



## **CORRECTING and REPLACING Town Sports International Holdings, Inc. Announces Fourth Quarter and Full-Year 2008 Financial Results**

NEW YORK--(BUSINESS WIRE)--Mar. 3, 2009-- In the third sentence of the first paragraph under the heading "Investing Activities Outlook:" the sentence should read: The remainder of our capital expenditures principally relates to 2008 and 2009 new club openings (sted The remainder of our capital expenditures principally relates to 2008 and 2007 new club openings).

The corrected release reads:

### **TOWN SPORTS INTERNATIONAL HOLDINGS, INC. ANNOUNCES FOURTH QUARTER AND FULL-YEAR 2008 FINANCIAL RESULTS**

Town Sports International Holdings, Inc. ("TSI" or the "Company") (NASDAQ: CLUB), a leading owner and operator of health clubs located primarily in major cities from Washington, DC north through New England, operating under the brand names "New York Sports Clubs", "Boston Sports Clubs", "Washington Sports Clubs" and "Philadelphia Sports Clubs", announced its results for the fourth quarter and full-year ended December 31, 2008.

#### **Fourth Quarter and Full-Year Results:**

- Revenue during the quarter increased 3.4% to \$122.9 million. For the full-year, revenues increased 7.1% to \$506.7 million
- Comparable club revenue decreased 1.4% during the quarter but increased 2.2% for the full-year.
- Personal training revenues grew 4.3%, to \$14.0 million during the quarter and 10.1%, to \$61.8 million for the full-year.
- Membership attrition averaged 3.5% per month in Q4 2008 compared to 3.0% in Q4 2007 and totaled 40.2% for the full-year 2008 compared to 38.2% for the full-year 2007.
- Q4 2008 results include goodwill impairment charges of \$17.6 million and fixed asset impairment charges of \$1.9 million.
- Diluted loss per share for Q4 2008 was (\$0.51), including (\$0.66) related to goodwill and fixed asset impairment charges.
- A total of 1.8 million shares were repurchased during Q4 2008 under the repurchase program at a cost of \$4.6 million. Since December 31, 2008, an additional 2.1 million shares were repurchased at a cost of \$5.3 million.

Alex Alimanestianu , Chief Executive Officer of TSI, commented: "We are pleased with the overall resiliency of our business, as demonstrated by the continued growth in revenues in the fourth quarter of 2008 as compared to the fourth quarter of 2007. In an extremely challenging consumer spending environment, we generated operating cash flow of \$18.7 million and \$95.6 million in the fourth quarter and year ended December 31, 2008, respectively. Significant increases in total member usage from the fourth quarter of 2008 as compared to the fourth quarter of 2007 show the continued strong demand for the services offered at our clubs. However, we are facing ongoing challenges to our efforts to grow net memberships, which we expect to continue throughout 2009. As a result, we are reducing operating expenses and capital expenditures in an effort to protect our margins and preserve liquidity. On the operations front, we are seeing clear and positive signs that our ongoing initiatives to enhance the experience in our clubs are starting to produce favorable member feedback and overall satisfaction".

On February 26, 2009, Mr. Jason Fish assumed the role of Chairman of the Board of Directors, replacing Mr. Paul Arnold, who will remain as a Director.

#### **Quarter Ended December 31, 2008 Financial Highlights:**

**Revenue (in \$'000s) was comprised of the following:**



**Total revenue** for Q4 2008 increased 3.4% compared to Q4 2007 driven by new club openings. For Q4 2008, revenues increased \$9.6 million at the 24 clubs opened or acquired subsequent to December 31, 2006. This increase in revenue was offset by decreases in revenue of \$4.0 million at our clubs opened or acquired prior to December 31, 2006 and \$1.6 million

related to the seven clubs that were closed subsequent to December 31, 2006. Revenue at clubs operated for over 12 months ("comparable club revenue") decreased 1.4% during the three months ended December 31, 2008. Of this 1.4% decrease, 1.0% was due to a decrease in prices and 0.4% was due to a decrease in ancillary club revenue and fees and other revenue. There was no change in comparable club membership during the quarter.

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



**Total operating expenses** increased 27.4% for Q4 2008 compared to Q4 2007. Operating margin was (7.6)% for Q4 2008 and 12.7% in Q4 2007.

- The increases in payroll and related expenses were attributable to a 6.8% increase in the total months of club operation from 458 in Q4 2007 to 489 in Q4 2008. There were nine clubs opened and four clubs closed for a net increase of five clubs in the twelve months ended December 31, 2008. In addition, we have been discounting our new member initiation fees in an effort to drive membership sales. Our deferred payroll costs are limited to the amount of these initiation fees, thus causing an increase in payroll of approximately \$1.4 million when compared to Q4 2007, or roughly 1.1% of revenue.
- The \$6.6 million increase in club operating expenses is principally due to increases in rent and utilities at clubs opened in 2008 and Q4 2007.
- The increase in depreciation and amortization expenses was principally due to clubs opened in 2008 and Q4 2007.
- In Q4 2008, we recorded fixed asset impairment charges totaling \$1.9 million, which represent the write-off of assets at six underperforming clubs.
- In Q4 2008, we recorded a goodwill impairment charge of \$17.6 million, representing a \$15.8 million write-off of the total goodwill amount in our Boston Sports Clubs region and \$1.8 million of goodwill at two of our remote clubs that did not benefit from being part of a regional cluster.

