

TOWN SPORTS INTERNATIONAL HOLDINGS INC

Form DEF 14A

March 29, 2011

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**SCHEDULE 14A
(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for use of the Commission (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement only
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

TOWN SPORTS INTERNATIONAL HOLDINGS, INC.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment, of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:

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- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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March 29, 2011

Dear Stockholders:

On behalf of the Board of Directors of Town Sports International Holdings, Inc., I cordially invite you to attend our Annual Meeting of Stockholders, which will be held on Thursday, May 12, 2011 at 10:00 a.m. (New York City time) at Crowne Plaza Times Square, 1605 Broadway, New York, New York 10019.

In accordance with rules approved by the Securities and Exchange Commission allowing companies to furnish proxy materials to their shareholders over the Internet, we are now primarily furnishing proxy materials to our stockholders on the Internet, rather than mailing paper copies of the materials (including our Annual Report to Stockholders for fiscal 2010) to each stockholder. We believe that this e-proxy process will expedite our stockholders' receipt of proxy materials, lower costs, and reduce the environmental impact of our annual meeting. We sent a Notice of Internet Availability of Proxy Materials or a full set of proxy materials on or about March 29, 2011 to our stockholders of record as of the close of business on March 15, 2011. We also provided access to our proxy materials over the Internet beginning on that date. If you received a Notice of Internet Availability of Proxy Materials by mail and did not receive, but would like to receive, a printed copy of our proxy materials, you should follow the instructions for requesting such materials included in the notice or on page 44 of this Proxy Statement. The formal Notice of Annual Meeting and the Proxy Statement follow.

It is important that your shares be represented and voted at the meeting, regardless of the size of your holdings. To have your vote recorded, you should vote over the Internet. In addition, if you have requested or received a paper copy of the proxy materials, you may vote by signing, dating and returning the proxy card sent to you in the envelope accompanying the proxy materials sent to you. We encourage you to vote by any of these methods even if you currently plan to attend the Annual Meeting.

If you decide to attend the Annual Meeting, you can still vote your shares in person if you wish. Please let us know whether you plan to attend the meeting by indicating your plans when prompted over the Internet voting system or, if you have received a paper copy of the proxy materials, by marking the appropriate box on the proxy card sent to you. If you plan to attend the Annual Meeting, please bring this letter or proof of ownership and valid picture identification (such as a driver's license or passport) with you to the meeting, as this letter or proof of ownership and your picture identification will serve as your admittance pass to the meeting. If you choose to vote over the Internet or, if you have received a paper copy of the proxy materials, by completing the proxy card sent to you and later decide to attend the Annual Meeting and wish to change your proxy vote, you may do so automatically by voting in person at the Annual Meeting.

We look forward to seeing you at the Annual Meeting.

Sincerely,

Robert J. Giardina
Chief Executive Officer and President

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PROXY VOTING METHODS

If at the close of business on March 15, 2011, you were a shareholder of record or held shares through a broker or bank, you may vote your shares by proxy through the Internet or by mail, or you may vote in person at the Annual Meeting. For shares held through a broker or nominee, you may vote by submitting voting instructions to your broker or nominee. To reduce our administrative and postage costs, we ask that you vote through the Internet which is available 24 hours a day, seven days a week. You may revoke your proxies at the times and in the manners described on page 2 of the Proxy Statement.

If you are a shareholder of record or hold shares through a broker or bank and are voting by proxy, your vote must be received by 11:59 p.m. (New York City time) on May 11, 2011 to be counted.

To vote by proxy:

BY INTERNET

Go to the website *www.proxyvote.com* and follow the instructions, 24 hours a day, seven days a week.

You will need the 12-digit Control Number included on your Notice of Internet Availability of Proxy Materials or proxy card to obtain your records and to create an electronic voting instruction form.

BY MAIL

Request a proxy card from us (if you have not already received one) by following the instructions on your Notice of Internet Availability of Proxy Materials.

When you receive the proxy card, mark your selections on the proxy card.

Date and sign your name exactly as it appears on your proxy card.

Mail the proxy card in the postage-paid envelope that will be provided to you.

If you hold your shares in street name you may also submit voting instructions to your bank, broker or other nominee. In most instances, you will be able to do this over the Internet, by telephone, or by mail. Please refer to the information from your bank, broker or other nominee on how to submit voting instructions.

YOUR VOTE IS IMPORTANT. THANK YOU FOR VOTING.

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**TOWN SPORTS INTERNATIONAL HOLDINGS, INC.
5 Penn Plaza (4th Floor)
New York, New York 10001**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD AT 10:00 A.M. ON THURSDAY, MAY 12, 2011**

TO THE STOCKHOLDERS OF TOWN SPORTS INTERNATIONAL HOLDINGS, INC.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the Annual Meeting) of Town Sports International Holdings, Inc., a Delaware corporation (the Company), will be held at Crowne Plaza Times Square, 1605 Broadway, New York, New York 10019 on Thursday, May 12, 2011 at 10:00 a.m. (New York City time) for the following purposes:

- (1) To elect seven members of the Company s Board of Directors as listed herein;
- (2) To ratify the Audit Committee s appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company for the fiscal year ending December 31, 2011;
- (3) To approve the Amended and Restated Town Sports International Holdings, Inc. 2006 Stock Incentive Plan and the Section 162(m) performance goals thereunder; and
- (4) To act upon such other business as may properly come before the Annual Meeting or any adjournments of such meeting that may take place.

Only stockholders of record at the close of business on March 15, 2011 will be entitled to notice of, and to vote at, the Annual Meeting. The stock transfer books of the Company will remain open between the record date and the date of the Annual Meeting. A list of stockholders entitled to vote at the Annual Meeting will be available for inspection at the Annual Meeting and for a period of 10 days prior to the meeting during regular business hours at the offices of the Company.

All stockholders are cordially invited to attend the Annual Meeting in person. Whether or not you currently plan to attend the Annual Meeting in person, please vote over the Internet or, if you received a paper copy of the proxy materials, complete, date, sign and promptly mail the paper proxy card sent to you. You may revoke your proxy if you attend the Annual Meeting and wish to vote your shares in person. If you receive more than one Notice of Internet Availability of Proxy Materials and/or Proxy Card because your shares are registered in different names and addresses, you should ensure that you vote all of your shares by voting over the Internet or, if you received a paper copy of the proxy materials, by signing and returning each Proxy Card to assure that all your shares will be voted. You may revoke your proxy in the manner described in the Proxy Statement at any time prior to it being voted at the Annual Meeting. If you attend the Annual Meeting and vote by ballot, your proxy will be revoked automatically and only your vote at the Annual Meeting will be counted.

By Order of the Board of Directors

Robert J. Giardina

Chief Executive Officer and President

New York, New York

March 29, 2011

YOUR VOTE IS VERY IMPORTANT

REGARDLESS OF THE NUMBER OF SHARES YOU OWN. PLEASE READ THE ATTACHED PROXY STATEMENT CAREFULLY, VOTE OVER THE INTERNET OR, IF YOU RECEIVED A PAPER COPY OF THE PROXY MATERIALS, COMPLETE, DATE, SIGN AND PROMPTLY MAIL THE PAPER PROXY CARD SENT TO YOU AS POSSIBLE AND RETURN IT IN THE ENCLOSED ENVELOPE.

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**TOWN SPORTS INTERNATIONAL HOLDINGS, INC.
5 Penn Plaza (4th Floor)
New York, New York 10001**

PROXY STATEMENT

General

This Proxy Statement is furnished to the stockholders of record of Town Sports International Holdings, Inc., a Delaware corporation (Town Sports or the Company), as of March 15, 2011, in connection with the solicitation of proxies on behalf of the Board of Directors of the Company for use at the Annual Meeting of Stockholders to be held on Thursday, May 12, 2011, and at any adjournments of such meeting that may take place. The Annual Meeting will be held at 10:00 a.m. (New York City time) at Crowne Plaza Times Square, 1605 Broadway, New York, New York 10019. In accordance with rules approved by the Securities and Exchange Commission, we sent a Notice of Internet Availability of Proxy Materials or proxy statement on or about March 29, 2011 to our stockholders of record as of the close of business on March 15, 2011. We also provided access to our proxy materials over the Internet beginning on that date. If you received a Notice of Internet Availability of Proxy Materials by mail and did not receive, but would like to receive, a printed copy of our proxy materials, you should follow the instructions for requesting such materials included in the notice or on page 44 of this Proxy Statement.

Voting

The specific matters to be considered and acted upon at the Annual Meeting are:

- (i) To elect seven members of the Company's Board of Directors (the Board) as listed herein;
- (ii) To ratify the Audit Committee's appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2011;
- (iii) To approve the Amended and Restated Town Sports International Holdings, Inc. 2006 Stock Incentive Plan and the Section 162(m) performance goals thereunder; and
- (iv) To act upon such other business as may properly come before the Annual Meeting.

These matters are described in more detail in this Proxy Statement.

On March 15, 2011, the record date for determination of stockholders entitled to notice of and to vote at the Annual Meeting, 22,746,035 shares of the Company's common stock were issued and outstanding. No shares of the Company's preferred stock were outstanding. Each stockholder is entitled to one vote for each share of common stock held by such stockholder on March 15, 2011. Stockholders may not aggregate their votes in the election of directors.

The stock transfer books of the Company will remain open between the record date and the date of the Annual Meeting. A list of stockholders entitled to vote at the Annual Meeting will be available for inspection at the Annual Meeting and for a period of ten days prior to the meeting during regular business hours at the offices of the Company.

The presence, in person or by proxy, at the Annual Meeting of the holders of a majority of the shares of common stock issued and outstanding and entitled to vote at the Annual Meeting is necessary to constitute a quorum in connection with the transaction of business at the Annual Meeting. Abstentions, broker non-votes and withheld votes are each counted as present for the purpose of determining the presence of a quorum.

With respect to the election of the members of the Board, if a quorum is present at the Annual Meeting, the seven nominees who receive the greatest number of votes properly cast (in person or by proxy) by holders of stock entitled to vote in the election will be elected as directors. All other proposals must be approved by the affirmative vote of the holders of a majority of the shares of the common stock present at the Annual Meeting, in person or by proxy, and having voting power.

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Abstentions and Withheld Votes: With respect to the election of directors, votes may be cast in favor of or withheld from each nominee. Votes that are withheld will be excluded entirely from the vote with respect to the nominee from which they are withheld and will have the same effect as an abstention. Votes that are withheld will not have any effect on the outcome of the election of directors. Abstentions will have the effect of a vote against Proposal Nos. 2 and 3.

Broker Non-Votes: Broker non-votes occur when shares held by a broker are not voted with respect to a proposal because (1) the broker has not received voting instructions from the stockholder who beneficially owns the shares and (2) the broker lacks the authority to vote the shares at his/her discretion. Under current New York Stock Exchange interpretations that govern broker non-votes, Proposal Nos. 1 and 3 are considered non-discretionary matters and a broker will lack the authority to vote shares at his/her discretion. Proposal No. 2 is considered a discretionary matter and a broker will be permitted to exercise his/her discretion. Broker non-votes will have no effect on the outcome of Proposal No. 1 because those shares are not considered entitled to vote for voting purposes and will be counted as a vote against Proposal No. 3.

All votes will be tabulated by the inspector of election appointed for the meeting.

Under the General Corporation Law of the State of Delaware, stockholders are not entitled to dissenter's rights with respect to any matter to be considered and voted on at the Annual Meeting, and the Company will not independently provide stockholders with any such right.

Proxies

Unless revoked, all proxies representing shares entitled to vote that are delivered pursuant to this solicitation will be voted at the Annual Meeting and, where a choice has been specified on the proxy card, will be voted in accordance with such specification. Where a choice has not been specified on the proxy card, the proxy will be voted FOR the election of all the nominated directors listed herein, unless the authority to vote for the election of such directors is withheld. In addition, if no contrary instructions are given, the proxy will be voted FOR the approval of Proposal Nos. 2 and 3 described in this Proxy Statement and as the proxy holders deem advisable for all other matters as may properly come before the Annual Meeting. You may revoke or change your proxy at any time before the Annual Meeting by filing with the Corporate Secretary of the Company, at the Company's principal executive offices at 5 Penn Plaza (4th Floor), New York, New York 10001, a notice of revocation or another signed Proxy Card with a later date. You may also revoke your proxy by attending the Annual Meeting and voting in person. If you hold shares in street name, you may submit new voting instructions by contacting your bank, broker or other nominee. You may also change your vote or revoke your proxy in person at the Annual Meeting if you obtain a signed proxy from the record holder (broker or other nominee) giving you the right to vote the shares.

Voting Shares Without Attending the Annual Meeting

If you are a shareholder of record you may vote by granting a proxy. For shares held in street name, you may vote by submitting voting instructions to your broker or nominee. In all circumstances, you may vote:

By Internet If you have Internet access, you may submit your proxy by going to www.proxyvote.com and by following the instructions on how to complete an electronic proxy card. You will need the 12-digit Control Number included on your Notice or your proxy card in order to vote by Internet.

By Mail You may vote by mail by requesting a proxy card from us, indicating your vote by completing, signing and dating the card where indicated and by mailing or otherwise returning the card in the envelope that will be provided to you. You should sign your name exactly as it appears on the proxy card. If you are signing

in a representative capacity (for example, as guardian, executor, trustee, custodian, attorney or officer of a corporation), indicate your name and title or capacity.

If you hold your shares in street name you may also submit voting instructions to your bank, broker or other nominee. In most instances, you will be able to do this over the Internet, by telephone, or by mail. Please refer to the information from your bank, broker or other nominee on how to submit voting instructions.

