



To The Shareholders of Town Sports International:

Town Sports International Holdings, Inc (“TSI”, “the Company”, “Town”, “we” and “our”) had a tremendous year in 2017. Operating earnings and cash flow increased materially while same store sales turned positive after 17 consecutive quarters of deterioration. As predicted in last year's Chairman's letter, management went on the offensive and made several acquisitions. In this letter, we will discuss the Company's operating and financial results, our recent acquisitions and some miscellaneous items.

2017 Operating Results

Previously, management stated its objective to turn around the severe sales declines the Company was experiencing. In 2017, management delivered on that goal. It is with great satisfaction that same store sales turned positive after four consecutive years of declines. Same store revenue increased each quarter while improving throughout the year. The last time Town generated positive same store revenue in every quarter of the calendar year was 2007. Nine years is a long streak to end. I am really proud of our team for this accomplishment. Many management teams struggle when forced to focus on sales growth while simultaneously maintaining discipline on costs. Fortunately, we have found success with both sales and profits in 2017.

	Same Store Revenue				
	2013	2014	2015	2016	2017
Qtr 1	-2.4%	-4.7%	-3.5%	-7.6%	0.7%
Qtr 2	-1.7%	-4.5%	-5.4%	-4.5%	1.2%
Qtr 3	-1.7%	-4.5%	-7.1%	-3.0%	1.8%
Qtr 4	-1.3%	-3.9%	-6.7%	-2.3%	2.8%
Year	-1.8%	-4.2%	-5.6%	-4.1%	1.6%

As stated in the inaugural Chairman's letter, sales increases generated through existing clubs is preferable to opening new ones. Same store sales are a critical metric and an important barometer for the health of our fitness business. Management's goal is to drive positive same store performance going forward while maintaining positive member growth. On that note, same store member count increased for the third consecutive year in 2017.

However, same store results are *not* management's end goal. There is a long history in the consumer sector of companies spending money with a singular focus on same store results without achieving a proper return on investment. If this type of behavior continues for an extended period of time it could be detrimental to shareholder wealth. At Town, we will avoid this type of behavior and will not spend shareholder's money simply to grow same store sales at the expense of profits. Management's all-encompassing objective is to increase Town Sport's intrinsic value, not increase same store sales or some other singular metric.

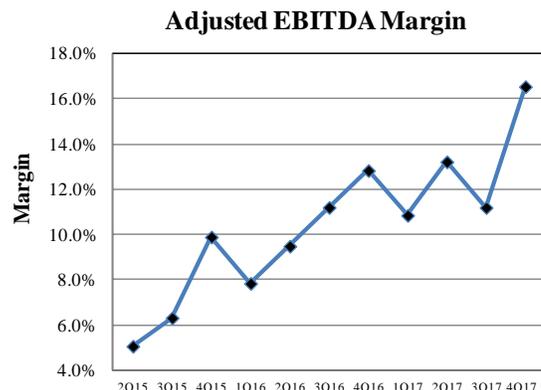
Unfortunately, the fitness industry remains saturated and new supply should continue to pressure industry returns. Franchise concepts are expected to continue their plans of rapid expansion. Management's goal of same store sales growth will be a challenge and our managers understand there are no medals awarded

for effort. We must execute and our fitness brands must earn their place in the industry every single day, every single month and every single year. It is critical that we never stop working to improve Town's products and offerings in order to remain competitive and increase the value of our brands.

Financial Results

Adjusted EBITDA increased 26.7% to \$51.8 million in 2017. Adjusted EBITDA margins have more than *tripled* over the past 10 quarters since present management took over. Town did not achieve these results by chance. This performance was delivered by hard charging managers that remained focused on their jobs, performed with a mentality that refused to lose and for whom failure was not an option.

As the chart below demonstrates, there is some seasonality in our financial results but the trend and performance are notable. Most impressive is the fact that margins expanded in the face of material increases in labor costs due to mandated minimum wage and salary increases in our core markets. These wage pressures are expected to continue in the future as a result of state regulations and will remain a major headwind on profitability. In addition, it should be noted that fourth quarter margins benefited by approximately 200 bps due to favorable insurance results in 2017. The Company changed its medical benefits plan from fully-insured to self-insured in order to take advantage of its actual exposure and tax differentials. These benefits should be maintained going forward but spread throughout each calendar year.