**Net loss** for Q4 2008 was \$13.1 million compared to a net income of \$6.0 million for Q4 2007.

**Year Ended December 31, 2008 Financial Highlights:**

**Revenue (in \$'000s) was comprised of the following:**



**Total operating expenses** increased 14.2% for the year ended December 31, 2008 compared to the year ended December 31, 2007. Operating margin was 6.5% for the year ended December 31, 2008 and 12.2% for the year ended December 31, 2007.

- The increases in payroll and related expenses were attributable to a 7.6% increase in the total months of club operation to 1,935 for the year ended December 31, 2008 from 1,799 for the year ended December 31, 2007. There were nine clubs opened and four clubs closed for a net increase of five clubs in the twelve months ended December 31, 2008. In addition, we have been discounting new member initiation fees in an effort to drive membership sales. Our deferred payroll costs are limited to the amount of these initiation fees, thus causing a pre-tax increase of approximately \$6.0 million in payroll expense, or roughly 1.2% of revenue.
- The \$15.7 million increase in club operating expenses was principally due to rent and utilities at clubs opened in 2008 and 2007 and at clubs currently under construction.
- The increase in depreciation and amortization expenses was principally due to clubs opened in 2007 and 2008.
- In the year ended December 31, 2008, we recorded a \$2.7 million write-off of assets at seven underperforming clubs and an impairment loss of \$1.2 million related to the planned closures of two clubs prior to their lease expiration dates.
- In the year ended December 31, 2008, we recorded a goodwill impairment charge of \$17.6 million, representing a \$15.8 million write-off of the total goodwill amount in our Boston Sports Clubs region and \$1.8 million of goodwill at two of our remote clubs that did not benefit from being part of a regional cluster.

**Net income** for the year ended December 31, 2008 was \$2.3 million compared to \$13.6 million for the year ended December 31, 2007.

**Cash flow from operating activities** for the year ended December 31, 2008 totaled \$95.6 million, an increase of \$12.9 million, or 15.6% from the same period last year.

## 2009 Business Outlook:

Until we see evidence of the stabilization of the consumer environment, we are limiting our guidance to the first quarter of 2009. Based on the current business environment, our recent performance, and the current trends in our marketplace, and subject to the risks and uncertainties in our forward-looking statements, our outlook for the first quarter includes the following:

- Revenue in Q1 2009 is expected to be between \$123.0 million and \$125.0 million versus \$126.3 million for the Q1 2008. While we expect general and administrative expense to remain flat as a percentage of sales on a year-over-year basis, payroll, club occupancy, and depreciation and amortization expenses are expected to increase as a percentage of sales. The expected decrease in revenue coupled with the 4.2% expected increase in club months of operation from 477 in Q1 2008 to 497 in Q1 2009 are contributing to these increases.
- In Q4 2008 and January 2009, we reduced our non-club staff by 47 positions or 11%, including 27 positions through a reduction in force in January 2009. In connection with the reduction in force, in January 2009 we incurred severance and related costs totaling \$464,000. On an annualized basis, this will reduce our corporate payroll and related expenses by approximately \$2.5 million, excluding severance expense.
- Including severance and related costs, we expect net income for Q1 2009 to be between \$500,000 and \$1.0 million, and earnings per share to be in the range of \$0.02 per share to \$0.04 per share, assuming 23.5 million weighted average fully diluted shares outstanding.

## Investing Activities Outlook:

For the year ending December 31, 2009, we estimate we will invest between \$50.0 million and \$53.0 million in capital expenditures. This amount includes approximately \$23.0 million to continue to upgrade existing clubs, \$8.4 million to support and enhance our management information systems and \$4.0 million for the completion of a new regional laundry facility and corporate office in our New York Sports Clubs market. The remainder of our capital expenditures principally relates to 2008 and 2009 new club openings. We have opened three clubs since December 31, 2008 and plan to open an additional club at the end of March 2009. We expect to close four clubs in 2009.

Dan Gallagher, Chief Financial Officer of TSI, commented: "We are focused on preserving our liquidity and we have reduced our capital expenditures and corporate overhead and have initiated cost reductions where possible. As of December 31, 2008, we had \$10.4 million of cash and cash equivalents and \$42.8 million available for borrowing against our line of credit. We continue to have adequate room on the primary financial covenant within our senior credit facility which expires on February 27, 2012. Our gross leverage ratio, as defined, is 2.35 to 1.00 as of December 31, 2008, while our covenant requires 4.25 to 1.00 or below."