Internet voting facilities will close at 11:59 p.m. (New York City time) on May 11, 2011 for the voting of shares held by shareholders of record or held in street name.

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Mailed proxy cards with respect to shares held of record or in street name must be received no later than May 11, 2011.

Voting Shares in Person at the Annual Meeting

First, you must satisfy the requirements for admission to the Annual Meeting (see below). Then, if you are a stockholder of record and prefer to vote your shares at the Annual Meeting, you must bring proof of identification along with your Notice or proof of ownership. You may vote shares held in street name at the Annual Meeting only if you obtain a signed proxy (legal proxy) from the record holder (broker or other nominee) giving you the right to vote the shares.

Even if you plan to attend the Annual Meeting, we encourage you to vote in advance by Internet or proxy card so that your vote will be counted even if you later were to decide not to attend the Annual Meeting.

Admission to the Annual Meeting

Please let us know whether you plan to attend meeting by indicating your plans when prompted over the Internet voting system or, if you have received a paper copy of the proxy materials, by marking the appropriate box on the proxy card sent to you. If you plan to attend the Annual Meeting, please bring the Notice accompanying this Proxy Statement or proof of ownership and valid picture identification (such as a driver's license or passport) with you to the meeting, as the Notice or proof of ownership and your picture identification will serve as your admittance pass to the meeting. If your shares are held beneficially in the name of a bank, broker or other holder of record and you wish to be admitted to attend the Annual Meeting, you must present proof of your ownership of Town Sports International Holdings, Inc. shares, such as a bank or brokerage account statement.

Solicitation

The Company will bear the entire cost of solicitation, including the preparation, assembly, printing and mailing of the Notice of Internet Availability of Proxy Materials, this Proxy Statement, the Proxy Card and any additional solicitation materials furnished to the stockholders. Copies of solicitation materials will be furnished to brokerage houses, fiduciaries and custodians holding shares in their names that are beneficially owned by others so that they may forward this solicitation material to such beneficial owners. In addition, the Company may reimburse such persons for their costs in forwarding the solicitation materials to such beneficial owners. The original solicitation of proxies by mail may be supplemented by a solicitation by telephone, facsimile, or other means (including by directors, officers or employees of the Company, to whom no additional compensation will be paid for any such services).

Deadline for Receipt of Stockholder Proposals

In order to be considered for inclusion in the Company's Proxy Statement and Proxy Card relating to the 2012 Annual Meeting of Stockholders, any proposal by a stockholder submitted pursuant to Rule 14a-8 of the Securities Exchange Act of 1934, as amended, must be received by the Company at its principal executive offices in New York, New York, on or before November 30, 2011.

Our bylaws require advance notice of business to be brought before a stockholders' meeting, including nominations of persons for election as directors. To be timely, any proposal for consideration at the 2012 Annual Meeting of Stockholders submitted by a stockholder (other than for inclusion in the Company's Proxy Statement pursuant to Rule 14a-8) must be delivered to or mailed and received by the Corporate Secretary of the Company at the principal executive offices of the Company not earlier than the close of business on December 14, 2011 and not later than the close of business on January 13, 2012; and in any event such proposal will be considered timely only if it is otherwise

in compliance with the requirements set forth in the By-Laws. The proxy solicited by the Board for the 2012 Annual Meeting of Stockholders will confer discretionary authority to vote as the proxy holders deem advisable on such stockholder proposals which are considered untimely.

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Upon the recommendation of the Nominating and Corporate Governance Committee of the Board (the Nominating and Corporate Governance Committee), the Board has proposed for election at the Annual Meeting the seven individuals listed below to serve, subject to the By-Laws, as directors of the Company. All directors are elected annually, and serve until the next Annual Meeting of the Stockholders and until the election and qualification of their successors. If any director is unwilling or unable to stand for re-election (which is not anticipated), the Board may reduce its size or designate a substitute. If a substitute is designated, proxy votes in favor of the original director candidate will be counted for the substituted candidate. All of the nominees for director currently serve as directors.

All of the nominees have consented to be named and, if elected, to serve, and management has no reason to believe that any of them will be unavailable to serve. If any of the nominees is unable or declines to serve as a director at the time of the Annual Meeting, the proxies may be voted in the discretion of the persons acting pursuant to the proxy for the election of other nominees. It is intended that the proxies delivered pursuant to this solicitation will be voted for the election of all such persons except to the extent the proxy is specifically marked to withhold such authority with respect to one or more of such persons. The proxies solicited by this Proxy Statement cannot be voted for a greater number of persons than the number of nominees named. Set forth below is certain information concerning the nominees, as of March 18, 2011.

YOUR BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR EACH OF THESE DIRECTORS.

Name	Age	Position
Robert J. Giardina	53	Chief Executive Officer, President and Director
Keith E. Alessi	56	Director
Paul N. Arnold	64	Director
Bruce C. Bruckmann	57	Director
J. Rice Edmonds	40	Director
Thomas J. Galligan III	66	Chairman of the Board
Kevin McCall	57	Director

Robert J. Giardina was appointed President and Chief Executive Officer in March 2010. Mr. Giardina has served as a director since March 19, 2010 and was previously a member of our Board of Directors from March 2006 until March 2008. From September 2009 to March 2010, Mr. Giardina was employed as the Chief Executive Officer of JTL Enterprises. Mr. Giardina originally joined the Company in 1981 and served as President and Chief Operating Officer from 1992 to 2001, and as Chief Executive Officer from January 2002 through October 2007.

Keith E. Alessi has served as a director since April 1997. Mr. Alessi is currently the President, Chief Executive Officer and a director of Westmoreland Coal Company. He had been the Executive Chairman of Westmoreland Coal Company from April 2008 until his appointment as President and Chief Executive Officer in January 2009. From May 2007 until April 2008, Mr. Alessi served as President and Chief Executive Officer of Westmoreland. Mr. Alessi has been an adjunct lecturer at The Ross School of Business at the University of Michigan from 2001 until 2010. From

2003 to 2006, Mr. Alessi was the Chairman of Lifestyles Improvement Centers LLC, a franchiser of hypnosis centers in the US and Canada. From 1999 to 2007, Mr. Alessi was an adjunct professor at Washington and Lee University School of Law. Mr. Alessi currently serves as a director and chairman of the audit committee for H&E Equipment Services, Inc. and serves as a director of MWI Veterinary Supply, Inc.

Paul N. Arnold has served as a director since April 1997. Mr. Arnold was our Chairman of the Board from May 2006 until February 2009. Mr. Arnold has served as Chairman and Chief Executive Officer of Cort Business Services, Inc., a Berkshire Hathaway company, a provider of rental furniture, since 2000. From 1992

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to 2000, Mr. Arnold served as President, Chief Executive Officer and Director of Cort Business Services. Prior to 1992, Mr. Arnold held various positions over a 24-year period within Cort Furniture Rental, a division of Mohasco Industries. Mr. Arnold is currently a director of H&E Equipment Services, Inc.

Bruce C. Bruckmann has served as a director since December 1996. Since 1995, Mr. Bruckmann has served as a Managing Director of Bruckmann, Rosser, Sherrill & Co., LP, which we refer to in this Proxy Statement as BRS, a private equity firm. From 1983 until 1994, Mr. Bruckmann served as an officer and subsequently a Managing Director of Citicorp Venture Capital, Ltd. Mr. Bruckmann is currently a director of Mohawk Industries, Inc., H&E Equipment Services, Inc., Heritage-Crystal Clean, Inc. and MWI Veterinary Supply, Inc. and two private companies.

J. Rice Edmonds has served as a director since July 2002. Mr. Edmonds is the founder and Managing Director of Edmonds Capital, LLC, a private equity firm. From 1996 through September 2008, Mr. Edmonds was employed by BRS, most recently as a Managing Director. Prior to 1996, Mr. Edmonds worked in the high yield finance group of Bankers Trust. Mr. Edmonds is currently a director of McCormick & Schmick's Seafood Restaurants, Inc. and several private companies. Since 2005, Mr. Edmonds has also been a director of The Sheridan Group, Inc., Real Mex Restaurants, Inc. and Penhall International Corp.

Thomas J. Galligan III has served as a director since March 2007 and was appointed our Chairman of the Board in March 2010. Mr. Galligan is Executive Chairman and a member of the board of directors of Papa Gino's Holdings Corp. Mr. Galligan served as Chairman, President and Chief Executive Officer of Papa Gino's Holdings Corp. from May 1996 until October 2008 and Chairman and Chief Executive Officer until March 2009. Prior to joining Papa Gino's in March 1995 as Executive Vice President, Mr. Galligan held executive positions at Morse Shoe, Inc. and PepsiCo., Inc. Mr. Galligan is currently a director of Bay State Milling Co. and Dental Service of Massachusetts, Inc.

Kevin McCall has served as a director since March 2007. Mr. McCall is President and Chief Executive Officer of Paradigm Properties, LLC and its investment management affiliate, Paradigm Capital Advisors, LLC. Prior to forming Paradigm in 1997, Mr. McCall held positions as a director of Aldrich, Eastman & Waltch, L.P. (now AEW Capital Management, L.P.) and as a Partner and Senior Vice President of Spaulding & Slye Company. Mr. McCall serves as a director of the Boston Museum, MetroLacrosse, Hearth, Inc., Building Impact and the National Association of Industrial & Office Parks - Massachusetts Chapter.

Required Vote

Directors are elected by the affirmative vote of a plurality of the votes cast by the holders of common stock present in person or represented by proxy and entitled to vote on the election of directors. Withheld votes will have no effect on the outcome of the vote with respect to the election of directors. Broker non-votes will have no effect on the outcome of the vote for Proposal No. 1.

Recommendation of the Board of Directors

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR THE ELECTION OF THE NOMINEES LISTED ABOVE.

Table of Contents**PROPOSAL TWO RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM****General**

The Audit Committee of the Board (the "Audit Committee") has appointed the firm of PricewaterhouseCoopers LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2011, including each quarterly interim period, and the Board is asking the stockholders to ratify this appointment.

Although stockholder ratification of the Audit Committee's appointment of PricewaterhouseCoopers LLP is not required, the Board considers it desirable for the stockholders to pass upon the selection of the independent registered public accounting firm. If the stockholders fail to ratify the appointment, the Audit Committee will reconsider its selection. Even if the selection is ratified, the Audit Committee may, in its discretion, direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Committee believes that such a change would be in the best interests of the Company and its stockholders.

A representative from PricewaterhouseCoopers LLP is expected to be present at the Annual Meeting, will have the opportunity to make a statement if he or she desires to do so and will be available to respond to appropriate questions.

Fees Billed to the Company by PricewaterhouseCoopers LLP

The aggregate fees billed by PricewaterhouseCoopers LLP for professional services rendered for the audit of the Company's annual financial statements for the fiscal years ended December 31, 2009 and 2010, for the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q for those fiscal years and for other services rendered during those fiscal years on behalf of the Company were as follows:

Category	2009	2010
Audit Fees(1)	\$ 1,220,300	\$ 1,293,450
Tax Fees(2)	\$ 47,553	\$ 32,000
All Other Fees(3)	\$ 2,400	\$ 2,400

- (1) Audit fees are for fees and expenses associated with professional services rendered by PricewaterhouseCoopers in connection with (i) the audits of the Company's annual consolidated financial statements and internal control over financial reporting, including services related to statutory audits of certain of our subsidiaries, (ii) reviews of unaudited interim financial statements included in the Company's quarterly reports on Form 10-Q and (iii) reviews of documents filed with the SEC.
- (2) Tax fees are for tax compliance, tax consulting and tax planning services.
- (3) All Other Fees are related to online research access.

The Audit Committee has determined that the provision of services discussed above is compatible with maintaining the independence of PricewaterhouseCoopers LLP from the Company.

Pre-Approval Policies and Procedures

The Audit Committee pre-approves all audit and permissible non-audit services. The Audit Committee has authorized each of its members to pre-approve audit, audit-related, tax and non-audit services, provided that such approved service is reviewed with the full Audit Committee at its next meeting.

As early as practicable in each fiscal year, the independent registered public accounting firm provides the Audit Committee with a schedule of the audit and other services that it expects to provide or may provide during the fiscal year. The schedule is specific as to the nature of the proposed services, the proposed fees and other details that the Audit Committee may request. The Audit Committee by resolution authorizes or declines the proposed services. Upon approval, the schedule serves as the budget for fees by specific activity or service for the fiscal year.

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A schedule of additional services proposed to be provided by the independent registered public accounting firm or proposed revisions to services already approved, along with associated proposed fees, may be presented to the Audit Committee for its consideration and approval at any time. The schedule is required to be specific as to the nature of the proposed service, the proposed fee, and other details that the Audit Committee may request. The Audit Committee intends by resolution to authorize or decline authorization for each proposed new service.

The Audit Committee pre-approved 100% of the audit fees and tax fees and all other services for the fiscal years ended December 31, 2010 and 2009.

Required Vote

The affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy and having voting power is required to ratify the Audit Committee's selection of PricewaterhouseCoopers LLP. Abstentions will have the effect of a vote against this proposal. We believe that there can be no broker non-votes with respect to Proposal No. 2 because brokers should have discretion under current stock exchange rules to vote uninstructed shares on Proposal No. 2.

Recommendation of the Board of Directors

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR THE RATIFICATION OF THE AUDIT COMMITTEE'S SELECTION OF PRICEWATERHOUSECOOPERS LLP TO SERVE AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2011.

