010. In 2010, \$751 of unrecognized tax benefits could be realized by the Company since the income tax returns may no longer be subject to audit during 2010.

The Company recognizes both interest accrued related to unrecognized tax benefits and penalties in income tax expense, if deemed applicable. As of March 31, 2010, the amount accrued for interest was \$158.

The Company files federal income tax returns, a foreign jurisdiction return and multiple state and local jurisdiction tax returns. The IRS examined the Company's 2006 and 2007 federal income tax returns and concluded those audits with no findings. The Company is no longer subject to examinations of its Federal Income Tax Returns by the Internal Revenue Service for the years 2007 and prior.

The Company recorded a benefit for corporate income taxes of \$1,100 for the three months ended March 31, 2010 compared to a provision of \$274 for the three months ended March 31, 2009. The Company's effective tax rate was (60) % in the three months ended March 31, 2010 compared to 30% in the three months ended March 31, 2009. The expected benefits from the Company's Captive Insurance arrangement decreased the Company's effective tax

rate on the Company's pre-tax loss in the three months ended March 31, 2010 and the three months ended March 31, 2009.

As of March 31, 2010, the Company has net deferred tax assets of \$52,480. Quarterly, the Company assesses the weight of all positive and negative evidence to determine whether the net deferred tax asset is realizable. In 2009, the Company incurred losses and may continue to incur losses in 2010. However, the Company has historically been a taxpayer and projects that it will be in a three year cumulative income position as of December 31, 2010. In addition, the Company, based on recent trends, projects improved performance and future income sufficient to realize the deferred tax assets during the periods when the temporary tax deductible differences reverse. The Company has no net operating loss carry-forwards, except for an immaterial amount related to the state of Pennsylvania. Accordingly, the Company concluded that it is more likely than not that the deferred tax assets will be realized. If actual results do not meet the Company's forecasts and the Company incurs significant losses in 2010, a valuation allowance against the deferred tax assets may be required in the future. In addition, with exception of the deductions related to the Company's captive insurance for state taxes, taxable income has been and is projected to be the same as Federal. Because the captive insurance company is being discontinued, the assessment of realizability of the state deferred tax assets is consistent with the Federal tax-analysis above.

### 9. Contingencies

On or about March 1, 2005, in an action styled *Sarah Cruz, et al v. Town Sports International, d/b/a New York Sports Club*, plaintiffs commenced a purported class action against the Company in the Supreme Court, New York County, seeking unpaid wages and alleging that TSI, LLC violated various overtime provisions of the New York State Labor Law with respect to the payment of wages to certain trainers and assistant fitness managers. On or about June 18, 2007, the same plaintiffs commenced a second purported class action against the Company in the Supreme Court of the State of New York, New York County, seeking unpaid wages and alleging that TSI, LLC violated various wage payment and overtime provisions of the New York State Labor Law with respect to the payment of wages to all New York purported hourly employees. While the Company is unable at this time to estimate the likelihood of an unfavorable outcome or the potential loss to the Company in the event of such an outcome, the Company intends to contest these cases vigorously. Depending upon the ultimate outcome, these matters may have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

On September 14, 2009, the Staff of the SEC advised the Company that a formal order of private investigation had been issued with respect to the Company. Since May 2008, the Company has been providing documents and testimony on a voluntary basis in response to an informal inquiry by the Staff of the SEC, which primarily relates to the deferral of certain payroll costs incurred in connection with the sale of memberships in the Company's health and fitness clubs and the time period utilized by the Company for the amortization of (i) such deferred costs into expense and (ii) initiation fees into revenue. The Company continues to discuss these issues with the SEC Staff and to cooperate fully with the Staff's investigation. The Company cannot predict the outcome of, or the timeframe for, the conclusion of this investigation.

On September 22, 2009, in an action styled *Town Sports International, LLC v. Ajilon Solutions*, a division of Ajilon Professional Staffing LLC (Supreme Court of the State of New York, New York County, 602911-09), TSI, LLC brought an action in the Supreme Court of the State of New York, New York County, against Ajilon for breach of contract, conversion and replevin, seeking, among other things, money damages against Ajilon for breaching its agreement to design and deliver to TSI, LLC a new sports club enterprise management system known as GIMS, including failing to provide copies of the computer source code written for GIMS, related documentation, properly identified requirements documents and other property owned and licensed by TSI, LLC. Subsequently, on October 14, 2009, Ajilon brought a counterclaim against TSI, LLC alleging breach of contract, alleging, among other things, failure to pay outstanding invoices in the amount of \$2,900, which has not been accrued in the Company's condensed consolidated financial statements. The litigation is currently in the discovery phase, and the Company intends to prosecute vigorously its claims against Ajilon and defend against Ajilon's counterclaim.

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. 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 believes, however, that the ultimate resolution of these current matters will not have a material adverse effect on its financial statements taken as a whole.

**10. Subsequent Event**

On April 23, 2010, one of the Company's landlords exercised its right to terminate a lease prior to its stated expiration date. The lease will terminate effective August 26, 2010. The Company expects to record approximately \$1,700 of fixed asset impairment charges in the three months ended June 30, 2010 related to this future club closing.



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

**Introduction**

In this Form 10-Q, unless otherwise stated or the context otherwise indicates, references to "TSI Holdings," "Town Sports," "TSI," "the Company," "we," "our" and similar references refer to Town Sports International Holdings, Inc. and its subsidiaries, and references to "TSI LLC" refer to Town Sports International, LLC (formerly known as Town Sports International, Inc.), 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, 2010, the Company, through its subsidiaries, operated 161 fitness clubs under our four key brand names: "New York Sports Clubs;" "Boston Sports Clubs;" "Philadelphia Sports Clubs;" and "Washington Sports Clubs". These clubs collectively served approximately 495,000 members, excluding short-term and seasonal members. We are the largest fitness club owner and operator in Manhattan with 39 locations (more than twice as many as our nearest competitor) and owned and operated a total of 109 clubs under the "New York Sports Clubs" brand name within a 120-mile radius of New York City as of March 31, 2010. We owned and operated 25 clubs in the Boston region under our "Boston Sports Clubs" brand name, 18 clubs (two of which are partly-owned) in the Washington, D.C. region under our "Washington Sports Clubs" brand name and six clubs in the Philadelphia region under our "Philadelphia Sports Clubs" brand name as of March 31, 2010. In addition, we owned and operated three clubs in Switzerland as of March 31, 2010. 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 have developed and refined our fitness club model through our clustering strategy, offering fitness clubs close to our members' workplaces and homes. We target all individuals within each of our regions who aspire to a healthy lifestyle. We believe that the majority of our members have annual household income levels between \$50,000 and \$150,000. We believe that the upper value segment is not only the broadest segment of the market, but also the segment with the greatest growth opportunities. Our goal is to be the most recognized health club network in each of the four major metropolitan regions we serve. We believe that our strategy of clustering clubs provides significant benefits to our members and allows us to achieve strategic operating advantages. In each of our markets, we have developed clusters by initially opening or acquiring clubs located in the more central urban markets of the region and then branching out from these urban centers to suburbs and neighboring communities.

**Revenue and operating expenses**

We have two principal sources of revenue:

- *Membership revenue:* Our largest sources of revenue are dues and initiation fees paid by our members. These dues and fees comprised 80.5% of our total revenue for the three months ended March 31, 2010. We recognize revenue from membership dues in the month when the services are rendered. Approximately 96.0% of our members pay their monthly dues by Electronic Funds Transfer, or EFT, while the balance is paid annually in advance. We recognize revenue from initiation fees over the expected average life of the membership.
- *Ancillary club revenue:* For the three months ended March 31, 2010, we generated 12.6% of our revenue from personal training and 5.9% of our revenue from other ancillary programs and services consisting of programming for children, group fitness training and other member activities, as well as sales of miscellaneous sports products.

In addition, we receive revenue (approximately 1.0% of our total revenue for the three months ended March 31, 2010) from the rental of space in our facilities to operators who offer wellness-related offerings, such as physical therapy and juice bars. In addition, we sell in-club advertising and sponsorships and generate management fees from certain club facilities that we do not wholly own. We refer to this revenue as Fees and Other revenue.