* Q4 2017 revenue excludes the recognition of \$3.6m in unused and expired personal training sessions and a \$379,000 one-time revenue benefit. See 10k for details.

In the future, incremental improvement in margins will most definitely trail those of the past. However, Town has now developed a culture and established a management team that has become its greatest asset. This asset does not show up on the Company's balance sheet but it is real and extremely valuable. We are building a championship team and unlike professional sports our team members get better with age and experience. Town's culture and management team should be a competitive advantage as the Company looks to expand its presence in the fitness industry and beyond.

(\$ in 000's)	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17*
Revenue*	\$111,424	\$108,296	\$103,764	\$100,839	\$101,345	\$100,935	\$98,534	\$96,107	\$99,081	\$99,993	\$98,640	\$101,391
Adjusted EBITDA	6,848	5,478	6,550	9,973	7,943	9,573	11,035	12,332	10,749	13,216	11,043	16,774
Margin	6.1%	5.1%	6.3%	9.9%	7.8%	9.5%	11.2%	12.8%	10.8%	13.2%	11.2%	16.5%

* Q4 2017 revenue excludes the recognition of \$3.6m in unused and expired personal training sessions and a \$379,000 one-time revenue benefit. See 10k for details.

TOWN SPORTS INTERNATIONAL HOLDINGS, INC.

Cash flow from operations increased 33.1% to \$28.2 million in 2017. This is a 500% increase from 2014. Cash flow from operations less capital expenditures increased to \$18.0 million in 2017 from a \$37.3 million deficit in 2014, a \$55.3 million improvement. We are happy with the progress over the past two and a half years since present management took control. Management remains fanatically focused on cash generation.

The Company spent \$30.8 million on acquisitions during the year, \$12.4 million of which was real estate. In the future, we will consider buying real estate when it makes strategic and economic sense. Management's investment horizon is much longer than the typical CEO which makes owning real estate an attractive option in certain cases. While many management teams are focused on the next quarter, we are building Town for the next decade. I believe Town's long-term investment horizon will be a major competitive advantage over time.

(\$ in 000's)	2017	2016	2015	2014
Cash Flow from Operations	\$28,199	\$21,190	\$24,870	\$4,758
Capital Expenditures	10,206	19,723	30,471	42,054
Free Cash Flow	\$17,993	\$1,467	(\$5,601)	(\$37,296)

As of December 31, 2017, our cash balance was \$30.3 million, total debt was \$199.9 million and net debt was \$169.6 million. Debt to Adjusted EBITDA was 3.9x and net debt to Adjusted EBITDA was 3.3x. Interest coverage (Adjusted EBITDA/Interest Expense) for the year was greater than 4.0x. The real estate that was purchased for \$12.4 million in 2017 does not factor into the Company's leverage ratio but it is an asset on the balance sheet. Moody's recently upgraded Town Sports International, LLC's senior secured bank credit facility by two notches to B2. Management's near term goal is to have the debt classified as B1 and is working hard to secure another upgrade.

Acquisitions

In 2017, Town acquired a total of 18 clubs for \$28.0 million, \$12.4 million of which was real estate. The Company acquired the Lucille Roberts Health Club business ("Lucille Roberts"), which added 16 clubs to our portfolio. These 16 clubs continue to operate as women only clubs under the Lucille Roberts trade name. We also acquired an existing club in Massapequa, NY, currently operating under the New York Sports Clubs brand name, including the land and the building. Finally, Town acquired TMPL Gym ("TMPL"), an existing club in Manhattan, which continues to operate under the TMPL brand name. TMPL is Town's luxury brand that we plan to expand. All 18 acquisitions were additions to our portfolio in the New York metropolitan region. In addition, the Company funded \$2.8m as a deposit for a future acquisition that closed in January of 2018.