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**PROPOSAL THREE APPROVAL OF AMENDED AND RESTATED TOWN SPORTS
INTERNATIONAL HOLDINGS, INC. 2006 STOCK INCENTIVE PLAN
AND SECTION 162(M) PERFORMANCE GOALS THEREUNDER**

General

We maintain our 2006 Stock Incentive Plan for the benefit of eligible employees, consultants and non-employee directors of the Company. The proposed Amended and Restated 2006 Stock Incentive Plan, which was unanimously adopted by the Board, subject to stockholder approval at the Annual Meeting, would increase the aggregate number of shares of our common stock issuable under the existing 2006 Stock Incentive Plan (the Existing Plan) by 500,000 shares from 2,500,000 shares to a total of 3,000,000 shares. This increase of 500,000 shares represents approximately 2.2% of the outstanding shares of common stock of the Company as of March 15, 2011. The Board believes that it is desirable to increase the total number of shares available under the 2006 Stock Incentive Plan in order to attract, motivate and retain employees and non-employee directors of, and consultants to, the Company because the current share reserve under the 2006 Stock Incentive Plan is expected to be fully utilized in the near term. The Company expects to issue restricted stock awards to its employees, and therefore does not believe that an additional reserve is required.

In addition to the foregoing, the stockholders of the Company are being asked to approve the Section 162(m) performance goals under the 2006 Stock Incentive Plan (as described below) so that certain incentive awards granted under the 2006 Stock Incentive Plan to executive officers of the Company may qualify as exempt performance-based compensation under Section 162(m) of the Code, which otherwise generally disallows the corporate tax deduction for certain compensation paid in excess of \$1,000,000 annually to each of the chief executive officer and the four other most highly paid executive officers of publicly-held companies. Section 162(m) of the Code generally requires such performance goals to be approved by stockholders every five years.

If the Amended and Restated 2006 Stock Incentive Plan is approved by the stockholders, it will become effective as of March 1, 2011, the date it was approved by the Board. Unless terminated earlier by the Company's Board of Directors, the Amended and Restated Plan will terminate on May 30, 2016. If the requisite stockholder approval of the Amended and Restated 2006 Stock Incentive Plan and the Section 162(m) performance goals is not obtained, the Amended and Restated 2006 Stock Incentive Plan will still remain in effect through May 30, 2016. If such approval is not obtained, the Company may continue to grant awards under the 2006 Stock Incentive Plan in accordance with its terms and the current share reserve under the 2006 Stock Incentive Plan. However, awards under the 2006 Stock Incentive Plan (other than stock options and stock appreciation rights) granted after May 15, 2013 will not constitute performance-based compensation under Section 162(m) of the Code, and accordingly, may not be deductible by the Company depending on the facts and circumstances.

The following description of the Amended and Restated 2006 Stock Incentive Plan is a summary of its principal provisions and is qualified in its entirety by reference to the Amended and Restated 2006 Stock Incentive Plan attached hereto as Appendix A.

Description of the Amended and Restated 2006 Stock Incentive Plan

Administration. The Amended and Restated 2006 Stock Incentive Plan is administered by a committee (the Committee), which is intended to consist of two or more non-employee directors, each of whom is, to the extent required, a non-employee director as defined in Rule 16b-3 of the Securities Exchange Act of 1934, as amended, an outside director as defined under Section 162(m) of the Code and an independent director as defined under NASD

Rule 5605(a); provided that with respect to the application of the Amended and Restated 2006 Stock Incentive Plan to non-employee directors, the Amended and Restated 2006 Stock Incentive Plan will be administered by the Board (and references to the Committee include the Board for this purpose). Currently, the compensation committee of the Board serves as the Committee under the 2006 Stock Incentive Plan.

The Committee has full authority to administer and interpret the Amended and Restated 2006 Stock Incentive Plan, to grant discretionary awards under the Amended and Restated 2006 Stock Incentive Plan, to determine the persons to whom awards will be granted, to determine the types of awards to be granted, to

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determine the terms and conditions of each award, to determine the number of shares of common stock to be covered by each award and to make all other determinations in connection with the Amended and Restated 2006 Stock Incentive Plan and the awards thereunder as the Committee, in its sole discretion, deems necessary or desirable. The terms and conditions of individual awards are set forth in written agreements that are consistent with the terms of the Amended and Restated 2006 Stock Incentive Plan. Awards under the Amended and Restated 2006 Stock Incentive Plan may not be made on or after May 30, 2016, except that awards (other than stock options or stock appreciation rights) that are intended to be performance-based under Section 162(m) of the Code will not be made after the fifth anniversary of the date of the last stockholder approval of the performance goals set forth in the Amended and Restated 2006 Stock Incentive Plan as described below (i.e., May 12, 2016, assuming the Section 162(m) performance goals described below are approved by the Company's stockholders at the Annual Meeting).

Eligibility and Types of Awards. All the Company's employees, consultants and non-employee directors are eligible to be granted nonqualified stock options, stock appreciation rights, performance shares, restricted stock, and other stock-based awards. In addition, the Company's employees and employees of the Company's affiliates that qualify as subsidiaries or parent corporations (as defined under Section 424 of the Code) are eligible to be granted incentive stock options under the Amended and Restated 2006 Stock Incentive Plan. As of December 31, 2010, we employed approximately 8,100 employees. The market value of the underlying shares of Common Stock on March 15, 2011 was \$4.76 per share.

Available Shares. The aggregate number of shares of common stock which may be issued or used for reference purposes under the Amended and Restated 2006 Stock Incentive Plan or with respect to which awards may be granted may not exceed 3,000,000 shares, which may be either authorized and unissued shares of our common stock or shares of common stock held in or acquired for the treasury of the Company. In general, if awards under the Amended and Restated 2006 Stock Incentive Plan are for any reason cancelled, or expire or terminate unexercised, the shares covered by such awards will again be available for the grant of awards under the Amended and Restated 2006 Stock Incentive Plan.

The maximum number of shares of our common stock with respect to which any stock option, stock appreciation right or shares of restricted stock that are subject to the attainment of specified performance goals and intended to satisfy Section 162(m) of the Code and may be granted under the Amended and Restated 2006 Stock Incentive Plan during any fiscal year to any eligible employee or consultant will be 250,000 shares (per type of award). The total number of shares of our common stock with respect to all awards that may be granted under the Amended and Restated 2006 Stock Incentive Plan during any fiscal year to any eligible employee or consultant will be 250,000 shares. There are no annual limits on the number of shares of our common stock with respect to an award of restricted stock that are not subject to the attainment of specified performance goals to eligible employees or consultants. The maximum value at grant of shares of our common stock with respect to any award of performance shares to an eligible employee or consultant during any fiscal year is \$1,000,000. The maximum number of shares of our common stock with respect to which any stock option (other than incentive stock options), stock appreciation right, or other stock-based award that may be granted under the Amended and Restated 2006 Stock Incentive Plan during any fiscal year to any non-employee director will be 250,000 shares (per type of award). The total number of shares of our common stock with respect to all awards that may be granted under the Amended and Restated 2006 Stock Incentive Plan during any fiscal year to any non-employee director will be 250,000 shares.

The Amended and Restated 2006 Stock Incentive Plan requires that the Committee appropriately adjust the individual maximum share limitations described in the immediately preceding paragraph, the aggregate number of shares of our common stock available for the grant of awards and the exercise price of an award to reflect any change in the Company's capital structure or business by reason of certain corporate transactions or events.

Awards Under the Amended and Restated 2006 Stock Incentive Plan. The following types of awards are available under the 2006 Stock Incentive Plan:

Stock Options. The Committee may grant nonqualified stock options and incentive stock options (only to eligible employees) to purchase shares of our common stock. The Committee will determine the number of shares of our common stock subject to each option, the term of each option (which may not

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exceed ten years (or five years in the case of an incentive stock option granted to a 10% stockholder)), the exercise price, the vesting schedule (if any), and the other material terms of each option. No incentive stock option or nonqualified stock option may have an exercise price less than the fair market value of a share of our common stock at the time of grant (or, in the case of an incentive stock option granted to a 10% stockholder, 110% of such share's fair market value).

Options will be exercisable at such time or times and subject to such terms and conditions as determined by the Committee at grant and the exercisability of such options may be accelerated by the Committee in its sole discretion. Upon the exercise of an option, the participant must make payment of the full exercise price (i) in cash, check, bank draft or money order, (ii) solely to the extent permitted by law, through the delivery of irrevocable instructions to a broker reasonably acceptable to the Company to deliver promptly to the Company an amount equal to the purchase price, or (iii) on such other terms and conditions as may be acceptable to the Committee.

Stock Appreciation Rights. The Committee may grant stock appreciation rights (which are referred to herein as SARs) either with a stock option, which may be exercised only at such times and to the extent the related option is exercisable (which is referred to herein as a Tandem SAR), or independent of a stock option (which is referred to herein as a Non-Tandem SARs). An SAR is a right to receive a payment in shares of our common stock or cash (as determined by the Committee) equal in value to the excess of the fair market value of one share of our common stock on the date of exercise over the exercise price per share established in connection with the grant of the SAR. The term of each SAR may not exceed ten years. The exercise price per share covered by an SAR will be the exercise price per share of the related option in the case of a Tandem SAR and will be the fair market value of our common stock on the date of grant in the case of a Non-Tandem SAR. The Committee may also grant limited SARs, either as Tandem SARs or Non-Tandem SARs, which may become exercisable only upon the occurrence of a change in control (as defined in the Amended and Restated 2006 Stock Incentive Plan) or such other event as the Committee may, in its sole discretion, designate at the time of grant or thereafter.

Restricted Stock. The Committee may award shares of restricted stock. Except as otherwise provided by the Committee upon the award of restricted stock, the recipient generally has the rights of a stockholder with respect to such shares, including the right to receive dividends, the right to vote the shares of restricted stock and, conditioned upon full vesting of shares of restricted stock, the right to tender such shares, subject to the conditions and restrictions generally applicable to restricted stock or specifically set forth in the recipient's restricted stock agreement. The Committee may determine at the time of award that the payment of dividends, if any, will be deferred until the expiration of the applicable restriction period.

Recipients of restricted stock are required to enter into a restricted stock agreement with the Company that states the restrictions to which the shares are subject, which may include satisfaction of pre-established performance goals, and the criteria or date or dates on which such restrictions will lapse.

If the grant of restricted stock or the lapse of the relevant restrictions is based on the attainment of performance goals, the Committee will establish for each recipient the applicable performance goals, formulae or standards and the applicable vesting percentages with reference to the attainment of such goals or satisfaction of such formulae or standards while the outcome of the performance goals are substantially uncertain. Section 162(m) of the Code requires that performance awards be based upon objective performance measures. The performance goals for performance-based restricted stock will be based on one or more of the objective criteria set forth on Exhibit A to the Amended and Restated 2006 Stock Incentive Plan and discussed in general below.

Performance Shares. The Committee may award performance shares. A performance share is the equivalent of one share of our common stock. The performance goals for performance shares will be set by the Committee and will be based on one or more of the objective criteria set forth on Exhibit A to the Amended and Restated 2006 Stock

Incentive Plan and discussed in general below. A minimum level of acceptable achievement will also be established by the Committee. If, by the end of the performance period, the recipient has achieved the specified performance goals, he or she will be deemed to have fully earned the performance shares. To the extent earned, the performance shares will be paid to the recipient at the time and in the manner determined by the Committee in cash, shares of our common stock or any combination thereof.

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Other Stock-Based Awards. The Committee may, subject to limitations under applicable law, make a grant of such other stock-based awards (including, without limitation, performance units, dividend equivalent units, stock equivalent units, restricted stock units and deferred stock units) under the Amended and Restated 2006 Stock Incentive Plan that are payable in cash or denominated or payable in or valued by shares of our common stock or factors that influence the value of such shares. The Committee shall determine the terms and conditions of any such other awards, which may include the achievement of certain minimum performance goals for purposes of compliance with Section 162(m) of the Code and/or a minimum vesting period. The performance goals for such other stock-based awards will be based on one or more of the objective criteria set forth on Exhibit A to the Amended and Restated 2006 Stock Incentive Plan and discussed in general below.

Performance Goals. The Committee may grant awards of restricted stock, performance shares, and other stock-based awards that are intended to qualify as performance-based compensation for purposes of Section 162(m) of the Code. These awards may be granted, vest and be paid based on attainment of specified performance goals established by the Committee. These performance goals will be based on the attainment of a certain target level of, or a specified increase or decrease in, one or more of the following criteria selected by the Committee:

earnings per share;

operating income;

net income;

cash flow;

gross profit;

gross profit return on investment;

gross margin;

gross margin return on investment;

working capital;

earnings before interest and taxes;

earnings before interest, taxes, depreciation and amortization;

return on equity;

return on assets;

return on capital;

return on invested capital;

net revenues;

gross revenues;

revenue growth;

total shareholder return;

economic value added;

specified objectives with regard to limiting the level of increase in all or a portion of the Company's bank debt or other long-term or short-term public or private debt or other similar financial obligations of the Company, which may be calculated net of cash balances and/or other offsets and adjustments as may be established by the Committee in its sole discretion;

the fair market value of the shares of the Company's common stock;

the growth in the value of an investment in the Company's common stock assuming the reinvestment of dividends; or

reduction in expenses.

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To the extent permitted by law, the Committee may also exclude the impact of an event or occurrence which the Committee determines should be appropriately excluded, including:

restructurings, discontinued operations, extraordinary items and other unusual or non-recurring charges;

an event either not directly related to the operations of the Company or not within the reasonable control of the Company's management; or

a change in accounting standards required by generally accepted accounting principles.

Performance goals may also be based on an individual participant's performance goals, as determined by the Committee, in its sole discretion.

In addition, all performance goals may be based upon the attainment of specified levels of performance by the Company (or subsidiary, division or other operational unit of the Company) under one or more of the measures described above relative to the performance of other corporations. The Committee may designate additional business criteria on which the performance goals may be based or adjust, modify or amend those criteria.

