TOWN SPORTS INTERNATIONAL

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To The Shareholders of Town Sports International:

The year 2016 will be remembered as an incredible inflexion point in Town Sports International's ("TSI", "the Company", "we" and "our") history. It was a year when the pundits were expecting the Company's demise and were proved wrong. Over the last year and a half, the management team was confronted by what many industry observers described as an impossible mission. The Company was faced with declining revenues, negative cash flow, severe competitive pressure and an overleveraged balance sheet. The team kept its focus and accomplished what many said could not be done. During 2016, management led the remarkable turnaround of TSI and transformed a money-losing gym business on the brink of insolvency into a successful fitness enterprise that is now positioned to generate strong cash flow. In this letter, we will discuss the turnaround of the gym business, review 2016 financial results and explain our strategy for the future.

The Turnaround

Last year's Chairman's letter identified four major goals that were critical to save and revitalize the Company: form a strong management team, implement an efficient cost structure, improve club level economics and set the stage to reverse the severe revenue declines the Company was experiencing. The team executed on all accounts. When I assumed control as Executive Chairman in June of 2015, the Company was experiencing negative cash flow from its core operations and quickly burning through cash. It was clear that if drastic actions were not taken, TSI was on a path to generate negative EBITDA in 2016 and destined towards bankruptcy. The Company breached its leverage ratio which restricted cash dividends to the parent and the stock price traded down to 92 cents. Radical changes were required in regards to strategy, operations and culture. These changes were implemented in rapid fashion and resulted in TSI generating adjusted EBITDA of $40.9 million in 2016. In addition, the Company is now in compliance with its leverage ratio, the Company's debt price has more than doubled and the stock price has tripled from its low watermark. If you happen to see a TSI team member, please thank them.

Many people have asked how TSI was able to effect such rapid change in such a short period of time. The quick answer is execution. The team executed the plan that we laid out in last year's Chairman's letter. We focused on getting the right people on the team, placing people in the right roles and quickly getting the wrong people off the team. Customer service and operational excellence were made the absolute priority. In addition, management has been relentless in its focus on accountability. Everyone must do their job. Finally, we are forging an ownership mentality and creating a culture of meritocracy where rewards, whether they be financial, psychic or career advancement, be designated based on performance, not seniority, likability or some other factor.

The improvement in operational efficiency at the Company has been extraordinary. This has resulted in material margin expansion despite severe pressure from declining revenues. When I first engaged in our cost savings initiatives in June of 2015, several current and former experienced senior managers were interviewed. The feedback from these meetings identified potential cost savings in the range from $750,000 to $2 million for the entire Company. Subsequently, the team then put their heads down and went to work. Cumulative cost savings since current management took over now surpass $60 million.

These results exceeded even my high expectations. We will continue to look for more savings opportunities and will not stop.

The Company has experienced a material improvement in club level economics across its portfolio. Unit level EBITDA margins have more than doubled from the second quarter of 2015. We are happy with the progress but not satisfied. We have much more to accomplish in order to be competitive with the industry's best.

Since management took over in June 2015, we have spent the majority of our time on defense. We are excited that the Company is now in a position to play offense. Management is focused on increasing revenue and has laid the foundation to improve sales both organically and externally through acquisitions.

The Company is still recovering from its prior strategy of converting to a low-cost budget gym. This strategy resulted in extreme revenue pressure over the past two years with revenue declining from $454 million in 2014 to $397 million in 2016.

It is important to note that the average membership dues in the health club industry nationally have increased by 25% from 2011 through 2015 and 17% from 2013 to 2015. However, TSI membership dues have actually declined over this time period due to prior management's pricing strategy. We believe that our current prices offer tremendous value relative to the industry, especially given the Company's geographic concentration in high barrier to entry markets where the cost of living is much higher than the national average. Furthermore, we believe our current focus on customer service and operational excellence is delivering a superior product to our members.

During 2016, the Company added 3,000 members on net basis. This fell well short of our goal. Competitive conditions remain fierce and membership gains are hard fought. The fitness industry has always been cutthroat but the money that has flowed into the sector in recent years due to a myriad of factors, including the direct and indirect result of franchising, has exacerbated the supply and demand imbalance. The number of U.S. health clubs has increased by 20% from 2011 to 2015. I continue to believe there is too much supply from boutique studios and traditional gyms. At some point, we expect there will be material closures and consolidation.

One large New York City competitor closed its doors abruptly in December citing severe competitive pressure. We are sympathetic as many abruptly found themselves unemployed. Unfortunately, I believe this is just the tip of the iceberg as too many gyms and fitness studios continue to be built while industry participants are locked in a knife fight to gain market share. At TSI, we are building our ark and will be ready to act when opportunities arise.