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Our performance is dependent on our ability to continually attract and retain members at our clubs. We experience attrition at our clubs and must attract new members in order to maintain our membership and revenue levels. In the three months ended March 31, 2010 and December 31, 2009, our monthly average attrition rate was 3.5% and 3.6%, respectively. We expect attrition to continue to improve in the year ending December 31, 2010 when compared to the year ended December 31, 2009 due to an enhanced member experience, a more stabilized economy and improved member retention programs.

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

As clubs mature and increase their membership base, fixed costs are typically spread over an increasing revenue base and operating margins tend to improve. Conversely, when our membership base declines, our operating margins are negatively impacted. In the three months ended March 31, 2010, membership at our clubs open over 24 months decreased approximately 7.5%. Membership at these clubs may decrease throughout the remainder of 2010 if consumer confidence and spending continues to be under pressure and if the number of competitors offering lower cost memberships with lower dues in our markets continues to grow.

As of March 31, 2010, 159 of the existing fitness clubs were wholly-owned by us and our condensed consolidated financial statements include the operating results of all such clubs. Two locations in Washington, D.C. were partly-owned and operated by us, with our profit sharing percentages approximating 20% (after priority distributions) and 45%, respectively, and are treated as unconsolidated affiliates for which we apply the equity method of accounting. In addition, we provide management services at four fitness clubs located in colleges and universities in which we have no equity interest.

### Historical Club Count

The following table sets forth the changes in our club count during each of the quarters in 2009 and the first quarter of 2010.

	2009					2010
	Q1	Q2	Q3	Q4	Full-Year	Q1
Wholly owned clubs operated at beginning of period	164	165	164	163	164	159
New clubs opened	4	—	—	—	4	—
Clubs closed, relocated or merged	(3)	(1)	(1)	(4)	(9)	—
Wholly owned clubs at end of period	165	164	163	159	159	159
Total clubs operated at end of period (1)	167	166	165	161	161	161

(1) Includes wholly-owned and partly-owned clubs. In addition to the above, during the first quarter of 2010 and each of the quarters in 2009, we managed four university fitness clubs in which we did not have an equity interest.

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### Comparable Club Revenue

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

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

#### 2009:

Three months ended March 31, 2009	(2.1)%
Three months ended June 30, 2009	(6.3)%
Three months ended September 30, 2009	(7.0)%
Three months ended December 31, 2009	(7.1)%

#### 2010:

Three months ended March 31, 2010	(6.0)%
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As shown above, comparable club revenue had been consistently trending downward in the year ended December 31, 2009; however comparable club revenue is beginning to show slight improvement in the first quarter of 2010.

In the three months ended March 31, 2010, membership at our comparable clubs decreased 4.6% as compared to the same period the prior year. This decline in membership coupled with expected decreases in personal training revenue is expected to be a contributing factor to decreases in comparable club revenue and therefore operating margins. We expect the decreases in comparable club revenue to continue to moderate during the remainder of the 2010.

### 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,	
	2010	2009
Revenue	100.0%	100.0%
Operating expenses:		
Payroll and related	41.2	40.0
Club operating	36.9	36.8
General and administrative	7.6	6.6
Depreciation and amortization	11.6	11.3
Impairment of fixed assets	0.3	0.9
	<u>97.6</u>	<u>95.6</u>
Operating income	2.4	4.4
Interest expense	4.4	4.2
Interest income	—	—
Equity in the earnings of investees and rental income	(0.5)	(0.5)
(Loss) income before (benefit) provision for corporate income taxes	<u>(1.5)</u>	<u>0.7</u>
(Benefit) provision for corporate income taxes	<u>(0.9)</u>	<u>0.2</u>
Net (loss) income	<u>(0.6)%</u>	<u>0.5%</u>

**THREE MONTHS ENDED MARCH 31, 2010 COMPARED TO  
THREE MONTHS ENDED MARCH 31, 2009**

Revenue (in \$'000s) was comprised of the following for the periods indicated:

	<b>Three Months Ended March 31,</b>				<b>% Variance</b>
	<b>2010</b>		<b>2009</b>		
	<b>Revenue</b>	<b>% Revenue</b>	<b>Revenue</b>	<b>% Revenue</b>	
Membership dues	\$ 92,809	78.8%	\$100,708	79.5%	(7.8)%
Initiation fees	2,024	1.7%	3,164	2.5%	(36.0)%
Membership revenue	94,833	80.5%	103,872	82.0%	(8.7)%
Personal training revenue	14,799	12.6%	15,001	11.8%	(1.3)%
Other ancillary club revenue	6,963	5.9%	6,595	5.2%	5.6%
Ancillary club revenue	21,762	18.5%	21,596	17.0%	0.8%
Fees and other revenue	1,164	1.0%	1,241	1.0%	(6.2)%
Total revenue	<u>\$117,759</u>	<u>100.0%</u>	<u>\$126,709</u>	<u>100.0%</u>	<u>(7.1)%</u>

Revenue decreased 7.1% in the three months ended March 31, 2010 compared to the three months ended March 31, 2009. This decrease in revenue was driven primarily by a decline in membership revenue resulting from the decrease in member count when comparing the three months ended March 31, 2010 to the same period in 2009. For the three months ended March 31, 2010, revenues increased \$2.6 million as compared to the three months ended March 31, 2009 at the 11 clubs opened or acquired subsequent to March 31, 2008. For the three months ended March 31, 2010, revenue decreased 7.5% or \$9.0 million at our clubs opened or acquired prior to March 31, 2008 and \$2.6 million at the 12 clubs that were closed subsequent to March 31, 2008.

Comparable club revenue decreased 6.0% for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. Of this 6.0% decrease, 3.4% was due to a decrease in membership, 1.9% was due to a decrease in price and 0.7% was due to a decrease in ancillary club revenue and fees and other revenue.

Operating expenses (in \$'000s) were comprised of the following for the periods indicated:

	<b>Three Months Ended March 31,</b>		<b>% Variance</b>
	<b>2010</b>	<b>2009</b>	
Payroll and related	\$ 48,511	\$ 50,747	(4.4)%
Club operating	43,468	46,610	(6.7)%
General and administrative	8,939	8,347	7.1%
Depreciation and amortization	13,654	14,296	(4.5)%
Impairment of fixed assets	389	1,131	(65.6)%
Operating expenses	<u>\$114,961</u>	<u>\$121,131</u>	<u>(5.1)%</u>

Operating expenses for the three months ended March 31, 2010 were impacted by a 2.2% decrease in total club usage year over year and a 4.4% decrease in the total months of club operation from 499 to 477, the effects of which are included in the additional descriptions of changes in operating expenses below.

*Payroll and related*. The decrease is directly related to the decrease in total months of club operation. In the three months ended March 31, 2010, we recorded severance charges of \$472,000 compared to \$496,000 in the same period in 2009.

As a percentage of total revenue, payroll and related expenses increased to 41.2% in the three months ended March 31, 2010 from 40.0% in the three months ended March 31, 2009.

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*Club operating* . Operating expenses relating to laundry and towels decreased approximately \$1.2 million primarily related to the opening of our laundry facility in Elmsford, NY in January 2009.

As a percentage of total revenue, club operating expenses increased to 36.9% in the three months ended March 31, 2010 from 36.8% in the three months ended March 31, 2009.

*General and administrative* . The increase in general and administrative expenses for the three months ended March 31, 2010 compared to the three months ended March 31, 2009 was principally attributable to increases in legal and related fees for various litigations as well as costs related to our first annual leadership conference in the three months ended March 31, 2010. Offsetting these increases was a decrease in general liability insurance expense due to a reduction in claims activity and therefore a reduction of claims reserves. In addition, during the three months ended March 31, 2010, we benefited from our cost reduction efforts within various general and administrative expense accounts.

As a percentage of total revenue, general and administrative expenses increased to 7.6% in the three months ended March 31, 2010 from 6.6% in three months ended March 31, 2009.