Change in Control. Unless otherwise determined by the Committee at the time of grant or in a written employment agreement, awards subject to vesting and/or restrictions will fully vest upon a change in control (as defined in the Amended and Restated 2006 Stock Incentive Plan) of the Company. In addition, such awards will be, in the discretion of the Committee, (i) assumed and continued or substituted in accordance with applicable law, (ii) purchased by the Company for an amount equal to the excess of the price of a share of the Company's common stock paid in a change in control over the exercise price of the award(s), or (iii) cancelled if the price of a share of the Company's common stock paid in a change in control is less than the exercise price of the award. The Committee may also, in its sole discretion, provide for accelerated vesting or lapse of restrictions of an award at any time.

Amendment and Termination. Notwithstanding any other provision of the Amended and Restated 2006 Stock Incentive Plan, the Board may at any time amend any or all of the provisions of the Amended and Restated 2006 Stock Incentive Plan, or suspend or terminate it entirely, retroactively or otherwise; *provided, however*, that, unless otherwise required by law or specifically provided in the Amended and Restated 2006 Stock Incentive Plan, the rights of a participant with respect to awards granted prior to such amendment, suspension or termination may not be adversely affected without the consent of such participant; *provided further, however*, that the approval of the Company's stockholders will be obtained to the extent required by Delaware law, Sections 162(m) and 422 of the Code, The Nasdaq Global Market or the rules of such other applicable stock exchange, as specified in the Amended and Restated 2006 Stock Incentive Plan.

Miscellaneous. Awards granted under the Amended and Restated 2006 Stock Incentive Plan are generally nontransferable (other than by will or the laws of descent and distribution), except that the Committee may provide for the transferability of nonqualified stock options at the time of grant or thereafter to certain family members.

Certain U.S. Federal Income Tax Consequences

The rules concerning the federal income tax consequences with respect to options granted and to be granted pursuant to the Amended and Restated 2006 Stock Incentive Plan are quite technical. Moreover, the applicable statutory provisions are subject to change, as are their interpretations and applications, which may vary in individual circumstances. Accordingly, the following is designed to provide a general understanding of the U.S. federal income tax consequences with respect to such grants. In addition, the following discussion does not set forth any gift, estate,

social security or state or local tax consequences that may be applicable and is limited to the U.S. federal income tax consequences to individuals who are citizens or residents of the United States, other than those individuals who are taxed on a residence basis in a foreign country.

Incentive Stock Options. In general, an employee will not realize taxable income upon either the grant or the exercise of an incentive stock option and the Company will not realize an income tax deduction at either of such times. In general, however, for purposes of the alternative minimum tax, the excess of the fair market value of the shares of common stock acquired upon exercise of an incentive stock option (determined at the time of exercise) over the exercise price of the incentive stock option will be considered income. If the

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recipient was continuously employed from the date of grant until the date three months prior to the date of exercise and such recipient does not sell the shares of common stock received pursuant to the exercise of the incentive stock option within either (i) two years after the date of the grant of the incentive stock option, or (ii) one year after the date of exercise, a subsequent sale of such shares of common stock will result in long-term capital gain or loss to the recipient and will not result in a tax deduction to the Company.

If the recipient is not continuously employed from the date of grant until the date three months prior to the date of exercise or such recipient disposes of the shares of common stock acquired upon exercise of the incentive stock option within either of the time periods described above, the recipient will generally realize as ordinary income an amount equal to the lesser of (i) the fair market value of such shares of common stock on the date of exercise over the exercise price, or (ii) the amount realized upon disposition over the exercise price. In such event, subject to the limitations under Sections 162(m) and 280G of the Code (as described below), the Company generally will be entitled to an income tax deduction equal to the amount recognized as ordinary income. Any gain in excess of such amount realized by the recipient as ordinary income would be taxed at the rates applicable to short-term or long-term capital gains (depending on the holding period).

Nonqualified Stock Options. A recipient will not realize any taxable income upon the grant of a nonqualified stock option and the Company will not receive a deduction at the time of such grant unless such option has a readily ascertainable fair market value (as determined under applicable tax law) at the time of grant. Upon exercise of a nonqualified stock option, the recipient generally will realize ordinary income in an amount equal to the excess of the fair market value of the shares of common stock on the date of exercise over the exercise price. Upon a subsequent sale of such shares of common stock by the recipient, the recipient will recognize short-term or long-term capital gain or loss depending upon his or her holding period of such shares of common stock. Subject to the limitations under Sections 162(m) and 280G of the Code (as described below), the Company will generally be allowed a deduction equal to the amount recognized by the recipient as ordinary income.

Certain Other Tax Issues. In addition to the matters described above, (i) any entitlement to a tax deduction on the part of the Company is subject to applicable federal tax rules (including, without limitation, Section 162(m) of the Code regarding the \$1,000,000 limitation on deductible compensation), (ii) the exercise of an incentive stock option may have implications in the computation of alternative minimum taxable income, and (iii) if the exercisability or vesting of any option is accelerated because of a change in control, such option (or a portion thereof), either alone or together with certain other payments, may constitute parachute payments under Section 280G of the Code, which excess amounts may be subject to excise taxes. Officers and directors of the Company subject to Section 16(b) of the Securities Exchange Act of 1934, as amended, may be subject to special tax rules regarding the income tax consequences concerning their options.

The Amended and Restated 2006 Stock Incentive Plan is not subject to any of the requirements of the Employee Retirement Income Security Act of 1974, as amended. The Amended and Restated 2006 Stock Incentive Plan is not, nor is it intended to be, qualified under Section 401(a) of the Code.

Table of Contents**Stock Awards Previously Granted under the Existing Plan**

The following table sets forth information on awards of stock options under the Existing Plan since its adoption in 2006.

Name and Position	Stock Option Grants # of Shares Covered
Robert J. Giardina, Chief Executive Officer, President and Director	300,000
Martin J. Annese, Chief Operating Officer	385,000
Paul L.W. Barron, Chief Information Officer	7,500
Daniel Gallagher, Senior Vice President Chief Financial Officer	380,000
David M. Kastin, Senior Vice President General Counsel & Corporate Secretary	145,000
Scott R. Milford, Senior Vice President Human Resources	107,000
Alexander A. Alimanestianu, Former Chief Executive Officer and President	125,000
Keith E. Alessi, Director	4,000
Paul N. Arnold, Director	4,000
Bruce C. Bruckmann, Director	2,000
J. Rice Edmonds, Director	2,000
Thomas J. Galligan III, Director	18,000
Kevin McCall, Director	8,000
All Current Executive Officers as a Group	1,324,500
All Non-Executive Directors as a Group	38,000
All Employees, Other than Executive Officers, as a Group	766,062

Required Vote

The affirmative vote of the holders of a majority of the shares of common stock present in person or represented by proxy and having voting power is required to approve the Amended and Restated Town Sports International Holdings, Inc. 2006 Stock Incentive Plan. Abstentions and broker non-votes will have the effect of a vote against this proposal.

Recommendation of the Board of Directors

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR THE APPROVAL OF THE AMENDED AND RESTATED TOWN SPORTS INTERNATIONAL HOLDINGS, INC. 2006 STOCK INCENTIVE PLAN AND SECTION 162(m) PERFORMANCE GOALS THEREUNDER.

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CORPORATE GOVERNANCE AND BOARD MATTERS

Director Independence

The Board affirmatively has determined that a majority of our directors Messrs. Alessi, Arnold, Bruckmann, Edmonds, Galligan and McCall are independent under, and as required by, the listing standards of The Nasdaq Stock Market. Mr. Giardina is not considered independent due to his employment with the Company as Chief Executive Officer and President. The Board had determined that Jason Fish, a former director of the Company who resigned from the Board of Directors on May 13, 2010 was independent, and Mr. Alimanestianu, our former Chief Executive Officer, President and Director, who resigned from the Board of Directors on March 19, 2010, was not independent as a result of his former position as our Chief Executive Officer and President. In making its independence determinations, the Board considered and reviewed the various commercial, charitable and employment transactions and relationships known to the Board (including those identified through annual directors questionnaires) that exist between us and our subsidiaries and the entities with which certain of our directors or members of their immediate families are, or have been, affiliated. Specifically, the Board's independence determinations included reviewing Mr. Bruckmann's affiliation with BRS, who in the past received payments from our Company under a professional services agreement, which was terminated in September 2008, as well as his stock ownership. There were no amounts paid by the Company to BRS under the professional services agreement in 2009 or 2010. In addition, BRSE Associates, Inc., an affiliate of BRS, beneficially owned less than 10% of our common stock during 2010. The Board determined that none of the transactions or relationships identified were material or affected the independence of Mr. Bruckmann under the applicable Nasdaq rules.

Board Structure

Since the time of our initial public offering in 2006, it has been our policy to separate the positions of Chief Executive Officer and Chairman of the Board of Directors. While we recognize that different board leadership structures may be appropriate for companies in different situations, we believe that our current policy of separation of these two positions is most appropriate for our Company. In today's challenging economic and regulatory environment, directors, more than ever, are required to spend a substantial amount of time and energy in successfully navigating a wide variety of issues and guiding the policies and practices of the companies they oversee. To that end, we believe that having an independent Chairman, whose sole job is to lead the Board, allows our Chief Executive Officer, Mr. Giardina, to completely focus his time and energy on running the day-to-day operations of our Company. We believe that our Chief Executive Officer and our Chairman have an excellent working relationship and open lines of communication. The Board currently has seven members and the following five committees: Audit; Compensation; Nominating and Corporate Governance; Executive; and Information Technology. Each of the five committees is led by an independent director, and we believe that the number of independent, experienced directors that make up our board, along with the independent leadership of each of our committees, and the independent oversight of the board by the non-executive Chairman, benefits our company and our stockholders.

Board Committees and Meetings

The Board held nine (9) meetings during the fiscal year ended December 31, 2010, which is referred to in this Proxy Statement as the 2010 Fiscal Year. In the 2010 Fiscal Year, each director who was a member of the Board during 2010 attended or participated in 75% or more of the aggregate of (i) the total number of meetings of the Board, and (ii) the total number of meetings held by all committees of the Board on which such director served (in each case for meetings held during the period in the 2010 Fiscal Year for which such director served).

The Board meets in executive session, without the presence of any of the Company's officers, at least twice per year and upon the request of any independent director. Currently, all directors are independent, other than Mr. Giardina who is not considered to be independent due to his employment with the Company.

All members of the Board are encouraged to attend the Company's annual meeting of stockholders. All of our directors serving at that time were present at the 2010 annual meeting of our stockholders.

Table of Contents**Committee Membership**

The following table sets forth the name of each non-employee director and the Board committee on which each such director is currently a member:

Name	Audit	Compensation	Nominating and Corporate Governance	Executive	Information Technology
Keith E. Alessi	X*				X
Paul N. Arnold		X*			X
Bruce C. Bruckmann		X		X*	
J. Rice Edmonds			X	X	X*
Thomas J. Galligan III	X	X	X	X	X
Kevin McCall	X	X	X*		

* Committee Chair.

Audit Committee

The Audit Committee appoints our independent registered public accounting firm, subject to ratification by our stockholders, reviews the plan for and the results of the independent audit, approves the fees of our independent registered public accounting firm, reviews with management and the independent registered public accounting firm our quarterly and annual financial statements and our internal accounting, financial and disclosure controls, reviews and approves transactions between Town Sports and its officers, directors and affiliates and performs other duties and responsibilities as set forth in a charter approved by the Board. The Audit Committee currently consists of three members of our Board: Keith E. Alessi (Chair), Thomas J. Galligan III and Kevin McCall. Each member of our Audit Committee is independent, as independence is defined for purposes of Audit Committee membership by the listing standards of Nasdaq and the applicable rules and regulations of the Securities and Exchange Commission (SEC). The Audit Committee held five (5) meetings during the 2010 Fiscal Year.

The Board has determined that each member of the Audit Committee is able to read and understand fundamental financial statements, including our balance sheet, income statement and cash flow statement, as required by Nasdaq rules. In addition, the Board has determined that both Messrs. Alessi and Galligan satisfy the Nasdaq rule requiring that at least one member of the Audit Committee of our Board have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the member's financial sophistication, including being, or having been, a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. The Board has also determined that Messrs. Alessi and Galligan are audit committee financial experts as defined by the SEC.

The Company is exposed to a number of risks including financial risks, operational risks and risks relating to regulatory and legal compliance. During each meeting of the Board of Directors, management discusses with the Board the Company's major risk exposures and the steps management has taken to monitor and control such exposures, including the guidelines and policies to govern the process by which risk assessment and risk management

are undertaken. For example, at each Board meeting, the Board will discuss with management factors affecting the Company's financial risk, which include, among others, events impacting revenue, cost saving initiatives, and capital expenditure budgets and results; factors affecting the Company's operations, including, among others customer satisfaction, logistics related to the opening of new clubs or closing of clubs, hiring and promotion plans for club and corporate personnel, marketing programs, and factors related to regulatory and legal compliance, including, among others, updates of pending litigation, discussions with contract counterparties, and relevant regulatory updates.