Operations

The TSI team has done a decent job adapting to the current fitness industry. The Company has an extremely diverse portfolio and has created unique offerings that allow us to compete with low priced competitors as well as higher priced competition while staying true to our core value of providing the greatest fitness experience possible.

As was stated in last year's letter, club management has made customer service, hospitality and cleanliness top priorities. Equipment should be added to that list of our basic necessities. It is imperative that the Company invests in its equipment. Throughout history, a lack of investment in equipment has led to the demise of many gyms. We will not make that mistake. During 2016, we made investments in and improved the fitness rooms for cycling, mind and body and weightlifting. We also upgraded our functional fitness zones and added state of the art equipment including Rogue Rigs and Racks and Eleiko strength and conditioning equipment for the hard core fitness enthusiast.

Significant progress was made on improving our digital offerings during the year. The Company created a more customizable and efficient experience for members through updated digital tools, which included an enhanced, clearer and easier to use website and the Company's first-ever mobile application. The website features membership sign up, club location search, class schedules and booking, training information and custom profiles for group fitness instructors and trainers. Members are able to customize their group fitness experience based on fitness goals and preferences through a personalized search feature on the website. The mobile application also provides members access to gym check-in, class sign-up, class schedules and their own user profile including a workout log. If you are a NYSC, BSC, PSC or WSC member, be sure to download the SportsClubs App.

Innovative Programming

The Company is committed to improve its fitness programming to reflect the new industry standard created by the boutique training studios in New York City. In November 2016, we implemented FlexSystem - a small group training program based on boutique fitness practices - which features LIFT, COMPETE and SPIN FUSION classes. Each class taps in-demand high intensity strength training lead by elite trainers in a group of 8-10 members. The Company's latest development is NYSC Lab, a luxury fitness experience boasting the NYSC brand located in Chelsea and the Upper East Side. NYSC Lab serves as a testing ground designed to experiment with the latest in innovative programming. Leading fitness experts will test and explore the latest trends in fitness technology, state of the art training equipment and member service advances. The Lab features cutting edge sound systems, high quality amenities and high-end finishes, creating a luxurious surrounding and a variety of heart pumping classes.

In December 2016, TSI teamed up with New England Patriots All-Pro tight end Rob Gronkowski and his family to launch the Gronk Fitness Program in Boston. This program is available exclusively at Boston Sports Clubs and introduces "Practical Sports Interval Training", which is a system created by the Gronkowskis and inspired by the proven techniques of National Football League trainers. The Gronk Fitness Program is designed to help people stay strong, toned, healthy, fit, and focused while committed to their long term fitness goals.

The Gronkowski family has been involved in the fitness industry for more than 25 years, when Gordie Sr. opened Buffalo's first specialty fitness dealership in 1990. The partnership between Town Sports and the Gronk family demonstrates TSI's dedication to building elite training facilities. We are confident that the Gronk Family will contribute to ensuring that BSC members are exposed to the best of breed in fitness, whether that is state of the art functional equipment or professional athletic programming.

Boston Sports Clubs and Gronk Fitness received tremendous media coverage from the launch of the Gronk Zone. Enjoy the great videos below:

ABC News: What's New: Gronk Fitness: 1/26/17

NBC News: "Rob Gronkowski and Family Team Up with Boston Sports Clubs" 12/27/16

Fox 25 News: "Gronk Fitness Program Unveiled at Boston Sports Clubs" 12/27/16

CBS News: "Steve Burton Tries Gronk Fitness" 12/27/16

Boston Herald: Gronk Launches His New Fitness Program in Boston 12/28/16

Financial Results

The Company generated adjusted EBITDA of $40.9 million in 2016 versus $28.8 million in the prior year, a 42% increase. Profitability improved throughout the year as adjusted EBITDA margins improved from 5.1% when current management took over in Q2 2015 to 12.8% in Q4 2016. The Company is now generating free cash flow and remains focused on maximizing free cash flow over the long term. I want to emphasize the long term. Management will make investments that will reduce free cash flow in any given year if the expected payoff is sufficient over time. During the fourth quarter, the Company spent more than $6 million on state of the art equipment and our club renovation and reimaging program.

	2015			
($ in 000's)	**Qtr 1**	**Qtr 2**	**Qtr 3**	**Qtr 4**
Revenue	$111,424	$108,296	$103,764	$100,839
Adjusted EBITDA	6,848	5,478	6,550	9,973
Margin	6.1%	5.1%	6.3%	9.9%

	2016			
($ in 000's)	**Qtr 1**	**Qtr 2**	**Qtr 3**	**Qtr 4**
Revenue	$101,345	$100,935	$98,534	$96,107
Adjusted EBITDA	7,943	9,573	11,035	12,332
Margin	7.8%	9.5%	11.2%	12.8%

During 2016, the Company generated $21.2 million of cash from operations and spent $19.7 million on capital expenditures. Cash provided by operating activities decreased $3.7 million for 2016 compared to 2015. However, the Company paid $11.3 million for taxes related to open market debt purchases during 2016 and received $2.1 million in tenant improvement allowances and $7.0 million in tax refunds. After adjusting for these non recurring items, cash flow from recurring operations was $23.4 million and adjusted free cash flow was $3.7 million for 2016. This is a significant improvement from the last two years when the Company experienced negative free cash flow of $5.6 million and $37.3 million, respectively. The Company is now positioned to generate free cash flow. Management remains laser focused on its cash while managing the Company for the next decade.