*Depreciation and amortization* . In the three months ended March 31, 2010 compared to the three months ended March 31, 2009, depreciation and amortization decreased due to the accelerated depreciation related to clubs closed prior to lease expiration dates in the three months ended March 31, 2009 and the closing of six clubs subsequent to March 31, 2009. In addition, in the year ended December 31, 2009, we recorded fixed asset impairment charges, decreasing the balance of fixed assets to be depreciated.

As a percentage of total revenue, depreciation and amortization expenses increased to 11.6% in the three months ended March 31, 2010 from 11.3% in three months ended March 31, 2009.

*Impairment of fixed assets* . In the three months ended March 31, 2010 and March 31, 2009, we recorded fixed asset impairment charges totaling \$389,000 and \$1.1 million, respectively, which represented the write-offs of fixed assets at two and four underperforming clubs, respectively.

### Interest Expense

Interest expense decreased \$93,000 or 1.8%, from \$5.3 million in the three months ended March 31, 2009 to \$5.2 million for the three months ended March 31, 2010. This decrease results from the lower variable rate of interest recorded on a lower principal amount for our Term Loan Facility during the three months ended March 31, 2010. For the three months ended March 31, 2009, the average variable interest rate on the Term Loan Facility was approximately 2.4%, while the average variable interest rate for the three months ended March 31, 2010 was approximately 2.1%. Each year we repay \$1.9 million of the principal on the Term Loan Facility. In addition, we had outstanding borrowings on our Revolving Loan facility throughout the three months ended March 31, 2009, on which interest rates ranged from 2.7% to 4.5% and in the three months ended March 31, 2010 we had no such borrowings.

### (Benefit) Provision for Corporate Income Taxes

We determined our income tax provision for the three months ended March 31, 2010 on a discrete basis. We could not reliably estimate our 2010 effective annual tax rate because minor changes in our annual estimated income before provision for corporate income taxes (pre-tax results) could have a significant impact on our annual estimated effective tax rate. Accordingly, we calculated our effective tax rate based on pre-tax results through the three months ended March 31, 2010.

We recorded a benefit for corporate income taxes of \$1.1 million for the three months ended March 31, 2010 compared to a provision of \$274,000 for the three months ended March 31, 2009. Our effective tax rate was (60)% in the three months ended March 31, 2010 compared to 30% in the three months ended March 31, 2009. The expected benefits from our Captive Insurance arrangement decreased our effective tax rate on our pre-tax loss in the three months ended March 31, 2010 and on our pre-tax income in the three months ended March 31, 2009.

As of March 31, 2010, we had net deferred tax assets of \$52.5 million. Quarterly, we assess the weight of all positive and negative evidence to determine whether the net deferred tax asset is realizable. In 2009, we incurred losses and may continue to incur losses in 2010. However, we have historically been a taxpayer and project that we will be in a three year cumulative income position as of December 31, 2010. In addition, we, based on recent trends, project improved performance and future income sufficient to realize the deferred tax assets during the periods when the temporary tax deductible differences reverse. We have no net operating loss carry-forwards, except for an immaterial amount related to the state of Pennsylvania. Accordingly, we concluded that it is more likely than not that the deferred tax assets will be realized. If actual results do not meet our forecasts and we incur significant losses in 2010, a valuation allowance against the deferred tax assets may be required in the future. In addition, with exception of the deductions related to our captive insurance for state taxes, taxable income has been and is projected to be the same as Federal. Because the captive insurance company is being discontinued, the assessment of realizability of the state deferred tax assets is consistent with the Federal tax-analysis above.

### Liquidity and Capital Resources

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

*Operating Activities.* Net cash provided by operating activities for the three months ended March 31, 2010 decreased 22.0% to \$17.6 million compared to \$22.6 million for the three months ended March 31, 2009. This decrease was primarily related to a decrease in overall earnings and the increase in cash paid for interest of \$7.2 million. During the three months ended March 31, 2010, we made a semi-annual interest payment of \$7.6 million on the 11% Senior Discount Notes. These cash interest payments commenced in August 2009 and accordingly, there were no cash interest payments made during the three months ended March 31, 2009.

*Investing Activities.* Net cash used in investing activities decreased 84.8%, or \$15.7 million, in the three months ended March 31, 2010 compared to the three months ended March 31, 2009. Investing activities in the three months ended March 31, 2010 consisted primarily of expanding and remodeling existing clubs and the purchase of new fitness equipment while in the three months ended March 31, 2009, four new clubs were opened.

For the year ending December 31, 2010, we estimate we will invest a total of \$32.0 million to \$35.0 million in capital expenditures. This amount will include \$23.5 million to continue to upgrade existing clubs, \$7.0 million related to major renovations at clubs with recent lease renewals and upgrading our in-club entertainment system network and \$1.5 million to \$2.5 million to enhance our management information systems. These expenditures will be funded by cash flow provided by operations, available cash on hand and, to the extent needed, borrowings from the \$63.8 million Revolving Loan Facility.

*Financing Activities.* Net cash used in financing activities decreased \$6.2 million for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. In the three months ended March 31, 2009, we paid \$5.4 million related to repurchases of 2.1 million shares of our common stock and had net repayments on the Revolving Loan Facility of \$1.0 million. There were no common stock repurchases or Revolving Loan Facility repayments in the three months ended March 31, 2010. In both three month periods ended March 31, 2010 and 2009, we made \$462,500 of principal payments on our outstanding Term Loan Facility.

As of March 31, 2010, our total consolidated debt was \$317.9 million. This substantial amount of debt could have significant consequences, including:

- making it more difficult to satisfy our obligations;
- increasing our vulnerability to general adverse economic conditions;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions of new clubs and other general corporate requirements;
- requiring cash flow from operations for the payment of interest on our credit facility and our 11% Senior Discount Notes and reducing our ability to use our cash flow to fund working capital, capital expenditures, acquisitions of new clubs and general corporate requirements; and
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

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

On February 27, 2007, TSI Holdings and TSI LLC entered into the 2007 Senior Credit Facility. The 2007 Senior Credit Facility consists of the Term Loan Facility and the Revolving Loan Facility.

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As of March 31, 2010, TSI LLC had \$179.5 million outstanding under the Term Loan Facility. Borrowings under the Term Loan Facility, at TSI LLC's option, bear interest at either the administrative agent's base rate plus 0.75% or its Eurodollar rate plus 1.75%, each as defined in the 2007 Senior Credit Facility. As of March 31, 2010, TSI LLC had elected the Eurodollar rate option, equal to 2.1% as of March 31, 2010. Interest calculated under the base rate option would have equaled 4.0% as of March 31, 2010, if TSI LLC had elected this option. TSI LLC is required to repay 0.25% of principal, or \$462,500, per quarter. Total principal payments of \$5.6 million have been made as of March 31, 2010.

Borrowings under the Revolving Loan Facility currently, at TSI LLC's option, bear interest at either the administrative agent's base rate plus 1.25% or its Eurodollar rate plus 2.25%, each as defined in the 2007 Senior Credit Facility. TSI LLC's applicable base rate and Eurodollar rate margins, and commitment commission percentage, vary with our consolidated secured leverage ratio, as defined in the 2007 Senior Credit Facility. TSI LLC is required to pay a commitment fee of 0.50% per annum on the daily unutilized amount.

As of March 31, 2010, there were no outstanding borrowings on the Revolving Loan Facility. There were outstanding letters of credit issued at that date of \$15.1 million. The unutilized portion of the Revolving Loan Facility as of March 31, 2010 was \$48.7 million. As a result of an amendment to the 2007 Senior Credit Facility on July 15, 2009 (the "Amendment"), the total amount of borrowings under the Revolving Loan Facility was reduced by 15% from \$75.0 million to \$63.8 million.

Our Term Loan Facility matures on the earlier of February 27, 2014, or August 1, 2013 if the 11% Senior Discount Notes are still outstanding as of that date and the Revolving Loan will mature in 2012. Our 11% Senior Discount Notes will mature in 2014. We expect to refinance our outstanding indebtedness under these arrangements with new indebtedness prior to their maturity dates. The availability of refinancing will depend on a variety of factors, such as economic and market conditions, business performance, the availability of credit and our credit ratings, as well as the lenders' perception of the prospects of the Company or our industry generally. We may not be able to successfully obtain any necessary refinancing on favorable terms, including interest rates and financial and other covenants, or at all. In that event, our business and financial condition may be materially adversely affected.