Compensation Committee

The Compensation Committee of our Board evaluates performance and establishes and oversees executive compensation policy and makes decisions about base pay, incentive pay and any supplemental benefits for our

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executive officers. The Compensation Committee also administers our stock incentive plans and approves the grant of equity awards, the timing of the grants and the number of shares for which equity awards are to be granted to our executive officers, directors and other employees. The Compensation Committee also performs other duties and responsibilities as set forth in a charter approved by the Board. The Compensation Committee currently consists of four members of our Board: Paul N. Arnold (Chair); Bruce C. Bruckmann; Thomas J. Galligan III; and Kevin McCall. Each member of the Compensation Committee is independent, as independence is defined for purposes of Compensation Committee membership by the listing standards of Nasdaq. In addition, each member is a non-employee director, as defined under the applicable rules and regulations of the SEC, and an outside director, as defined under applicable federal tax rules. The Compensation Committee held four (4) meetings during the 2010 Fiscal Year.

When considering decisions concerning the compensation of the executive officers listed in the Summary Compensation Table (the Named Executive Officers) (other than the Chief Executive Officer), the Compensation Committee asks for the Chief Executive Officer's recommendations, including his evaluation of each Named Executive Officer's performance. Each December, in connection with the preparation of the Company's annual budget for the immediate succeeding fiscal year, the Chief Executive Officer and the Chief Financial Officer review the compensation of all key employees of the Company, including the Named Executive Officers. Once the Chief Executive Officer and the Chief Financial Officer have finalized the budget, the compensation component of the budget for the Named Executive Officers is submitted to the Compensation Committee for its review and approval. Following its approval, the entire proposed budget is submitted to Board for its review and approval.

No Named Executive Officer has a role in determining or recommending compensation for outside directors.

In addition, the Compensation Committee has the authority under its charter to retain outside consultants or advisors, as it deems necessary or advisable. In 2010, the Compensation Committee retained the services of Axiom Consulting Partners (Axiom), an independent compensation consultant, to review the executive and director compensation programs of the Company as it pertains to the Chief Executive Officer, the other executive officers and the non-employee members of the Board of Directors.

Axiom maintains no other direct or indirect business relationships with the Company. All executive and director compensation services provided by Axiom are conducted under the direction or authority of the Compensation Committee, and all work performed by Axiom must be pre-approved by the Compensation Committee or the Chair of the Compensation Committee.

As requested by the Compensation Committee, in 2010, Axiom's services to the Compensation Committee included, among other things, advising with respect to individual compensation for the Named Executive Officers; reviewing and discussing possible aggregate levels of corporate-wide bonus payments and equity awards; preparing comparative analyses of executive compensation levels and elements at peer group companies; advising as to whether our compensation exceeded or fell below targeted levels and whether the actual amounts paid were commensurate with our operating performance as compared to our peer group companies; and advising on director compensation.

An Axiom representative participated in one of the four Compensation Committee meetings in 2010.

In 2010, we paid Axiom approximately \$53,000 for services rendered to the Compensation Committee.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee of our Board selects nominees to be recommended by the Board for election as directors and for any vacancies in such positions. The Nominating and Corporate Governance

Committee also oversees the evaluation of our Board and management and oversees our Code of Ethics and Business Conduct. The Nominating and Corporate Governance Committee also performs other duties and responsibilities as set forth in a charter approved by the Board. The Nominating and Corporate Governance Committee currently consists of three members of our Board: J. Rice Edmonds, Thomas J. Galligan III and Kevin McCall (Chair). Each member of the Nominating and Corporate Governance Committee is independent, as independence is defined for purposes of Nominating and Corporate Governance

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Committee membership by the listing standards of Nasdaq. The Nominating and Corporate Governance Committee held one (1) meeting during the 2010 Fiscal Year.

The Board seeks to ensure that the Board is composed of members whose particular experience, qualifications, attributes and skills, when taken together, will allow the Board to satisfy its oversight responsibilities effectively. In that regard, in identifying candidates for membership on the Board of Directors, the Nominating and Corporate Governance Committee considers all factors it deems appropriate. The Nominating and Corporate Governance Committee considers director nominees on a case-by-case basis, and therefore has not formalized any specific, minimum qualifications that it believes must be met by a director nominee, identified any specific qualities or skills that it believes are necessary for one or more of our directors to possess, or formalized a process for identifying and evaluating nominees for director, including nominees recommended by stockholders. Although the Board does not have a policy with regard to the consideration of diversity in identifying director nominees, among the many factors that the Nominating and Corporate Governance Committee considers, are the benefits to the Company of gender and racial diversity in board composition.

When considering whether the Board's directors and nominees have the experience, qualifications, attributes and skills, taken as a whole, to enable the Board to satisfy its oversight responsibilities effectively in light of the Company's business and structure, the Board focused primarily on the information discussed in each of the Board members' or nominees' biographical information set forth on pages 4-5. In particular, the Board noted the following experiences, qualifications, attributes and skills of the director nominees:

Mr. Giardina joined the Company in 1981, and as a result, has extensive experience both in the Company's industry and with many facets of the Company's day-to-day operations, having held the titles of President and Chief Operating Officer, prior to becoming Chief Executive Officer in 2002. Mr. Giardina also served as a director of the Company from March 2006 until November 2008.

Mr. Alessi: Mr. Alessi has extensive experience as an executive, currently serving as President and Chief Executive Officer of Westmoreland Coal Company, extensive experience as a director of several public companies, including as Chairman of Lifestyles Improvement Centers LLC, a company that owns franchises of hypnosis centers in the US and Canada, and experience in academia, having taught at The Ross School of Business at the University of Michigan and Washington and Lee University School of Law. As a result of Mr. Alessi's experience, he has a comprehensive understanding of financial statements and financial and operational matters affecting public companies. Mr. Alessi is also intimately familiar with the Company and the Company's industry as a result of his service as a director of our Company since 1997.

Mr. Arnold: Mr. Arnold has extensive experience as an executive, serving as Chief Executive Officer of Cort Business Services, Inc., a Berkshire Hathaway company, since 1992. Mr. Arnold also has experience as a director, including having served as a director of Cort Business Services, Inc. since 1992. Mr. Arnold is also intimately familiar with the Company and the Company's industry as a result of his service as a director of our Company since 1997.

Mr. Bruckmann: Mr. Bruckmann has extensive experience overseeing the operations of many companies in which the private equity firm he helped found, Bruckmann, Rosser, Sherrill & Co., LP, has invested, having been an investor and/or board member of over 20 companies over the last 25 years. Mr. Bruckmann is also a lawyer, and is a member of the bars of New Jersey and New York. As a result of Mr. Bruckmann's experience, he has a comprehensive understanding of financial statements and financial and operational matters affecting public companies. Mr. Bruckmann is also intimately familiar with the Company and the Company's industry as a result of his service as a director of our Company since 1996.

Mr. Edmonds: Mr. Edmonds has extensive experience overseeing the operations of many companies both during his years as a Managing Director at BRS, and also in connection with investments made by the private equity firm he founded, Edmonds Capital, LLC. Mr. Edmonds has also been a director of several public companies. Mr. Edmonds is also intimately familiar with the Company and the Company's industry as a result of his service as a director of our Company since 2002.

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Mr. Galligan: Mr. Galligan has extensive experience as an executive, serving as Chief Executive Officer of Papa Gino's Holding Corp for 14 years. Mr. Galligan has also held executive positions at Morse Shoe, Inc. and PepsiCo., Inc. Mr. Galligan also has experience as a director of other public companies. As a result of Mr. Galligan's experience, he has a comprehensive understanding of financial statements and financial and operational matters affecting public companies.

Mr. McCall: Mr. McCall has extensive experience evaluating and overseeing the many investments of the private equity firm he founded, Paradigm Capital Advisors, LLC and he currently serves as President and Chief Executive Officer of Paradigm Properties, LLC, a commercial real estate services company. As a result of Mr. McCall's operating and investing experience, he has a comprehensive understanding of a wide variety of issues concerning commercial real estate, a factor the Board considers to be highly integral to the Company's operations. Mr. McCall has also held a variety of director positions of both for profit and not-for-profit businesses. As a result of Mr. McCall's experience, he has a comprehensive understanding of financial statements and financial and operational matters affecting public companies.

The Nominating and Corporate Governance Committee's policy is to consider director candidates that are recommended by stockholders. The Nominating and Corporate Governance Committee will evaluate nominees for director recommended by stockholders in the same manner as nominees recommended by other sources. Stockholders wishing to bring a nomination for a director candidate at a stockholders' meeting must give written notice to our Corporate Secretary, pursuant to the procedures set forth in the section of this Proxy Statement titled "Communicating with the Board of Directors" and subject to the deadline set forth in the section titled "Deadline for Receipt of Stockholder Proposals." The stockholder's notice must set forth all information relating to each person whom the stockholder proposes to nominate that is required to be disclosed under applicable rules and regulations of the SEC and our By-Laws.

Executive Committee

The Board of Directors has granted to the Executive Committee, subject to certain limitations set forth in its charter, the broad responsibility of exercising the authority of the Board of Directors in the oversight of our business during the intervals between meetings of the Board of Directors. The Executive Committee meets only as necessary.

Information Technology Committee

The Information Technology Committee has been delegated authority by the Board of Directors to review, appraise and monitor the Company's information technology (IT) strategy and significant IT related projects or investments, ensure that the Company's IT programs effectively support the Company's business objectives and strategies while mitigating risks, advise the Company's senior management team on IT related matters, advise the Board of Directors on IT related matters, and perform any other duties assigned by the Board.

Communicating with the Board of Directors

Stockholders and other interested parties may communicate with the Board, including the non-management directors as a group, by writing to the Board, c/o Corporate Secretary, Town Sports International Holdings, Inc. at 5 Penn Plaza (4th Floor), New York, New York 10001. Inquiries will be reviewed by the Company's Corporate Secretary and will be distributed to the appropriate members of the Board depending on the facts and circumstances outlined in the communication received. For example, if a complaint concerning accounting, internal accounting controls or auditing matters was received, it would be forwarded by the Corporate Secretary to the Audit Committee. The Corporate Secretary has the authority to discard or disregard any communication that is unduly hostile, threatening, illegal or

otherwise inappropriate.

Corporate Governance Documents

The Board has adopted a Code of Ethics and Business Conduct that applies to all officers, directors and employees, including our principal executive officer, principal financial officer and principal accounting officer or controller. The Code of Ethics and Business Conduct can be accessed in the Investor Relations Corporate Governance section of our website at www.mysportsclubs.com, as well as any amendments to, or

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waivers under, the Code of Ethics and Business Conduct with respect to our principal executive officer, principal financial officer and principal accounting officer or controller. Copies may be obtained without charge by writing to Town Sports International Holdings, Inc., 5 Penn Plaza (4th Floor), New York, New York 10001, Attention: Investor Relations. Copies of the charters of the Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee, Executive Committee and Information Technology Committee of our Board of Directors, as well as copies of our certificate of incorporation and By-Laws, can also be accessed in the Investor Relations Corporate Governance section of our website at www.mysportsclubs.com.

Director Compensation for the 2010 Fiscal Year

Under our director compensation policy currently in effect, Directors who are also officers or employees of the Company receive no additional compensation for services as a director, committee participation or special assignments.

Directors who are not officers or employees of the Company or any of its subsidiaries (each, a Non-Employee Director) received the following compensation for the 2010 Fiscal Year:

Each Non-Employee Director receives a \$20,000 annual retainer. The non-executive chairman of the Board receives an additional \$80,000 annual retainer. The chairman of the Audit Committee receives an additional \$10,000 annual retainer.

The annual retainer amounts set forth above are payable quarterly in arrears on the fifth business day prior to the end of each calendar quarter. For each year, any Board member may elect (by giving written notice to the Company on or before the first business day of the applicable calendar year) to receive such annual retainer in the form of shares of Common Stock of the Company, payable quarterly in arrears on the fifth business day prior to the end of each calendar quarter under the Town Sports International Holdings, Inc. 2006 Stock Incentive Plan, as amended (the Plan) (with the value of such shares of Common Stock being the Fair Market Value (as defined in the Plan) thereof on the fifth business day before the end of each calendar quarter). Notwithstanding the preceding sentence, any Board member who has so elected to receive such annual retainer in the form of shares of Common Stock of the Company may revoke such election for the balance of such calendar year by giving written notice to the Company at any time when such Board member is otherwise eligible to purchase and sell shares of Common Stock of the Company pursuant to the Company's then existing trading policies and procedures with respect to such purchases and sales. This annual retainer will be pro-rated for any partial year.

Each existing Non-Employee Director receives an annual stock option grant of 1,000 shares on the first business day of each calendar year with the exercise price being the Fair Market Value thereof on the date of the grant. Each annual grant will vest on the first anniversary of the grant and will otherwise be subject to the terms of the Plan. Additional grants may be made from time to time.

Each new Non-Employee Director joining the Board will receive an initial stock option grant of 5,000 shares with the exercise price being the Fair Market Value thereof on the date of the grant. The grant will vest in three equal installments on the first, second and third anniversaries of the grant, respectively. Each new Non-Employee Director will be eligible in the following year to receive the annual stock option grant referred to above.

Each Non-Employee Director (other than the non-executive chairman) receives an additional \$3,000 for each Board meeting that such Board member attends in person and an additional \$1,000 for each Board meeting that such Board member attends via telephone. The non-executive chairman shall not receive any fees for attending

any meetings of the Board.

Each Non-Employee Director of a committee (other than the members of the Audit Committee and the non-executive chairman) receives an additional \$1,000 for each Board committee meeting that such Board member attends in person and an additional \$500 for each Board committee meeting that such Board member attends via telephone.

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Each Non-Employee Director of the Audit Committee (other than the non-executive chairman) receives an additional \$2,500 for each Audit Committee meeting that such Board member attends in person and an additional \$1,000 for each Audit Committee meeting that such Board member attends via telephone.

The non-executive chairman shall not receive any fees for attending any meetings of any Board committee.

We also reimburse directors for any out-of-pocket expenses incurred by them in connection with services provided in such capacity.