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

The Company materially strengthened its balance sheet during the year. In Q2 2016, TSI Holdings purchased a total of $71.1 million principal amount of debt outstanding under the 2013 Senior Credit Facility for $29.8 million, or an average of 42% of face value. The purchased debt was transferred to Town Sports International, LLC and canceled upon settlement.

Capital Allocation

Since current management took over, we have purchased $100.9 million of debt for $40.7 million, or an average of 40% of face value. TSI's debt currently trades close to 90% of face value. The $40.7 million TSI debt purchase generated a return of more than 116% in one year. These debt purchases created material value for our existing equity and debt holders while providing liquidity to selling credit investors. This is a good example of management's opportunistic investment and capital allocation strategy. As we stated in last year's Chairman's letter, our skill at allocating capital will be a critical component of the Company's success going forward.

TSI's structure provides for a more flexible mechanism to allocate capital than most other companies. Unlike other management teams that typically feel forced to reinvest cash within their industry in order to grow their footprints, our primary focus is return on invested capital, not unit growth targets.

Furthermore, we intend to take advantage of our structural superiority as a permanently capitalized vehicle that generates cash to distribute to the parent company for reallocation. The successful turnaround of Town Sports International has put the Company in a position to reallocate surplus cash into investments. As the Company generates surplus cash, management has several options regarding cash deployment including:

1. Club development and acquisitions
2. Repay debt
3. Share repurchases
4. Investments in other public or private entities either in whole or part

Our goal is to grow our fitness footprint through acquisitions. We have no set target for acquisitions. Our strategy is to be prepared to act quickly when opportunities present themselves. If you have a portfolio of gyms for sale please call us.

Share repurchase considerations will largely be price dependent. We will consider repurchasing shares if the stock price is undervalued and the repurchases deliver a material benefit to continuing shareholders. If we are considering share repurchases it means we are comfortable that the Company has enough cash to protect and expand its operations and service its debt.

Finally, we will pursue investments in other public or private entities either in whole or part if the opportunity offers greater value than the purchase of our own shares. Price, strategic considerations and diversification would be critical determinants of the investment's perceived value.

We believe that our flexibility on capital allocation creates a material competitive advantage for the Company.

The Annual Meeting and Shareholder Communication

We will host an annual meeting where we will spend time to answer shareholder questions. In addition, we will disseminate relevant information through press releases, 10Qs, 10K and proxy statements. The annual meeting will be held on Wednesday, May 10, 2017 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 27, 2017

Patrick Walsh
Chairman of the Board

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

Reconciliation of Net Income (Loss) to Adjusted EBITDA

	2016					2015
	Q1	Q2	Q3	Q4	Full -Year	Full -Year
Net income (loss)	(6,925)	20,733	(5,506)	(259)	8,043	21,158
Interest expense, net of interest income	4,077	3,492	3,175	3,194	13,938	20,579
Provision (Benefit) for corporate income taxes	(817)	12,899	(842)	(1,469)	9,771	(14,351)
Depreciation and amortization	11,185	10,897	11,015	10,630	43,727	47,887
EBITDA	7,520	48,021	7,842	12,096	75,479	75,273
Gain on extinguishment of debt	-	(38,497)	604	-	(37,893)	(17,911)
Impairment of fixed assets	-	-	742	-	742	14,571
Impairment of goodwill	-	-	-	-	-	31,558
Gain on sale of building	-	-	-	-	-	(77,146)
Gain on lease termination	-	-	-	-	-	(2,967)
Separation expense related to headcount reductions and former executive officers	278	-	1,657	107	2,042	4,039
Net costs related to closing clubs and other cost savings initiatives	145	49	190	129	513	3,209
Non-cash rental income from former tenant (1)	-	-	-	-	-	(1,926)
Rent related to building financing arrangement (2)	-	-	-	-	-	(750)
Legal and other costs in connection with changes to the Board of Directors	-	-	-	-	-	899
Adjusted EBITDA	**7,943**	**9,573**	**11,035**	**12,332**	**40,883**	**28,849**

(1) Represents non-cash rental income from our former tenant in connection with the East 86th Street building financing arrangement.

(2) Rent paid in connection with our previously owned club at the East 86th Street property was recorded as interest expense on the consolidated statement of operations.