As of March 31, 2010, we were in compliance with the debt covenants in the 2007 Senior Credit Facility and given our operating plans and expected performance for 2010, we expect we will continue to be in compliance during the remainder of 2010. The Revolving Loan Facility contains a maximum total leverage covenant ratio of 4.25:1.00, which covenant is subject to compliance, on a consolidated basis, only during the period in which borrowings and letters of credit are outstanding thereunder. As of March 31, 2010, the Company's leverage ratio was 2.39:1.00. These covenants may limit TSI LLC's ability to incur additional debt. As of March 31, 2010, permitted aggregate borrowing capacity of \$63.8 million was not restricted by the covenants.

We do not have plans to repurchase our debt. The terms of our 2007 Senior Credit Facility significantly restrict our ability to repurchase our 11% Senior Discount Notes or repurchase a portion of the outstanding Term Loan.

On February 1, 2009, our 11% Senior Discount Notes became fully accreted with an outstanding balance of \$138.5 million. Interest payments of \$7.6 million commenced on August 1, 2009 and will be made semi-annually on February 1 and August 1. As of March 31, 2010, we had an aggregate principal amount of \$138.5 million of 11% Senior Discount Notes outstanding.

The terms of the indenture governing our 11% Senior Discount Notes and the 2007 Senior Credit Facility significantly restrict, or prohibit, the payment of dividends by us. Our subsidiaries are permitted under the 2007 Senior Credit Facility and the indenture governing our 11% Senior Discount Notes to incur additional indebtedness that may severely restrict or prohibit the payment of dividends by such subsidiaries to us. Our substantial leverage may impair our financial condition and we may incur significant additional debt. For further information regarding our 11% Senior Discount Notes and our 2007 Senior Credit Facility, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

As of March 31, 2010, we had \$25.0 million of cash and cash equivalents.

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The aggregate long-term debt and operating lease obligations as of March 31, 2010 were as follows:

Contractual Obligations	Payments Due by Period (in ('000s))				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	\$ 317,900	\$ 1,850	\$ 3,700	\$312,350	\$ —
Interest payments on long-term debt(1)	72,283	18,912	37,709	15,662	—
Operating lease obligations(2)	827,454	82,227	159,090	144,730	441,407
Total contractual cash obligations	<u>\$1,217,637</u>	<u>\$102,989</u>	<u>\$200,499</u>	<u>\$472,742</u>	<u>\$441,407</u>

### Notes:

- (1) Includes 11% annual interest on the Senior Discount Notes and variable interest on the 2007 Term Loan Facility using the rate of as of March 31, 2010 of 2.1%.
- (2) Operating lease obligations include base rent only. Certain leases provide for additional rent based on real estate taxes, common area maintenance and defined amounts based on the operating results of the lessee.

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

In recent years, we have typically operated with a working capital deficit. We had a working capital deficit of \$36.4 million at March 31, 2010, as compared with \$46.6 million at December 31, 2009. Major components of our working capital deficit on the current liability side are deferred revenues, accrued expenses (including, among others, accrued construction in progress and equipment, payroll and occupancy costs) and the current portion of long-term debt. These current liabilities more than offset the main current assets, which consist of cash and cash equivalents, accounts receivable, and prepaid expenses and other current assets. Payments underlying the current liability for deferred revenue are generally not held as cash and cash equivalents, but rather are used for the Company's business needs, including financing and investing commitments, which contributes to the working capital deficit. The deferred revenue liability relates to dues and services paid-in-full in advance and initiation fees paid at the time of enrollment and totaled \$38.8 million and \$35.3 million at March 31, 2010 and December 31, 2009, respectively. Initiation fees received are deferred and amortized over a 28-month period, which represents the estimated membership life of a club member. Prepaid dues are generally realized over a period of up to twelve months, while fees for prepaid services normally are realized over a period of one to nine months. In periods when we increase the number of clubs open and consequently increase the level of payments received in advance, we anticipate that we will continue to have deferred revenue balances at levels similar to or greater than those currently maintained. 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. The decrease in number of clubs and initiation fees and the increase of our cash balance has decreased the working capital deficit. 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 28 months. These costs are recorded as a long-term asset and as such; do not offset the working capital deficit. We expect to record a working capital deficit in future periods and, as in the past, will fund such deficit using cash flows from operations and borrowings under our 2007 Senior Credit Facility or other credit facilities, which resources we believe will be sufficient to cover such deficit.

### Recent Changes in or Recently Issued Accounting Pronouncements

See Note 2 — Recent Accounting Changes to the condensed consolidated financial statements in this Form 10-Q.



**Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding future financial results and performance, potential sales revenue, legal contingencies and tax benefits, 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, 2009 and in our other reports and documents filed with the SEC. 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 the Company’s business, the geographic concentration of the Company’s clubs, competitive pressure, the ability to achieve reductions in operating costs and to continue to integrate acquisitions, environmental matters, any security and privacy breached 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 Form 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 consists of both fixed and variable rate debt facilities. As of March 31, 2010, a total of \$179.5 million of our debt consisted of the Term Loan Facility for which borrowings are subject to variable interest rates. Borrowings under this Term Loan Facility are for periods of one, two, three or six months in the case of Eurodollar borrowings and no minimum period in the case of base rate borrowings, and upon each continuation of an interest period related to a Eurodollar borrowing the interest rate is reset and each interest rate would be considered variable. If short-term interest rates had increased by 100 basis points for the three months ended March 31, 2010, our interest expense would have increased by approximately \$450,000. This amount is determined by considering the impact of the hypothetical interest rates on our debt balance during this period.

For additional information concerning the terms of our fixed-rate debt, see Note 8 – Long Tem Debt to the condensed consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed with the SEC.

**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 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. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired controls.

As of March 31, 2010, 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. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2010, our disclosure controls and procedures were effective at the reasonable assurance level.

***Changes in Internal Control Over Financial Reporting:*** There were no changes in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.



## PART II. OTHER INFORMATION

### ITEM 1. *Legal Proceedings.*

On or about March 1, 2005, in an action styled *Sarah Cruz, et al v. Town Sports International, d/b/a New York Sports Club*, plaintiffs commenced a purported class action against the Company in the Supreme Court, New York County, seeking unpaid wages and alleging that TSI, LLC violated various overtime provisions of the New York State Labor Law with respect to the payment of wages to certain trainers and assistant fitness managers. On or about June 18, 2007, the same plaintiffs commenced a second purported class action against the Company in the Supreme Court of the State of New York, New York County, seeking unpaid wages and alleging that TSI, LLC violated various wage payment and overtime provisions of the New York State Labor Law with respect to the payment of wages to all New York purported hourly employees. While we are unable at this time to estimate the likelihood of an unfavorable outcome or the potential loss to the Company in the event of such an outcome, we intend to contest these cases vigorously. Depending upon the ultimate outcome, these matters may have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

On September 14, 2009, the Staff of the SEC advised the Company that a formal order of private investigation had been issued with respect to the Company. Since May 2008, the Company has been providing documents and testimony on a voluntary basis in response to an informal inquiry by the Staff of the SEC, which primarily relates to the deferral of certain payroll costs incurred in connection with the sale of memberships in the Company's health and fitness clubs and the time period utilized by the Company for the amortization of (i) such deferred costs into expense and (ii) initiation fees into revenue. The Company continues to discuss these issues with the SEC Staff and to cooperate fully with the Staff's investigation. The Company cannot predict the outcome of, or the timeframe for, the conclusion of this investigation.