The following table sets forth information concerning the compensation to each of our Non-Employee Directors in the 2010 Fiscal Year:

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash (\$)(1)	Option Awards (\$)(2)	Total (\$)
Keith E. Alessi	42,500	1,730	44,230
Paul N. Arnold	37,500	1,730	39,230
Bruce C. Bruckmann	41,000	1,730	42,730
J. Rice Edmonds	36,000	1,730	37,730
Jason M. Fish(3)	14,863	1,730	16,593
Thomas J. Galligan III	81,000	21,330	102,330
Kevin McCall	44,300	1,730	46,030

(1) For 2010, Messrs. Galligan and McCall elected to receive their annual retainers, included in the amounts shown in this column, in shares of common stock of the Company rather than cash. Such shares were paid quarterly in arrears, the number of such shares being determined based on the fair market value of the Company's common stock on the date of payment.

(2) This column represents the aggregate grant date fair value of stock options granted to each of the Non-Employee Directors in Fiscal Year 2010 computed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 718, *Compensation - Stock Compensation* (ASC Topic 718). For additional information about the valuation assumptions with respect to all grants reflected in this column, refer to note 10(b) of the financial statements of Town Sports International Holdings, Inc. in its Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission. These amounts reflect the aggregate grant date fair values calculated under ASC Topic 718 and may not correspond to the actual value that will be recognized by the Non-Employee Directors.

(3) Mr. Fish resigned from the Board of Directors on May 13, 2010.

The following table details grants of stock option awards to each of our Non-Employee Directors in 2010. The table includes the grant date and grant date fair value of each 2010 stock option award, and the

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aggregate number of outstanding stock option awards as of December 31, 2010 owned by each Non-Employee Director who served as a director during the 2010 Fiscal Year:

Name	Grant Date(1)	Option Awards (#)	Grant Date Fair Value (\$)(2)	Total Number of Unexercised Stock Option Awards on December 31, 2010 (#)
Keith E. Alessi	1/4/2010	1,000	1,730	4,000
Paul N. Arnold	1/4/2010	1,000	1,730	4,000
Bruce C. Bruckmann	1/4/2010	1,000	1,730	2,000
J. Rice Edmonds	1/4/2010	1,000	1,730	2,000
Jason M. Fish	1/4/2010	1,000	1,730	4,000
Thomas J. Galligan III	1/4/2010	1,000	1,730	18,000
	8/2/2010	10,000	19,600	
Kevin McCall	1/4/2010	1,000	1,730	8,000

- (1) The awards granted on January 4, 2010 relate to the annual issuance of stock options to the Non-Employee Directors, which awards have an exercise price of \$2.47 per share and vested on January 4, 2011. The award granted to Mr. Gallagher on August 2, 2010 has an exercise price of \$2.77 and vests in four equal annual installments commencing on August 2, 2011.
- (2) This column represents the aggregate grant date fair value of stock options granted to each of the Non-Employee Directors in Fiscal Year 2010 computed in accordance with ASC Topic 718. For additional information about the valuation assumptions with respect to all grants reflected in this column, refer to note 10(b) of the financial statements of Town Sports International Holdings, Inc. in its Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission. These amounts reflect the aggregate grant date fair values calculated under ASC Topic 718 and may not correspond to the actual value that will be recognized by the Non-Employee Directors.

Beginning in January 2011, compensation paid to Non-Employee Directors will be as follows:

The following Non-Employee Directors will receive the following annual retainer:

The non-executive chairman of the Board will receive a \$100,000 annual retainer.

Each Non-Employee Director (other than the non-executive chairman of the Board) will receive a \$50,000 annual retainer.

The chairman of the Audit Committee will receive an additional \$10,000 annual retainer.

Each chairman of each committee of the Board (other than the chairman of the Audit Committee) will receive an additional \$5,000 annual retainer.

The non-executive chairman shall not be the chairman of any committee of the Board.

The annual retainer amounts set forth above shall be payable quarterly in arrears on the fifth business day prior to the end of each calendar quarter. For each year, any such Board member may elect (by giving written notice to the Company on or before the first business day of the applicable calendar year) to receive such annual retainer in the form of shares of Common Stock of the Company, payable quarterly in arrears on the fifth business day prior to the end of each calendar quarter under the Plan (with the value of such shares of Common Stock being the Fair Market Value (as defined in the Plan) thereof on the fifth business day before the end of each calendar quarter). Notwithstanding the preceding sentence, any Board member who has so elected to receive such annual retainer in the form of shares of Common Stock of the Company may revoke such election for the balance of such calendar year by giving written notice to the Company at any time when such Board member is otherwise eligible to purchase and sell shares of Common Stock of the Company pursuant to the Company's then existing trading policies and procedures with respect to such purchases and sales. This annual retainer will be pro-rated for any partial year.

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Each existing Non-Employee Director will receive an annual award of restricted stock on the third Wednesday of each calendar year, as follows, with each award being fully vested as of the award date, and will otherwise be subject to the terms of the Plan:

Chairman of the Board: 2,500 shares

Each Non-Employee Director (other than the non-executive chairman of the Board): 1,667 shares

Each new Non-Employee Director joining the Board will receive an initial award of 1,667 shares of restricted stock, which shares shall be fully vested as of the award date. Each new Non-Employee Director will be eligible in the following year to receive the annual restricted stock award referred to above.

No member of the Board will receive any fees for attending any meetings of the Board.

Each Non-Employee Director and each member of a Board committee will be reimbursed for any out-of-pocket expenses reasonably incurred by him or her in connection with services provided in such capacity.

Compensation Committee Interlocks and Insider Participation

The current members of the Compensation Committee are Messrs. Arnold, Bruckmann, Galligan and McCall. Mr. Fish formerly served as a member of the Compensation Committee. During the 2010 Fiscal Year:

none of the members of the Compensation Committee was an officer (or former officer) or employee of the Company or any of its subsidiaries;

none of the members of the Compensation Committee had a direct or indirect material interest in any transaction in which the Company was a participant and the amount involved exceeded \$120,000, except that on March 13, 2009, Jason Fish, one of our former directors and a former member of the Compensation Committee, acquired through open market purchases \$4,000,000 principal amount of our 11% Senior Discount Notes Due 2014 (described in Note 8 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010);

none of our executive officers served on the compensation committee (or another board committee with similar functions or, if none, the entire board of directors) of another entity where one of that entity's executive officers served on our Compensation Committee;

none of our executive officers was a director of another entity where one of that entity's executive officers served on our Compensation Committee; and

none of our executive officers served on the compensation committee (or another board committee with similar functions or, if none, the entire board of directors) of another entity where one of that entity's executive officers served as a director on our Board.

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The following table sets forth information with respect to the beneficial ownership of our outstanding common stock as of March 15, 2011, by (1) each person or group of affiliated persons whom we know to beneficially own more than five percent of our common stock; (2) each of the Named Executive Officers; (3) each of our directors; and (4) all of our current directors and executive officers as a group.

Name and Address	Number of Shares Beneficially Owned**	Percentage of Common Stock Outstanding***
5% Stockholders		
Farallon Entities(1)	4,060,082	17.8%
FMR LLC(2)	1,435,000	6.3%
The Goldman Sachs Group, Inc.(3)	1,225,660	5.4%
Sankaty Credit Opportunities (Offshore) IV, L.P.(4)	1,202,135	5.3%
Named Executive Officers and Directors		
Robert J. Giardina	630,404	2.8%
Martin J. Annese(5)	162,500	*
Daniel Gallagher(6)	217,150	*
David Kastin(7)	55,815	*
Scott Milford(8)	22,048	*
Alexander A. Alimanestianu	186,931	*
Keith E. Alessi(9)	55,665	*
Paul N. Arnold(10)	61,152	*
Bruce C. Bruckmann(11)	1,035,982	4.6%
J. Rice Edmonds(12)	40,667	*
Thomas J. Galligan III(13)	74,953	*
Kevin McCall(14)	56,938	*
Directors and Executive Officers as a group (12 persons)(15)	2,413,274	10.4%

* Less than 1%.

** For purposes of this table, beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934 pursuant to which a person or group of persons is deemed to have beneficial ownership of any shares of common stock with respect to which such person has (or has the right to acquire within 60 days, i.e., by May 15, 2011 in this case) sole or shared voting power or investment power.

*** Percentage of beneficial ownership is based on 22,746,035 shares of common stock outstanding at March 15, 2011.

(1) Based on our review of the Schedule 13D filed with the SEC on March 4, 2010 by the entities and persons set forth below, setting forth ownership information as of February 23, 2010, and subsequent information provided

to us. The entities and persons set forth below have an address at One Maritime Plaza, Suite 2100, San Francisco, California 94111. Consists of 1,396,011 shares directly held by Farallon Capital Partners, L.P. (FCP), 1,574,334 shares directly held by Farallon Capital Institutional Partners, L.P. (FCIP), 1,021,256 shares directly held by Farallon Capital Institutional Partners II, L.P. (FCIP II), 2,500 shares directly held by Farallon Capital Institutional Partners III, L.P. (FCIP III), 65,981 shares directly held by Farallon Capital Offshore Investors II, L.P. (collectively with FCP, FCIP, FCIP II and FCIP III, the Farallon Entities). As the general partner of each of the Farallon Entities, Farallon Partners, L.L.C. (FPLLC) may, for purposes of Rule 13d-3 under the Exchange Act, be deemed to own beneficially the shares held by the Farallon Entities. As managing members of FPLLC, William F. Duhamel, Richard B. Fried, Daniel J. Hirsch, Monica R. Landry, Davide Leone, Douglas M. MacMahon, Stephen L. Millham, Jason E. Moment, Ashish H. Pant, Rajiv A. Patel, Andrew J. M. Spokes, Thomas F. Steyer, Richard H. Voon and Mark C. Wehrly, may each, for purposes of Rule 13d-3 under the Exchange Act, be deemed to own beneficially the shares held by the Farallon Entities. FPLLC and each of its

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managing members disclaim any beneficial ownership of such shares. All of the above-mentioned entities and individuals disclaim group attribution.

- (2) Based on our review of the Schedule 13G filed with the SEC on February 16, 2010 by FMR LLC and Edward C. Johnson 3d. whose address is 82 Devonshire Street, Boston, Massachusetts 02109. FMR LLC and Mr. Johnson have no power to vote these shares, but have the sole power to dispose or to direct the disposition of these shares. Fidelity Management & Research Company, a wholly-owned subsidiary of FMR LLC, is the beneficial owner of these shares as a result of acting as investment adviser to various investment companies, one of which, Fidelity Small Cap Growth Fund, holds these shares. Members of Mr. Johnson's family may be deemed to form a controlling group with respect to FMR LLC.
- (3) Based on our review of the Schedule 13G filed with the SEC on February 11, 2011 by The Goldman Sachs Group, Inc. and Goldman, Sachs & Co., whose address is 200 West Street, New York, New York 10282. The securities being reported on by The Goldman Sachs Group, Inc., (GS Group) as a parent holding company, are owned, or may be deemed to be beneficially owned, by Goldman, Sachs & Co. (Goldman Sachs), a broker or dealer registered under Section 15 of the Securities Exchange Act of 1934 and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940. Goldman Sachs is a direct and indirect wholly-owned subsidiary of GS Group.
- (4) Based on our review of the Schedule 13G filed with the SEC on February 14, 2011 by Sankaty Credit Opportunities (Offshore), IV, L.P. (COPS IV Offshore), whose address is 111 Huntington Avenue, Boston Massachusetts 02199. Sankaty Credit Opportunities Investors (offshore) IV, L.P. (SCM Offshore Investors) is the general partner of COPS IV Offshore. Sankaty Credit Member (Offshore), Ltd. (SCM Offshore Ltd.) is the general partner of SCM Offshore Investors. The Schedule 13G also reports that Sankaty Credit Opportunities IV, L.P. (COPS IV) owns 933,096 shares of the Company's common stock. Sankaty Credit Opportunities (Offshore) IV, L.P. (COPS IV Investors) is the general partner of COPS IV, and Sankaty Credit Member, LLC (SCM) is the managing member of COPS IV Investors. Mr. Jonathan Lavine is the managing member of SCM Offshore Ltd. and SCM.
- (5) Includes 162,500 shares of common stock issuable upon exercise of options before May 15, 2011.
- (6) Includes 203,150 shares of common stock issuable upon exercise of options before May 15, 2011.
- (7) Includes 47,500 shares of common stock issuable upon exercise of options before May 15, 2011. Also includes 5,000 shares of unvested restricted stock, which vests in annual installments of 2,500 shares on each of June 13, 2011 and 2012.
- (8) Includes 19,750 shares of common stock issuable upon exercise of options before May 15, 2011. Also includes 1,500 shares of unvested restricted stock, which vests in equal annual installments on each of December 4, 2011 and 2012.
- (9) Includes 4,000 shares of common stock issuable upon exercise of options before May 15, 2011.
- (10) Includes 4,000 shares of common stock issuable upon exercise of options before May 15, 2011.
- (11) Includes 8,238 shares held by a limited partnership in which Mr. Bruckmann is a general partner and 2,000 shares of common stock issuable upon exercise of options before May 15, 2011. Also includes 9,722 shares for which Mr. Bruckmann holds a power of attorney (Mr. Bruckmann disclaims beneficial ownership of these shares). Does not include 354,077 shares held in trust for the benefit of Mr. Bruckmann's

children, in which Mr. Bruckmann's former wife is the trustee.