Last year, there was an abrupt closing of a competitor in New York City. The company that closed its doors, the David Barton Gym, cited severe competitive pressures facing the industry. Shortly after reading about this news in the papers, we struck a deal to take over the lease at Astor Place that the David Barton Gym occupied. Town invested approximately \$2.0 million in the property and restored and rebranded the club into our NYSC Flagship location. NYSC's Astor Place is a unique space and one of the coolest gyms I have ever experienced. Be sure to stop by Astor Place when you are in New York for a workout. You won't be disappointed.

During the restoration of the David Barton Gym we reached out to the founder, David Barton, to notify him that Town had purchased the Astor Place location. David had previously built the Astor Place gym but was no longer involved with the company. David visited the renovated Astor Place and during his tour I offered to give him a chandelier from Astor Place that had sentimental value to him. David was appreciative of the gesture and invited me to come see his new high-end, luxury concept, TMPL. Any fitness enthusiast that walks into TMPL will be blown away by the look and feel of the gym. I offered to purchase TMPL on the spot and immediately began work on a partnership with David. It was crystal clear to me that David's design skills were extraordinary. Town closed on the TMPL acquisition in December. The TMPL team is hard at work on expansion plans in the New York metropolitan area. Stay tuned and check out the attached video on TMPL: <https://vimeo.com/255074258>

In addition to the acquisitions that closed in 2017, Town entered into two agreements to acquire existing clubs in the Boston and Florida metropolitan regions for approximately \$7 million in December 2017. Both of these acquisitions closed in January 2018. The Florida acquisition included the land and building the club occupied. Town's expansion into the Florida market is the first time the Company has entered a new state since 2008. Steve and Christi Wade and Justin Lundberg, the owners of the Florida and Boston clubs, are both similar in that they built great businesses and are first-class people. I am constantly looking for the next acquisition and nothing excites me more than meeting people like the Wades and Justin Lundberg.

Taxation

The tax rate on corporate ordinary income is scheduled to decrease from 35% to 21% in 2018. This change affects our Company and shareholders positively as shareholder's percentage of profits increase from 65% to 79%. The reduction in the corporate tax rate is a material benefit to Town's creditors and shareholders.

Another positive development for Town as a result of the 2018 tax code is bonus depreciation. Previously, the Company was allowed to deduct 50% of the cost of new tangible property, excluding buildings and some building improvements. This deduction was scheduled to be phased out over the next few years. However, the new tax code allows for property placed in service and acquired after September 27, 2017 to be 100% depreciated or 100% expensed in year one. The 100% bonus depreciation is to be lowered to 80% for property placed in service in the calendar year 2023, 60% in 2024, 40% in 2025, 20% in 2026 and 0% in 2027.

Shareholder Communication

Town Sports International is a small capitalization stock that has limited trading volume and would be appropriately characterized as illiquid. Average volume in 2017 was 79,560 shares per day. However, it should be noted that for the first half of the year, average volume was 39,569 shares per day and for the second half, volume averaged 118,916 shares per day. Many large institutional investors would say that illiquid is an understatement and that the appropriate adjective for Town stock is un-investable. While we understand this rationale, we do not agree with it nor does it bother management in the least.

Management is focused on creating shareholder value over a very long-term time horizon. As stated previously, we do not host quarterly conference calls nor do we provide guidance. We will disseminate

relevant information through press releases, 10Qs, 10Ks and proxy statements. Management believes it is difficult to provide anything meaningful that has long-term significance every quarter. In addition, we do not want to encourage short-term trading of our Company's stock. A great investor once said "companies obtain the shareholder constituency that they seek and deserve."

Management's goal is to have a shareholder base that understands our business, approves of our philosophy, and shares our expectations. This should lead to lower trading volume and a low turnover among our owners. Investors in Town's stock should have a five-year investment horizon in order to benefit from the value that management creates over their respective holding period. Otherwise, investors are at the mercy of limited liquidity and short-term stock market gyrations.

The Annual Meeting

We will host an annual meeting where we will spend time to answer shareholder questions. The annual meeting will be held on Wednesday, May 9, 2018 in New York City. We will begin at 10:00 AM and continue until all questions are answered. To be fair to all shareholders, as well as to be efficient with management's time, we will utilize the annual meeting to communicate with shareholders in lieu of one-on-one communication.

February 28, 2018

Patrick Walsh
Chairman of the Board