On September 22, 2009, in an action styled *Town Sports International, LLC v. Ajilon Solutions*, a division of Ajilon Professional Staffing LLC (Supreme Court of the State of New York, New York County, 602911-09), TSI, LLC brought an action in the Supreme Court of the State of New York, New York County, against Ajilon for breach of contract, conversion and replevin, seeking, among other things, money damages against Ajilon for breaching its agreement to design and deliver to TSI, LLC a new sports club enterprise management system known as GIMS, including failing to provide copies of the computer source code written for GIMS, related documentation, properly identified requirements documents and other property owned and licensed by TSI, LLC. Subsequently, on October 14, 2009, Ajilon brought a counterclaim against TSI, LLC alleging breach of contract, alleging, among other things, failure to pay outstanding invoices in the amount of \$2.9 million. The litigation is currently in the discovery phase, and the Company intends to prosecute vigorously its claims against Ajilon and defend against Ajilon's counterclaim.

In addition to the litigation discussed above, we are involved in various other lawsuits, claims and proceedings incidental to the ordinary course of business. See Note 9 — Contingencies to the condensed consolidated financial statements in this Form 10-Q. The results of litigation are inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources. The results of these other lawsuits, claims and proceedings cannot be predicted with certainty.

### 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, 2009.

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

Not applicable.

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

Not applicable.

### **ITEM 4. (Removed and Reserved)**

### **ITEM 5. Other Information**

Not applicable.

### **ITEM 6. Exhibits**

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

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

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

**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 28, 2010

By: /s/ Daniel Gallagher  
Daniel Gallagher  
*Chief Financial Officer*  
*(principal financial and accounting officer)*

**INDEX TO EXHIBITS**

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

<b><u>Exhibit No.</u></b>	<b><u>Description of Exhibit</u></b>
3.1	Amended and Restated Certificate of Incorporation of Town Sports International Holdings, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006).
3.2	Second Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, filed on May 19, 2008).
10.1	Offer Letter, dated March 18, 2010, between the Registrant and Robert Giardina.
10.2	Letter Agreement, dated March 19, 2010, between the Registrant and Alexander Alimanestianu.
10.3	Amended and Restated Executive Severance Agreement between the Registrant and Robert Giardina (incorporate by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009).
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.



## Town Sports International

5 Penn Plaza, 4th floor  
New York, NY 10001  
Phone 212.246.6700  
Fax 212.246.8422  
MySportsClubs.com

March 18, 2010

Mr. Robert Giardina  
1657 Woodland Avenue  
Edison, NJ 08820

Dear Bob:

We are pleased that you have agreed to accept our offer to serve as President and Chief Executive Officer of Town Sports International Holdings, Inc., Town Sports International, LLC and all of its subsidiaries (collectively, the "Company" or "TSI"), effective March 16, 2010 (the "Effective Date"). This letter confirms the terms of such employment.

1. Employment. During your employment, it is expected that you will devote your full time, skill and attention to your duties and responsibilities and will perform them faithfully, diligently and completely in accordance with the terms of this offer letter. In addition, you will be required to familiarize yourself and comply with our operating policies, procedures and practices in effect from time to time, including our Code of Ethics and Business Conduct and Employee Handbook. In this role, you will serve as a member of the Executive Committee and you will report directly to the Board of Directors of TSI.

2. Compensation and Benefits.

(a) Commencing on the Effective Date, your annual base salary will be \$505,000, which will be payable in accordance with TSI's prevailing payroll policies, currently bi-weekly on every other Friday. You will also be eligible (i) to participate in TSI's annual management incentive compensation plan at a target payout of 75% of your annual base salary, subject to the attainment of TSI's and personal performance objectives and (ii) for awards under our equity plans as determined by the Compensation Committee of the Board in its discretion. As a salaried (exempt) employee, you are not eligible to receive overtime pay. Actual payments under the management incentive compensation plan will be paid yearly, usually in the first quarter of each following year, after appropriate approval from the Board of Directors (or the appropriate committee of the Board of Directors) so long as you are employed on the applicable payment date.

(b) You will be eligible to join the Company's executive benefit program on the first of the month following the Effective Date, information about such program will be provided to you separately. You will be eligible to participate in the Company's 401K program. You will be eligible for vacation, holidays and time off in accordance with the Company's personal time off policy (PTO) consistent with all other executive officers. Please be aware that our vacation

**New York    Boston    Washington    Philadelphia**

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policy does not allow carryover of unused vacation time from year to year. Therefore, if the time is not taken, it is forfeited each year. Participating in any of the Company's benefit programs and plans is subject to the respective terms of each of the programs and plans.

(c) You will be entitled to the following special bonuses: (i) promptly upon your signing this Agreement, a payment equal to \$18,000 on an after tax basis, (ii) \$33,333 on April 15, 2010, (iii) \$33,333 on May 17, 2010 and (iv) \$33,334 on June 15, 2010 so long as you remain in the employ of the Company on such dates.

(d) You will be reimbursed for all normal business expenses in accordance with Company policy.

3. Taxes. All payments pursuant to this letter will be subject to applicable withholding taxes.

4. Confidential Information You expressly recognize and acknowledge that during your employment with the Company, you will be entrusted with, have access to, or gain possession of confidential and proprietary information, data, documents, records, materials, and other trade secrets and/or other proprietary business information of the Company, TSI Holdings and their respective affiliates that is not readily available to competitors, outside third parties and/or the public, including without limitation, information about (i) current or prospective customers and/or suppliers, (ii) employees, research, goodwill, production, and prices, (iii) business methods, processes, practices or procedures; (iv) computer software and technology development, and (v) business strategy, including acquisition, merger and/or divestiture strategies, (collectively or with respect to any of the foregoing, the "Confidential Information"). You hereby that: (i) unless pursuant to prior written consent by the Company, you shall not disclose any Confidential Information for any purpose whatsoever unless compelled by court order of subpoena; (ii) you shall treat as confidential all Confidential Information and shall take reasonable precautions to prevent unauthorized access to the Confidential Information; (iii) you shall not use the Confidential Information in any way detrimental to the Company or any of its affiliates; and (iv) you agree that the Confidential Information obtained during your employment with the Company shall remain the exclusive property of the Company and its affiliates, and you shall promptly return to the Company all material which incorporates, or is derived from, all such Confidential Information upon termination of your employment with the Company or any of its affiliates. It is hereby agreed that Confidential Information does not include information generally available and known to the public other than through your disclosure thereof or through or obtained from a source not bound by a confidentiality agreement with the Company or any of its affiliates.

5. At-Will Employment. All employment at TSI is "at will" which means the employee or employer may end the relationship at any time, with or without notice. This letter does not constitute a contract or otherwise provide for a term of employment.

6. Entire Agreement. This Agreement represents the entire agreement of the parties related to your employment with the Company and supersedes any prior agreement or discussions, including, without limitation, the Agreement dated October 7, 2007. Notwithstanding the foregoing, given your status as Chief Executive Officer, you are eligible for the Executive

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Severance Agreement attached hereto as Annex A; such agreement to be effective upon execution by the parties.

7. Miscellaneous. In addition, you represent that the execution by you of this letter and the performance by you of your contemplated duties does not conflict with, or result in a violation or breach of, any other agreement or arrangement to which you are bound. In your work for the Company, you will be expected not to use or disclose any confidential information, including trade secrets, of any former employer or other person to whom you have an obligation of confidentiality. You agree you will not bring onto Company premises any unpublished documents or property belonging to any former employer or other person to whom you have any obligation of confidentiality.

Please acknowledge your acceptance of this offer by signing and returning a copy of this letter.

\* \* \*

Congratulations and I am confident that you will add tremendous value in your new role.

Sincerely

/s/ Scott Milford

Scott Milford

Title: Senior Vice President - Human Resources

ACCEPTANCE:

I accept the terms of my employment with TSI as set forth herein. I understand that this offer letter does not constitute a contract of employment for any specified period of time, and that my employment relationship may be terminated by either party, with or without cause and with or without notice. I specifically acknowledge and agree that I am aware of my rate of pay and my regular pay days.

/s/ Robert Giardina

Robert Giardina

TOWN SPORTS INTERNATIONAL, LLC  
5 PENN PLAZA  
NEW YORK, NY 10001

March 19, 2010

Mr. Alexander A. Alimanestianu  
27 Lincoln Street  
Larchmont, NY 10538

Dear Alex:

This letter agreement (the “**Agreement**”) confirms the terms that Town Sports International, LLC (the “**Company**”) is offering you in connection with your departure from the employ of the Company and its affiliates and from all officer, director and other positions that you currently hold with the Company and its affiliates, including Town Sports International Holdings, Inc. (“**TSI Holdings**”).