- (12) Includes 2,000 shares of common stock issuable upon exercise of options before May 15, 2011.
- (13) Includes 8,000 shares of common stock issuable upon exercise of options before May 15, 2011.
- (14) Includes 8,000 shares of common stock issuable upon exercise of options before May 15, 2011.
- (15) Includes 460,900 shares of common stock issuable upon exercise of options before May 15, 2011 and 6,500 shares of unvested restricted stock.

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The members of our Board, our executive officers and persons who hold more than 10% of our outstanding common stock are subject to the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended, which requires them to file reports with respect to their ownership of our common stock and their transactions in such common stock. Based solely upon a review of (1) the copies of Section 16(a) reports which Town Sports has received from such persons or entities for transactions in our common stock and their common stock holdings for the 2010 Fiscal Year, and (2) the written representations received from one or more of such persons or entities that no annual Form 5 reports were required to be filed by them for the 2010 Fiscal Year, Town Sports believes that all reporting requirements under Section 16(a) for such fiscal year were met in a timely manner by its directors, executive officers and beneficial owners of more than ten percent of its common stock.

Table of Contents**EXECUTIVE OFFICERS**

The executive officers of Town Sports, and their ages and positions as of March 15, 2011, are:

Name	Age	Position
Robert J. Giardina	53	Chief Executive Officer, President and Director
Martin J. Annese	52	Chief Operating Officer
Paul L.W. Barron	45	Chief Information Officer
Daniel Gallagher	43	Senior Vice President Chief Financial Officer
David M. Kastin	43	Senior Vice President General Counsel and Corporate Secretary
Scott R. Milford	46	Senior Vice President Human Resources

Mr. Giardina's biography follows the table listing our directors. Biographies for our other executive officers are:

Martin J. Annese joined us in April 2008 as Chief Operating Officer. Prior to that time, Mr. Annese was employed as an executive performance consultant at Woodstone Consulting Company, a management consulting firm, since 2006. From 1997 through 2005, Mr. Annese held various senior level positions at Starbucks Coffee Company, most recently as Senior Vice President, Northeast Zone, responsible for more than 1,100 stores. From 1983 through 1997, Mr. Annese held several executive level positions at PepsiCo, Inc. From 1980 till 1983, Mr. Annese was a Senior Auditor at Arthur Young and Company.

Paul L.W. Barron joined us in February 2011 as Chief Information Officer. Prior to joining us, Mr. Barron was Vice President Global Accounts at Newmarket International, an information technology consulting firm servicing, primarily, the hospitality industry from January 2010 to January 2011. From March 2000 until January 2010, Mr. Barron was employed at Starwood Hotels & Resorts Worldwide, holding several senior positions, most recently as Vice President Global Solutions, Property Operations and Global Development.

Daniel Gallagher joined us in February 1999 as Vice President-Finance. He was promoted to Senior Vice President Finance in November 2007 and promoted to Senior Vice President Chief Financial Officer on March 31, 2008. Mr. Gallagher is a former Certified Public Accountant in the State of New York and holds a Bachelors of Science in Accounting from Villanova University. Mr. Gallagher began his career with Coopers and Lybrand in the Business Assurance Practice (audit). After the merger of Coopers and Lybrand with Price Waterhouse, his career continued in a management role and he joined the Mergers and Acquisition Consulting Group in 1998.

David M. Kastin joined us in August 2007 as our Senior Vice President-General Counsel and Corporate Secretary. From March 2007 through July 2007, Mr. Kastin was Senior Associate General Counsel and Corporate Secretary of Sequa Corporation, a diversified manufacturer. From March 2003 through December 2006, Mr. Kastin was in-house counsel at Toys R Us, Inc., most recently as Vice President Deputy General Counsel. From 1996 through 2003, Mr. Kastin was an associate in the corporate and securities departments at several prominent New York law firms, including Bryan Cave LLP. From September 1992 through October 1996, Mr. Kastin was a Staff Attorney in the Northeast Regional Office of the U.S. Securities and Exchange Commission.

Scott R. Milford joined us in November 2008 from Condé Nast Publications where he was Group Executive Director, Human Resources since July 2008. Prior to that, Mr. Milford served in a number of field and corporate leadership

positions at Starbucks Coffee Company, which he joined in 2003. From 1999 until 2003, Mr. Milford was Vice President, Human Resources at Universal Music Group. From 1991 until 1999, Mr. Milford was employed at Blockbuster Entertainment and then at Viacom International, the parent company of Blockbuster where Mr. Milford held varying positions in the human resources department.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Compensation Objectives and Strategy

The Company's compensation program for our executive officers is designed to attract and retain the caliber of officers needed to ensure the Company's continued growth and profitability and to reward them for their contribution to the Company's performance and for creating long term value for the Company's stockholders. The primary objectives of the program are to:

Attract and retain top tier executive talent who will draw upon their experience across industries to lead the Company in meeting its objectives

Our overall compensation levels are targeted to attract and retain the best executives in light of the competition for executive talent. The Compensation Committee generally targets total direct compensation (base salary plus annual non-equity incentive compensation at target plus stock-based long-term incentive opportunity) at the market median for target performance. However, the competitiveness of individual components (such as base salary, annual non-equity incentive compensation or long-term incentive opportunity) may at times be below or above the market median due to performance achievement against goals, employment experience and labor market demands.

Motivate and reward the achievement of critical strategic, operational and financial objectives through highly transparent programs that directly link performance and pay

A significant component of an executive officer's total compensation package is annual non-equity incentive compensation which links an executive officer's compensation directly to specific financial performance goals of the Company. If the Company does not meet the financial performance targets set by the Compensation Committee, the executive officers generally would not receive any annual non-equity incentive compensation.

Reward for collective accomplishments to support the Company's strong team orientation while promoting individual accountability through achievement of individual goals and milestones

Compensation depends in significant measure on Company results, but individual accomplishments are also very important factors in determining each Named Executive Officer's compensation. For example, annual non-equity incentive compensation is based not only on the financial performance of the Company, but may be adjusted based on a review of the individual performance of an executive. The Compensation Committee also has the ability to award discretionary cash bonuses based on an executive's achievements throughout the year.

Align the interests of executives with those of stockholders

The Compensation Committee believes that the interests of executives and stockholders should be substantially aligned. Accordingly, a portion of the total compensation for the Named Executive Officers is in the form of stock-based compensation, which the Compensation Committee believes keeps the interests of executives aligned with those of the Company's stockholders and promotes a long-term commitment to the Company.

The Company's executive compensation programs are approved and administered by the Compensation Committee of the Board. Working with management, the Compensation Committee has developed a compensation and benefits

strategy that rewards performance and productive behaviors and reinforces a culture that the Compensation Committee believes will drive long-term success.

Compensation Determination Process

The Compensation Committee is responsible for setting our executive compensation objectives and policies, establishing our executive compensation program in a manner consistent with those objectives and policies and determining the compensation for our executive officers. Determining the appropriate level of executive compensation is not an exact science and involves careful deliberation and business judgment. See Corporate Governance and Board Matters Committee Membership Compensation Committee for more information on the Compensation Committee and its practices.

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The compensation of the Chief Executive Officer (CEO) is determined by the Compensation Committee based on (1) the Compensation Committee's assessment of the Company's overall performance and the individual performance of the CEO, (2) previous compensation levels provided to the CEO and the former CEO and (3) comparable compensation data for the Compensation Comparison Group (as defined below) provided by Axiom Consulting Partners (Axiom), an independent compensation consultant hired in 2008 to review the executive compensation program of the Company as it pertained to the CEO and the other executive officers. The Compensation Committee again engaged the services of Axiom beginning in mid-2010.

With respect to compensation for the other Named Executive Officers, the Compensation Committee considers a variety of factors, including Company and individual performance, the recommendations of the CEO, and comparable compensation data for the Compensation Comparison Group provided by Axiom.

The Compensation Committee, with the assistance of the CEO (with respect to the other Named Executive Officers only), seeks to set the target for total direct compensation (that is, the sum of base salary, annual non-equity incentive compensation and stock-based long-term incentive awards) of our executives, including the Named Executive Officers, at levels that are competitive with equivalent positions at a select group of companies that the Compensation Committee believes to be an appropriate reference group (the Compensation Comparison Group). Data for the Compensation Comparison Group includes (1) information about a peer group of companies and (2) data from well-established, publicly available general industry compensation surveys that have been calibrated to compare to companies of the Company's size. The peer group is a group primarily consisting of employee-intensive companies of comparable size that deliver brand-oriented, upscale, discretionary fitness and lifestyle-oriented services in comparatively large facilities, concentrated in and around metropolitan areas. The second group is composed of public companies with median revenue and/or market capitalization comparable to that of the Company. We regard the peer group as potential competition for executive talent. The Compensation Committee believes that the inclusion of information regarding general industry compensation practices reflects the labor market for those executive positions that are not industry-specific, adding to the validity and reliability of the comparison.

The Company's peer group which was used in setting 2010 salary and non-equity incentive compensation consisted of the following companies, which were determined in consultation with Axiom in 2008: Bally Total Fitness Holding Corp.; Big 5 Sporting Goods Corp.; California Pizza Kitchen, Inc.; The Cheesecake Factory, Inc.; Golfsmith International Holdings, Interstate Hotels and Resorts; Life Time Fitness, Inc.; McCormick & Schmick's Seafood Restaurants, Inc.; Morton's Restaurant Group Inc.; PF Chang's China Bistro; Sport Chalet, Inc.; The Sports Club Company, Inc.; and Standard Parking Corp. As a result of the re-engagement of Axiom in mid-2010, the existing peer group was reviewed, and Bally Total Fitness Holding Corp. and The Sports Club Company, Inc. were removed from the peer group for all remaining 2010 compensation decisions, due to the lack of recent and consistent publicly available compensation data for these companies.

Pay Levels and Benchmarking

Pay levels for the Named Executive Officers are determined based on a number of factors, including the individual's roles and responsibilities within the Company, the individual's experience and expertise, the pay levels for peers within the Company, pay levels in the marketplace for similar positions and the performance of the individual and the Company as a whole. In determining pay levels, the Compensation Committee considers all forms of compensation and benefits. The Company benchmarks the compensation of executives against the compensation of similarly situated executives in the Compensation Comparison Group peer group. The Compensation Committee targets total direct compensation (that is, the sum of base salary, annual cash bonuses and stock-based long-term incentive awards) at the market median of the peer group for target performance. However, as noted above, notwithstanding the Company's overall pay positioning objectives, pay opportunities for specific individuals vary based on a number of factors such as performance achievement against goals, the diversity of executive backgrounds, employment history

and labor market demands.

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Compensation Structure

Pay Elements Overview

The Company utilized four main components of compensation during 2010:

Base Salary fixed cash compensation to attract and retain key executives, recognizing and rewarding the application of their skills and experience in fulfillment of their responsibilities.

Annual Cash Incentive Compensation variable cash compensation paid in accordance with the achievement of established annual objectives.

Long-term Equity Incentives equity-based compensation that grows in value in accordance with long-term value creation, aligning executive and stockholder interests, and giving executives an opportunity to participate in the Company's success over time.

Benefits and Perquisites these may include disability insurance, medical and dental insurance benefits and retirement savings and free membership to the clubs.

Pay Elements Details

1. Base Salary

As part of its review of the annual budget for the immediately succeeding fiscal year, the Board reviews the base salaries and other compensation for our Named Executive Officers and makes adjustments as warranted based on individual responsibilities and performance, Company performance in light of market conditions and competitive practice. Salary adjustments for any given year are generally approved at the end of the immediately preceding year and implemented during the first quarter of the calendar year.

Historically, salary increases have been based on cost of living increases and range from 3-4%. Salary increases for Named Executive Officers are generally consistent with those of other management employees. In light of market conditions, the 2010 salaries of the Named Executive Officers were not increased over annualized 2009 and 2008 levels. In light of the fact that there had been no merit or cost of living increases in two years, the Compensation Committee has approved a salary increases for all Named Executive Officers, other than Mr. Giardina, of 5% effective January 1, 2011. The Committee also approved a salary increase for Mr. Giardina from \$505,000 to \$520,000 effective March 1, 2011.

In connection with Mr. Giardina's hiring in March 2010, Mr. Giardina's base salary was set to be identical to that of the departing CEO and President, Mr. Alimanestianu, which was determined by Axiom in mid-2010 to be slightly below the median of the Compensation Comparison Group peer group for executives in similar positions.

Base salaries for the Company's most highly compensated employees, including the Named Executive Officers for 2010, were within the competitive range of median salaries within the Compensation Comparison Group peer group. From time to time, individual salaries may range above or below the median based on a variety of factors, including the potential impact of the executive's role at the Company, the terms of the executive's employment agreement, if any, the experience the executive brings to the position and the performance and potential of the executive in his or her role.

2. Annual Cash Incentive Compensation

Annual incentive compensation for designated key employees is paid under our Amended and Restated 2006 Annual Performance Bonus Plan (the Bonus Plan). The Bonus Plan is designed to grant bonus awards to such individuals as an incentive to contribute to our profitability. The Compensation Committee administers the Bonus Plan and selects the key employees, which may include Named Executive Officers, who are eligible to participate in the Bonus Plan each year. Bonus targets are set at a percentage of base salary and are paid based on the Company's achievement of performance goals established on or before March 30 of the applicable calendar year and the attainment of personal performance objectives established individually by each employee at the beginning of each year. We seek to calibrate annual incentive opportunities to generate less-than-median awards when goals are not fully achieved and greater-than-median awards when goals are exceeded.

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Under the Bonus Plan, participants are eligible to receive bonus awards that may be expressed, at the Compensation Committee's discretion, as a fixed dollar amount, a percentage of compensation (whether base pay, total pay or otherwise) or an amount determined pursuant to a formula. Annual non-equity incentive plan awards are contingent upon the attainment of certain pre-established performance targets established by the Compensation Committee, which may include, without limitation, the following:

earnings before interest, taxes, depreciation and amortization (EBITDA);

return on equity, assets or capital;

gross or net revenues;

earnings per share; or

such other goals established by the Compensation Committee.