1. Departure Date.

(a) The employment relationship between you and the Company and its subsidiaries and affiliates, as applicable, ended on March 16, 2010 (the “**Departure Date**”). You also hereby resign as a director of TSI Holdings, the Company or of any affiliate thereof.

(b) Promptly following the Departure Date, you will be paid for any accrued, but not taken, vacation days (10 days) in accordance with the Company’s prevailing payroll practices. Information regarding the Company’s 401(k) Plan and your ability to continue your health insurance coverage under the Company’s group health plan pursuant to the federal “COBRA” law (and New York mini-COBRA) will be sent to you separately by the applicable plan administrators following the Departure Date.

2. Separation Benefits. In return for your agreement (without revocation) to, and compliance with, your commitments and obligations set forth in this Agreement, and subject to the terms of this Agreement:

(a) The Company will continue to pay you your base salary of \$505,870, which is the rate in effect on the Departure Date) for a period commencing on the Departure Date and ending on March 15, 2011 (the “**Severance Period**”), payable in accordance with the Company’s prevailing payroll practices (provided, however, that the last paycheck shall be paid to you on or before March 15, 2011); provided, however, that such payments will commence within 30 days after the expiration of the revocation period (without revocation) and such first payment will include those payments that would have previously been paid if these severance payments had begun on the first payroll date following the Departure Date.

(b) If you timely elect to continue your health coverage through COBRA, the Company will pay that portion of the premium that it would have paid had you been an active

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employee at the same level of coverage through Severance Period, and will pay up to \$5,000 for that portion of the premium that would have been paid by you through the end of the Severance Period or, in each case, if earlier, until you become eligible for comparable coverage.

(c) Each of you and the members of your immediate family will receive, for their respective lifetimes, a Premium Passport Membership (or its equivalent) at no cost, and be entitled to receive Personal Training sessions at employee rates (provided that such memberships and such treatment shall cease in the event you (or such immediate family member) commence employment or a consulting role with a competitor or in the event of your breach of this Agreement). The aforementioned memberships are subject to all of the Company's membership rules, regulations and policies currently in effect and as may be amended from time to time.

(d) The Company will pay up to \$5,000 for your legal fees incurred in connection with the negotiation of this Agreement upon presentment of an invoice.

(e) Thirty days following the effective date of this Agreement (without revocation), the Company will pay you \$30,000, to be used by you to assist you in your job search, including outplacement service, office supplies and travel expenses.

(f) All payments described herein will be subject to deduction for all required income and payroll taxes.

### 3. Release.

(a) In consideration of the obligations contained in Section 2 of this Agreement, you (for yourself, your heirs, legal representatives, executors or administrators (collectively, your "**Representatives**")) hereby release and forever discharge the Company, TSI Holdings, their respective subsidiaries and affiliates and each of their respective officers, employees, directors and agents (collectively, the "**Released Parties**") from any and all claims and rights which you may have against them, and you hereby specifically release, waive and forever hold them harmless from and against any and all such claims, liability, causes of action, compensation, benefits, damages, attorney fees, costs or expenses, of whatever nature or kind and whether known or unknown, fixed or contingent, and by reason of any matter, cause, charge, claim, right or action whatsoever, which have arisen at any time up to and including the date of execution of this Agreement, including, but not limited to, those arising during or in any manner out of your employment with the Company or the termination of such employment or anything else that may have happened up to and including the day you sign this Agreement. The rights, claims, causes of action, and liabilities that you are releasing and waiving include, but are not limited to, those that concern, relate to, or might arise out of the following: salary, overtime, bonuses, equity and severance arrangements, benefit plans; commissions; breach of express or implied contract or promise; harassment, intentional injury or intentional tort, fraud, misrepresentation, battery, assault, defamation, breach of fiduciary duty, tort or public policy claims, whistleblower claims, negligence (including negligent hiring, retention and/or supervision), wrongful or retaliatory discharge, infliction of emotional injury, or any other facts or claims; retirement or any other benefits; the Equal Pay Act (29 U.S.C. §206(d), et seq.); the Age Discrimination in Employment Act (ADEA) (29 U.S.C. §621, et seq.); Title VII of the Civil Rights Act of 1964 (42 U.S.C. §2000e, et seq.); ERISA (the Employee Retirement Income Security Act of 1974 (29 U.S.C.

§1001, et seq.) other than any vested ERISA benefit; COBRA (the Consolidated Omnibus Budget Reconciliation Act of 1986, 29 U.S.C. §21161, et seq.); the federal and NY WARN Act; the American with Disabilities Act (42 U.S.C. §12101, et seq.); the National Labor Relations Act and the Labor Management Relations Act, 29 U.S.C. §141 et seq.; the Family and Medical Leave Act (29 U.S.C. §2601, et seq.); the United States Constitution; the Civil Rights Act of 1991; the Civil Rights Acts of 1866 or 1871 (42 U.S.C. §§1981,1983,1985, et seq.); retaliation under any federal, state, or local law; any claims for costs or attorney fees; the fair employment practices (FEP) laws and employment-related laws of any federal, state, or local jurisdiction (including the New York State Human Rights Law, New York Administrative Code), and any other federal, state, city, county or other common law, law, or ordinance, including but not limited to those where you work and/or reside. You are not releasing any rights or claims that arise following the effective date of this Agreement.

(b) Notwithstanding the foregoing, the release set forth in Section 3 (a), will not apply to (i) the obligations of the Company under this Agreement, (ii) your vested benefits under the Company's 401(k) plan, (iii) the Company's obligations under the Option Plans (as defined and set forth below in Section 4), and any related option agreement or vested benefit(s) to which you are legally entitled, (iv) your rights as a stockholder of TSI Holdings, or (v) your rights as a holder of TSI Holdings' 11% senior discount notes. You further agree that the payments and benefits described in this Agreement will be in full satisfaction of any and all claims for payments or benefits, whether express or implied, that you may have against the Company, TSI Holdings or any of their respective subsidiaries or affiliates arising out of your employment relationship, your service as an employee, officer or director of the Company, TSI Holdings or any of their respective subsidiaries or affiliates and your resignation therefrom. You hereby acknowledge and confirm that you are providing the release and discharge set forth in this Section 3 only in exchange for consideration in addition to anything of value to which you are already entitled.

(c) You represent and agree that you have not filed any lawsuits against any Released Party, or filed or caused to be filed any charges or complaints against any Released Party with any municipal, state or federal agency charged with the enforcement of any law. Pursuant to and as a part of your release and discharge of the Released Parties, you agree, except for your right, if any, to bring a proceeding pursuant to the Older Workers Benefit Protection Act to challenge the validity of the release of claims pursuant to the Age Discrimination in Employment Act contained in Section 3 of this Release, and consistent with the EEOC Enforcement Guidance On Non-Waivable Employee Rights Under EEOC-Enforced Statutes dated April 11,1997, and otherwise to the maximum extent permitted by applicable law, not to sue or file a charge or complaint against any Released Party in any forum or assist or otherwise participate willingly or voluntarily in any claim, suit, action, investigation or other proceeding of any kind which relates to any matter that involves any Released Party, and that occurred up to and including the date of your execution of this Agreement, unless as required to do so by court order, subpoena or other directive by a court, administrative agency or legislative body, other than to enforce this Agreement. With respect to the claims you are waiving herein, you are waiving any right to receive money or any other relief in any action instituted on your behalf by any other person, entity or government agency.

(d) You expressly understand and acknowledge that it is possible that unknown losses or claims exist or that present losses may have been underestimated in amount or severity, and that you explicitly took that into account in determining the amount of consideration to be paid for the giving of this Release, and a portion of said consideration and the mutual covenants contained herein, having been agreed between the parties with the knowledge of the possibility of such unknown claims, were given in exchange for a full satisfaction and discharge of all such claims.

(e) Nothing in this release will affect the Company and TSI Holdings' obligation to indemnify, defend and hold you harmless to the fullest extent allowable by applicable law and their respective charter and by-laws with respect to your acts or omissions in your capacity as an officer or director of the Company, TSI Holdings and their respective subsidiaries and affiliates. The Company will continue to maintain directors' and officers' liability insurance with respect to actions or omissions by you as an officer of TSI Holdings, the Company (or any of its subsidiaries) in the same manner that it maintains such insurance for other officers and directors.

4. Equity. Your options to purchase TSI Holdings common stock granted pursuant to TSI Holdings' stock option incentive plans (the "**Option Plans**"), to the extent vested as of the Departure Date, will remain outstanding for the post-termination exercise period specified in the applicable Option Plan and any applicable agreement (which is 90 days from the Departure Date). Such vested options will expire at the conclusion of such post-termination exercise period to the extent not previously exercised. That portion of the stock options that remain unvested as of the Departure Date as well as any unvested shares of TSI Holdings restricted common stock will be forfeited on the Departure Date without any payment.

5. No Other Compensation or Benefits. Except as otherwise specifically provided herein, you will not be entitled to any compensation or benefits or to participate in any past, present or future employee benefit programs or arrangements of the Company, TSI Holdings or any of their respective subsidiaries or affiliates on or after the Departure Date.

6. Return of Company Property. No later than five (5) days after the date of this Agreement, you hereby covenant and agree that you will deliver to the Company all Company property and equipment in your possession or control, including, but not limited to, any and all records, manuals, customer lists, notebooks, computers, computer programs and files, Company credit cards, papers, electronically stored information and documents kept or made by you in connection with your employment and you will not retain any copies thereof, except that you may retain the Company's laptop (after the Company's IT department has deleted all Company information) and blackberry, and the Company will assist in transferring your mobile telephone number to your personal telephone. You also represent that you have left intact all electronic Company documents or files, including those that you developed or helped develop. You are required to return all such property whether or not you sign this Agreement.

7. Nondisclosure of Confidential Information.

(a) You acknowledge and agree that in the course of your employment with the Company, you have acquired certain confidential company information which you knew or understood was confidential or proprietary to the Company and which, as used in this

Agreement, means: information belonging to or possessed by the Company which is not available in the public domain or not released by some third-party through no fault of yours, including, without limitation (i) information received from the customers, suppliers, vendors, employees or agents of the Company under confidential conditions; (ii) customer and prospect lists, and details of agreements and communications with customers and prospects; (iii) sales plans and projections, product pricing information, acquisition, expansion, marketing, financial and other business information and existing and future products and business plans of the Company; (iv) the Company's confidential accounting, tax, or financial information, results, procedures and methods; (v) information relating to existing claims, charges and litigations; (vi) sales proposals, demonstrations systems, sales material; and (vii) employee information (including, but not limited to, personnel, payroll, compensation and benefit data and plans), including all such information recorded in manuals, memoranda, projections, reports, minutes, plans, drawings, sketches, designs, formula books, data, specifications, software programs and records, whether or not legended or otherwise identified by the Company as confidential information, as well as such information that is the subject of meetings and discussions and not recorded. You understand that such confidential company information has been disclosed to you for the Company's use only. You understand and agree that you (i) will not disclose or communicate confidential information to any person or persons; and (ii) will not make use of confidential information on your own behalf, or on behalf of any other person or persons. You will give immediate notice to the Company if you are ordered by a court or otherwise compelled by law to reveal any confidential information to any third party.

(b) In view of the nature of your employment and the nature of the confidential information to which you have had access to, you acknowledge and agree that any unauthorized disclosure to any person or persons of confidential information, or other violation or threatened violation of this Agreement (including, without limitation, Sections 8(a) or 8(b)) will cause irreparable damage to the Company and that, therefore, the Company will, in addition to any other available remedy, be entitled to an injunction prohibiting you from any further disclosure, attempted disclosure, violation or threatened violation of this Agreement and the Company will be entitled to recover the reasonable attorneys fees and costs incurred in enforcing its rights.

(c) The obligations described in this Section 7 are in addition to, and in no way limit, your obligations regarding the protection of confidential information as described in Executive Severance Agreement between you and the Company (the "**Executive Severance Agreement**") or in any option or other equity award agreement between you and the Company, which provisions are incorporated by reference herein. In the event of a conflict between the provisions of this Section 7 and the obligations described in the Executive Severance Agreement or such award agreement, the provisions that are more restrictive upon you will govern.

8. Non-Solicitation and Non-Competition Obligations.

(a) Non-Solicitation. You agree that from the date hereof through the one year anniversary of the Departure Date (the “Restricted Period”), you will not, directly or indirectly: (i) solicit or recruit for employment, offer employment to, or hire, on a temporary, permanent or contract basis, anyone who was employed by the Company during the last six months of your employment (a “**Covered Employee**”); or (ii) encourage or persuade any Covered Employee to leave the Company.

(b) Non-Competition. During the Restricted Period, you will not, directly or indirectly, own, manage, control, participate in, consult with, render services for, or in any manner engage in, any business competing directly or indirectly with the business as conducted by the Company or any of its Affiliates at the Departure Date or with any other business that is the logical extension of the Company’s and its Affiliates’ business at the Departure Date (including, without limitation, personal training and massage services) within any metropolitan area in which the Company or any of its Affiliates engages or has definitive plans to engage in such business; provided, however, that you will not be precluded from purchasing or holding publicly traded securities of any entity so long as you hold less than 2% of the outstanding units of any such class of securities and have no active participation in the business of such entity. For purposes of this Section 8(b), the term “Affiliate” will have the meaning ascribed to such term in the 2006 Stock Incentive Plan.

(c) The obligations described in this Section 8 are in addition to, and in no way limit, your obligations regarding noncompetition and non-solicitation as described in the Executive Severance Agreement or in any option or other equity award agreement with the Company, which provisions are incorporated by reference herein. In the event of a conflict between the provisions of this Section 8 and the obligations described in the Executive Severance Agreement or such award agreement, the provisions that are more restrictive upon you will govern.

9. Non-Disparagement; Cooperation.

(a) You understand and agree that as a condition for payment to you of the consideration herein described, you, on your behalf and on behalf of your Representatives, will not (and your Representatives will not) at any time engage in any form of conduct, or make any statements or representations that disparage or otherwise impair the reputation, goodwill, or commercial interests of the Company, its management, stockholders, subsidiaries, parent, and/or other affiliates. The Company agrees that its Senior Officers (as hereinafter defined) shall not, except as may be required by law, make any oral or written negative, disparaging or adverse statements, suggestions or representations of or concerning you. As used in this Section 9(a), the term “Senior Officer” means the President and Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Senior Vice President — Human Resources and Senior Vice President — General Counsel.

(b) From and after the Departure Date, you will (i) cooperate in all reasonable respects with the Company and its affiliates and their respective directors, officers, attorneys and experts in connection with the conduct of any dispute, action, proceeding, investigation or litigation involving the Company or any of its affiliates, including, without limitation, any such

dispute, action, proceeding, investigation or litigation in which you are called to testify and (ii) promptly respond to all requests by the Company and its affiliates relating to information concerning the Company which may be in your possession. The Company will, as a condition to your obligations under this Section 9(b), reimburse you for any reasonable out of pocket expenses and costs incurred as a result of such cooperation (including all reasonable, out-of-pocket attorney fees), provided that such expenses have been approved in writing in advance by an executive officer of the Company.

(c) You hereby consent to the disclosure of information about you that TSI Holdings is required to disclose in its Annual Report on Form 10-K, its Proxy Statement and in any other report(s) required to be filed with the Securities and Exchange Commission under the Securities Act of 1933, the Securities Exchange Act of 1934, and the rules and regulations promulgated thereunder.

10. Waiver of Rights. No delay or omission by the Company in exercising any right under this Agreement will operate as a waiver of that or any other right. A waiver or consent given by the Company on any one occasion will be effective only in that instance and will not be construed as a bar or waiver of any right on any other occasion.