The amount of an annual non-equity incentive compensation award may also depend on the performance of the employee.

For the 2010 Fiscal Year, the bonus target performance goals for each of the Named Executive Officers were based solely on the Company achieving an Adjusted EBITDA target as follows:

	Goal	Actual Performance	% of Target
Adjusted EBITDA (as defined)	\$ 75,261,000	\$ 78,307,000	104%

The definition of Adjusted EBITDA for executive bonus computation purposes is earnings before interest, taxes, depreciation, amortization, executive bonuses and compensation expense incurred in connection with stock options of the Company and items of a non-recurring nature. In the 2010 Fiscal Year, these non-recurring or other items included certain litigation costs and expenses, severance paid to our former Chief Executive Officer and revenue recognized from unused and expired personal training sessions in several states. All of these adjustments were approved by the Compensation Committee.

Based on the Company's actual Adjusted EBITDA performance for 2010 (based on adjustments described above) in relation to the Company's target Adjusted EBITDA performance for 2010, Named Executive Officers participating in the Bonus Plan were eligible to receive awards equal to an average of 133% of their target awards under the Bonus Plan. See Narrative Supplement to the Summary Compensation Table and the 2010 Grants of Plan-Based Awards Table for more information on the calculation and payment of amounts under the Bonus Plan.

In respect of the 2011 Fiscal Year, the Compensation Committee has determined to base the annual non-equity incentive plan compensation award on the achievement of targets related to return on assets, Adjusted EBITDA and budgeted revenue in order to more closely align management incentives to overall Company performance. In addition, in 2011, the Compensation Committee is instituting a deferral aspect for the annual non-equity incentive plan compensation award, whereby any amounts earned above 133% of the target bonus would be deferred and payable in equal annual installments over a three-year period, subject to acceleration upon specified termination events. The Compensation Committee decided to defer a portion of the annual non-equity incentive plan compensation award over a three-year period in order for the annual non-equity incentive plan compensation award to serve as a retention tool

and to further motivate management to achieve long-term growth.

3. Long-term Equity Incentives

The Company and the Compensation Committee believe that equity-based awards are an important factor in aligning the long-term financial interests of our executive officers and stockholders. The Compensation Committee designs long-term equity incentive awards to ensure that our executive officers have a continuing stake in the long-term success of the Company, that the total compensation realized by our executive officers reflects our multi-year performance as measured by the efficient use of capital and changes in stockholder value, and that a large portion of the total compensation opportunity is earned over a multi-year period and is forfeitable in the event of termination of employment.

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The Compensation Committee continually evaluates the use of equity-based awards and intends to continue to use such awards in the future as part of designing and administering the Company's compensation program. The Company expects to make equity grants at regular intervals.

The Compensation Committee may grant equity incentives under the Company's 2004 Common Stock Option Plan, as amended, in the form of non-qualified and incentive stock options and the 2006 Stock Incentive Plan, as amended (the 2006 Stock Incentive Plan), in the form of stock options (non-qualified and incentive stock options), stock appreciation rights, restricted stock, performance shares and other stock-based awards (including restricted stock units (RSUs) and deferred stock units).

In the past, the Company has followed a practice of granting equity incentives in the form of stock options on an annual basis to employees and on occasion, has also made awards of restricted stock. Beginning in 2011, the Company plans to make the annual equity incentive grant in the form of restricted stock rather than stock options, although the Compensation Committee may continue to award stock options as it deems appropriate. The Company may also make grants to new employees on the commencement of employment and to key employees following a significant change in job responsibilities or to meet specific retention objectives. In 2010, grants were issued shortly following the next regularly scheduled release of quarterly financial results. The exercise price for stock options is the grant date closing market price per share. Historically, the Compensation Committee has granted stock options and shares of restricted stock which vest in four equal annual installments, beginning on the first anniversary of the grant date, and subject to continuous employment from the date of grant until the applicable vesting date. We believe that this vesting schedule reinforces the long-term orientation of our compensation philosophy. In the past, some options have contained accelerated vesting features upon the achievement by the Company of pre-determined equity value targets. The Compensation Committee has not awarded other stock-based awards in the past.

In the Fiscal Year 2010, the Compensation Committee granted stock options to our Named Executive Officers as indicated in the 2010 Grants of Plan-Based Awards Table. These stock options vest in four equal annual installments, beginning on the first anniversary of the grant date, and subject to continuous employment from the date of grant until the applicable vesting date. In determining the amount of the equity and equity-based awards to be granted to the Named Executive Officers in 2010, the Compensation Committee targeted the annual grants to be competitive with the Compensation Comparison Group peer group and made awards based, in part, on the Company's improving performance and the officers' overall compensation. In 2010, the Compensation Committee awarded 250,000 options to Mr. Giardina in August 2010, and 35,000 options to each of Messrs. Annese, Gallagher, Kastin and Milford in November 2010.

4. Other Benefits and Perquisites

The Company's executive compensation program also includes other benefits and perquisites. We maintain a 401(k) plan for our eligible employees and Named Executive Officers with annual matching contributions up to \$500 per year which vest over four years. In addition, we provide medical benefits, long-term disability insurance (and gross-ups for related taxes) for specified employees, and free memberships in the Company's clubs for all employees. The Company annually reviews these other benefits and perquisites and makes adjustments as warranted based on competitive practices, the Company's performance and the individual's responsibilities and performance.

The Compensation Committee has approved these other benefits and perquisites as a reasonable component of the Company's executive compensation program. Please see the "All Other Compensation" column in the Summary Compensation Table for further information regarding these benefits.

Pay Mix

We utilize the particular elements of compensation described above because we believe that it provides a well-proportioned mix of low-risk compensation, retention value and at-risk compensation that produces short-term and long-term performance incentives and rewards. By following this approach, we provide the Named Executive Officers a measure of security in the minimum level of compensation that such individuals are eligible to receive, while motivating the Named Executive Officers to focus on the business metrics that will produce a high level of performance for the Company and long-term benefits for stockholders, as well as reducing the risk of recruitment of top executive talent by competitors. The mix of metrics used for the Bonus

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Plan and the 2006 Stock Incentive Plan likewise provides an appropriate balance between short-term financial performance and long-term financial and stock performance.

For our Named Executive Officers, the mix of compensation is weighted toward at-risk pay (annual cash incentives and long-term equity incentives). Maintaining this pay mix results in a pay-for-performance orientation for our Named Executive Officers, which is aligned with the Company's stated compensation philosophy of providing compensation commensurate with performance.

In accordance with our philosophy that overall compensation should be competitive and that the compensation of the Named Executive Officers should be at least partially dependent upon individual and Company performance, these executives are eligible to receive a higher portion of total annual compensation in the form of performance-based annual cash bonuses and long-term equity compensation as compared to other Company employees. In addition, in support of pay-for-performance objectives, the portion of total direct compensation delivered through long-term equity incentives generally increases with an executive's role and level of responsibility. As a result, our most senior executives are held most accountable for achieving multi-year performance objectives and changes in stockholder value.

Chief Executive Officer Compensation

Mr. Giardina's annual compensation consists primarily of base salary, annual incentive bonus and stock options. In connection with his hiring, Mr. Giardina also received a signing bonus equal to \$18,000 on an after-tax basis, plus \$100,000 paid in three equal monthly installments. Mr. Giardina's annual compensation was higher than that of the other Named Executive Officers due to his extensive experience and history with the Company and the higher demands of the chief executive officer position. For the 2010 Fiscal Year, Mr. Giardina's annual compensation consisted of:

\$505,000 annual base salary;

\$135,746 signing bonus (as described above);

\$510,221 annual incentive compensation;

A grant on August 2, 2010 of options to purchase 250,000 shares of common stock at \$2.77 per share, which was the closing price of the Company's common stock on that date; and

Participation in other benefit plans and perquisites.

Post-Termination Compensation and Benefits

None of the Named Executive Officers have employment agreements with the Company, but Mr. Kastin's offer letter with the Company contains severance arrangements in the event that Mr. Kastin is terminated without cause.

Mr. Kastin's severance arrangement reflects a negotiation between Mr. Kastin and the Company at the time Mr. Kastin was hired and was considered at the time by the Compensation Committee to be appropriate to retain Mr. Kastin. In addition, in connection with Mr. Alimanestianu's departure from the Company in March 2010, and in recognition of Mr. Alimanestianu's service to the Company and certain agreements by Mr. Alimanestianu, the Company agreed to pay Mr. Alimanestianu certain severance payments, as described under Potential Payments Upon Termination or Change in Control.

All Named Executive Officers have entered into an executive severance agreement providing for specified severance benefits upon a termination of the executive's employment with the Company without cause or by the executive for good reason within six months following a change in control of the Company. The Compensation Committee believes that severance in connection with a termination or reduction in responsibilities in connection with a change in control is necessary to attract and retain the talent necessary for our long-term success. These severance arrangements allow our executives to focus on duties at hand and provide security should their employment be terminated as a result of involuntary termination without cause or a constructive discharge in connection with a change in control of the Company. Under these severance arrangements, the executives will be required to comply with a non-competition covenant for a period of up to one year and will receive in return one year of salary, a pro rata annual bonus, continuation of health and dental coverage for up to one year and continuation of fitness club membership for one year. The Compensation Committee believes that these benefits are reasonable given that the executive's employment

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opportunities for a period following termination will be constrained by the non-competition covenants contained in the severance agreements. On March 1, 2011, Mr. Giardina's executive severance agreement was amended to increase the amount payable to him in connection with a termination followed by a change in control to eighteen months of his base salary. These executive severance agreements are more fully described under Potential Payments Upon Termination or Change in Control.

Under the 2006 Stock Incentive Plan and the related award agreements entered into between the Company and certain Named Executive Officers, if the Named Executive Officer resigns or the Named Executive Officer's employment is terminated by the Company for any reason, if the Company wishes to enforce specified non-competition and non-solicitation covenants for a period of up to one year, the Company must pay the Named Executive Officer severance compensation equal to no less than such Named Executive Officer's base salary during such period. The Compensation Committee believes that discretionary enforcement of non-competition and non-solicitation arrangements is beneficial to the competitive position of the Company and that the corresponding severance compensation is reasonable in such circumstances.

Compensation Committee Discretion

The Compensation Committee retains the discretion to decrease all forms of incentive payouts based on significant individual or Company performance shortfalls. Likewise, the Compensation Committee retains the discretion to increase payouts and/or consider special awards for significant achievements, including but not limited to superior management, investment or strategic accomplishments and/or consummation of acquisitions.

Impact of Tax and Accounting

As a general matter, the Compensation Committee takes into account the various tax and accounting implications of compensation vehicles employed by the Company. When determining amounts of grants under the 2006 Stock Incentive Plan to Named Executive Officers and employees, the Compensation Committee examines the accounting cost associated with the grants. Under ASC Topic 718, grants of stock options, restricted stock, restricted stock units and other share-based payments result in an accounting charge for the Company. The accounting charge is equal to the fair value of the instruments being issued. For restricted stock and restricted stock units, the cost is equal to the fair value of the stock on the date of grant times the number of shares or units granted. This expense is amortized over the requisite service period, or vesting period of the instruments. The Compensation Committee also carefully considers the impact of using performance metrics that are tied to market conditions (for example, share price or total stockholder return) as performance metrics under the 2006 Stock Incentive Plan, mindful of the fact that, even if the condition is not achieved, the accounting charge would not be reversible.

Section 162(m) of the Internal Revenue Code generally prohibits any publicly held corporation from taking a federal income tax deduction for compensation paid in excess of \$1,000,000 in any taxable year to the corporation's chief executive officer and next three highest compensated executive officers (other than the chief financial officer), unless the compensation qualifies as performance-based compensation within the meaning of Section 162(m). With respect to the 2006 Stock Incentive Plan and the Bonus Plan, we generally intend to structure performance based awards to qualify as performance-based compensation within the meaning of Section 162(m). While it is the Compensation Committee's policy to maximize the effectiveness of our executive compensation plans in this regard, we reserve the right to pay compensation that is not deductible under Section 162(m) if appropriate and in the best interests of the Company and our stockholders.

Conclusion

The level and mix of compensation for each of our Named Executive Officers is considered within the context of our historical compensation practices as well as the factors outlined above. The Compensation Committee believes that each of the compensation packages for our Named Executive Officers is appropriate in light of our industry and related industries and our competitive position in that context.

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The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on the review and discussions, the Compensation Committee recommended to our Board that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference into our Annual Report on Form 10-K.

Submitted by the Compensation Committee of the Company's Board of Directors:

Paul N. Arnold, Chair
 Bruce Bruckmann
 Thomas Galligan
 Kevin McCall

Equity Compensation Plan Information

The following table provides information with respect to compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance to employees as of December 31, 2010:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a)) (c)
Equity compensation plans approved by security holders	2,240,257	\$ 5.20	257,348
Equity compensation plans not approved by security holders			
Total	2,240,257	\$ 5.20	257,348

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Summary Compensation Table

The following table sets forth the compensation earned for all services rendered to us in all capacities in the fiscal years ended December 31, 2010, 2009 and 2008 by our Named Executive Officers, which include our Chief Executive Officer, Chief Financial Officer, each of our three other most highly compensated executive officers serving on December 31, 2010 and our former Chief Executive Officer.

				Non-Equity Incentive Plan	All Other
Salary	Bonus	Stock Awards	Option Awards	Compensation	