11. Applicable Law. This Agreement will be interpreted and construed by the laws of the State of New York, without regard to conflict of laws provisions. You hereby irrevocably submit to and acknowledge and recognize the jurisdiction of the courts of the State of New York, or, if appropriate, a federal court within New York (which courts, together with all applicable appellate courts, for purposes of this agreement, are the only courts of competent jurisdiction), over any suit, action or other proceeding arising out of, under or in connection with this Agreement or the subject matter hereof.

12. Entire Agreement/Severability. This Agreement constitutes the sole and complete understanding and agreement between the parties with respect to the matters set forth herein, and there are no other agreements or understandings, whether written or oral and whether made contemporaneously or otherwise (other than any confidentiality and/or non-competition provisions and related covenants set forth in the Executive Severance Agreement and any agreement granting you options under the Company's Options Plans that you executed during your employment with the Company the terms of which will survive execution of this Agreement). For the avoidance of doubt, nothing contained herein shall have any effect on your rights and obligations under the Registration Rights Agreement dated February 4, 2004, as amended. No term, condition, covenant, representation or acknowledgment contained in this Agreement may be amended unless in writing signed by both parties. If any section of this Agreement is determined to be void, voidable or unenforceable, it will have no effect on the remainder of the Agreement which will remain in full force and effect.

13. Acceptance. You will have twenty-one (21) days from the date set forth above to consider the terms of this Agreement. In order to receive the benefits and payments provided for by Section 2 of this Agreement, you must execute this Agreement, have your signature notarized and return the executed Agreement to the Company, addressed to the Company, Attention: General Counsel, at the address specified in Section 20 so that it is received any time on or

before the expiration of the twenty-one (21) day period. After executing the Agreement, you will have seven (7) days (the “**Revocation Period**”) to revoke it by indicating your desire to do so in writing addressed to and received by the General Counsel at the address set forth in Section 20 no later than the seventh (7<sup>th</sup>) day following the date you executed the Agreement. In the event you do not accept this Agreement or in the event you revoke this Agreement during the Revocation Period, the obligations of the Company to make the payments and provide the benefits set forth herein will automatically be deemed null and void. No payments or benefits will be paid or provided under Section 2 of this Agreement, until you have signed this Agreement, had your signature notarized and the Revocation Period has expired without a revocation by you.

14. Voluntary Assent. By your signature on this Agreement, you affirm and acknowledge that:

- (a) you have read this Agreement, and understand all of its terms, including the full and final release of claims set forth in Section 3;
- (b) you have voluntarily entered into this Agreement and that you have not relied upon any representation or statement, written or oral, not set forth in this Agreement;
- (c) the only consideration for signing this Agreement is as set forth herein and that the consideration received for executing this Agreement is greater than that to which you may otherwise be entitled;
- (d) you have been given the opportunity and you have been advised by the Company to have this Agreement reviewed by your attorney and/or tax advisor; and
- (e) you have been given up to twenty-one (21) days to consider this Agreement and that you understand that you have seven (7) days after executing it to revoke it in writing, and that, to be effective, such written revocation must be received by the Company within the seven (7) day Revocation Period.

15. No Admission. Nothing contained in this Agreement, or the fact of its submission to you, will constitute or be construed as an admission of liability or wrongdoing by either party.

16. Counterparts. The Agreement may be executed in two (2) signature counterparts, each of which will constitute an original, but all of which taken together will constitute but one and the same instrument.

17. Section 409A. It is intended that the payments provided for herein are intended to comply with, or be exempt from, the terms of Section 409A (“**Section 409 A**”) of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder. In the event, however, that any such payments are determined to be subject to Section 409A, then the Company may make such adjustments as are reasonably required to comply with such section, including delaying any such payments that would have been required to be paid to you pursuant to this Agreement during the first six months following the Departure Date until the end of such

six-month period in accordance with the requirements of Section 409A. Each installment payment under this Agreement shall be considered as a separate payment for purposes of Section 409A. The termination of your employment on March 16, 2010 is intended to be a "separation of service" for purposes of Section 409A. In addition, any expense reimbursement under this Agreement will be made on or before the last day of the taxable year following the taxable year in which such expense was incurred by you, and no such reimbursement or the amount of expenses eligible for reimbursement in any taxable year will in any way affect the expenses eligible for reimbursement in any other taxable year. Notwithstanding any of the preceding, the Company makes no representations regarding the tax treatment of any payments hereunder, and you will be responsible for any and all applicable taxes.

18. Breach of Agreement. In the event of any breach by you of any provision of this Agreement (including, without limitation, Section 7, 8 or 9 (and including the agreements referenced and incorporated therein), which breach, if susceptible to cure, is not so cured within 10 business days of the Company providing notice to you, in addition to any other remedy available to it, the Company will cease to have any obligation to make payments or provide benefits to you under this Agreement, and any continued exercisability of your options will cease. You agree that in the event you bring a claim covered by this release in which you seek damages against the Company or in the event you seek to recover against any of such entities in any claim brought by a governmental agency on your behalf, this Agreement shall serve as a complete defense to such claims. In the event of any breach by the Company, you will provide the Company with notice of such breach, and, if such breach is susceptible to cure, the Company will have 10 business days to cure such breach. Each party will be entitled to recover the reasonable attorneys' fees and costs incurred in enforcing its rights in enforcing this Agreement or other obligations set forth herein, to the extent permitted by law.

19. Third Party Beneficiaries. You acknowledge and agree that TSI Holdings and all its direct and indirect subsidiaries (other than the Company) are third party beneficiaries of this letter agreement. Without limiting the foregoing sentence, TSI Holdings and such subsidiaries may enforce this letter agreement against you. This Agreement may be assigned by the Company to a person or entity which is an affiliate, and will be assigned to any successor in interest to substantially all of the business operations of the Company. Upon such assignment, the rights and obligations of the Company hereunder will become the rights and obligations of such affiliate or successor person or entity. This Agreement will be binding upon the successors, and assigns of the Company. If you shall die, all amounts then payable to you hereunder shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or, if there be no such devisee, legatee or designee, to Executive's estate.

20. Notices. Any notices required or made pursuant to this Agreement will be in writing and will be deemed to have been given when delivered or mailed by United States certified mail, return receipt requested, postage prepaid, as follows: if to you, to the address in the Company's payroll records; if to the Company, at 5 Penn Plaza, 4<sup>th</sup> Floor, New York, NY 10001, Attn: General Counsel, or to such other address as either party may furnish to the other in writing in



accordance with this Section 20. Notices of change of address will be effective only upon receipt.

[Signatures continue on following page]

Acknowledged and accepted by:

TOWN SPORTS INTERNATIONAL, LLC

By: /s/ Scott Milford  
Name: Scott Milford  
Title: Senior Vice President-Human Resources

/s/ Alexander A. Alimanestianu  
Alexander A. Alimanestianu

STATE OF NEW YORK                    )  
  )    SS.:  
COUNTY OF NEW YORK                )

On the 19th day of March in the year 2010, before me, the undersigned, personally appeared **ALEXANDER A. ALIMANESTIANU**, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity, and that by his signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

/s/ JOSHUA S HACKMAN  
Notary Public

JOSHUA S HACKMAN  
NOTARY PUBLIC STATE OF NEW YORK  
NEW YORK COUNTY  
LIC. #021-440807545  
COMM. EXP. 6/15/13

I, Robert Giardina, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 of Town Sports International Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Robert Giardina

Robert Giardina  
Chief Executive Officer

Date: April 28, 2010

I, Daniel Gallagher, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 of Town Sports International Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Daniel Gallagher  
Daniel Gallagher  
Chief Financial Officer

Date: April 28, 2010

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

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

(1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2010 (the "Report") fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78m); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert Giardina

\_\_\_\_\_  
Robert Giardina  
Town Sports International Holdings, Inc.  
Chief Executive Officer

April 28, 2010

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

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

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

(1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2010 (the "Report") fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78m); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Daniel Gallagher

\_\_\_\_\_  
Daniel Gallagher  
Town Sports International Holdings, Inc.  
Chief Financial Officer

April 28, 2010

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