## Forward-Looking Statements:

Statements in this release that do not constitute historical facts, including, without limitation, statements under the captions "2009 Business Outlook" and "Investing Activities Outlook", other statements regarding future financial results and performance and potential sales revenue and other statements that are predictive in nature or depend upon or refer to events or conditions, or that include words such as "expects," "anticipated," "intends," "plans," "believes," "estimates" or "could", are "forward-looking" statements made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to various risks and uncertainties, many of which are outside the Company's control, including the level of market demand for the Company's services, competitive pressures, the ability to achieve reductions in operating costs and to continue to integrate acquisitions, the application of federal and state tax laws and regulations, and other specific factors discussed herein and in other releases and public filings made by the Company (including Forms 10-K and 10-Q filed with the Securities and Exchange Commission); accordingly, actual results could differ materially from any such forward-looking statement. The forward-looking statements speak only as of the date hereof and the Company does not intend to update this information, except as required by law, to reflect developments or information obtained after the date hereof, and the Company disclaims any legal obligation to the contrary.

## About Town Sports International Holdings, Inc.:

New York-based Town Sports International Holdings, Inc. is a leading owner and operator of fitness clubs in the Northeast and mid-Atlantic regions of the United States and, through its subsidiaries, operated 166 fitness clubs as of December 31, 2008, comprising 112 New York Sports Clubs, 25 Boston Sports Clubs, 19 Washington Sports Clubs (two of which are partly-owned), seven Philadelphia Sports Clubs, and three clubs located in Switzerland. These clubs collectively served approximately 510,000 members, excluding pre-sold, short-term and seasonal memberships. For more information on TSI visit <http://www.mysportsclubs.com>.

The Company will hold a conference call on Tuesday, March 3, 2009 at 4:30 PM (Eastern) to discuss the fourth quarter 2008 results. Alex Alimanestianu, Chief Executive Officer, and Dan Gallagher, Chief Financial Officer, will host the conference call.

The conference call will be Web cast and may be accessed via the Company's Investor Relations section of its Website at [www.mysportsclubs.com](http://www.mysportsclubs.com). A replay and transcript of the call will be available via the Company's Website beginning March 4, 2009.



\* Loss on extinguishment of debt is no longer excluded from EBITDA as it was in prior periods.

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

### **CONDENSED CONSOLIDATED BALANCE SHEETS**

**December 31, 2008 and 2007**

**(All figures in \$'000s)**

**(Unaudited)**

**EBITDA** decreased from \$27.8 million in Q4 2007 to \$5.0 million in Q4 2008 due in large part to the \$17.6 million and \$1.9 million in goodwill and fixed asset impairment charges, respectively.

### **Non-GAAP Financial Measure – EBITDA**

We use the term "EBITDA" in this press release. EBITDA consists of net income (loss) plus interest expense (net of interest income), provision for corporate income taxes, and depreciation and amortization. EBITDA is not a measure of liquidity or financial performance presented in accordance with GAAP. EBITDA, as we define it, may not be identical to similarly titled measures used by some other companies.

EBITDA has material limitations as an analytical tool and should not be considered in isolation or as a substitute for cash flows from operating activities, operating income or other cash flow or income data prepared in accordance with GAAP. The items excluded from EBITDA, but included in the calculation of reported net income, are significant components of the consolidated statements of cash flows and income, and must be considered in performing a comprehensive assessment of our liquidity.

EBITDA excludes, among other items, the effect of depreciation and amortization, which is a significant component of our reported GAAP data. Depreciation and amortization, which is a non-cash item, totaled \$13.7 million and \$52.5 million in the quarter and year ended December 31, 2008. Although a premise underlying depreciation and amortization is that it will be reinvested in our business to restore, replenish or purchase property, equipment and other related assets, the funds represented by depreciation and amortization could, in the Company's discretion, be utilized for other purposes (e.g., debt service). Accordingly, EBITDA may be useful as a supplemental measure to GAAP financial data for demonstrating our ability to satisfy our liquidity and capital resource requirements.

Investors or prospective investors in the Company regularly request EBITDA as a supplemental analytical measure to, and in conjunction with, our GAAP financial data. We understand that these investors use EBITDA, among other things, to assess our ability to service our existing debt and to incur debt in the future, to evaluate our executive compensation programs, to assess our ability to fund our capital expenditure program, and to gain insight into the manner in which the Company's management and board of directors analyze our liquidity. We believe that investors find the inclusion of EBITDA in our press releases to be useful and helpful to them.

Our management and board of directors also use EBITDA as a supplemental measure to our GAAP financial data for purposes broadly similar to those used by investors.

The purposes to which EBITDA is used by investors as well as our management and board of directors include the following:

- The Company is required to comply with financial covenants and borrowing limitations that are based on variations of EBITDA as defined in our debt agreements. Our two principal debt agreements consist of our 2007 Senior Credit Facility and our Senior Discount Notes. Our 2007 Senior Credit Facility, the more restrictive of these debt agreements, contains a covenant requiring us to maintain a total leverage ratio of consolidated indebtedness (excluding our Senior Discount Notes) to consolidated EBITDA that is not in excess of 4.25 to 1.00. Our Senior Discount Notes contain a covenant that prohibits us and our subsidiaries from incurring, subject to certain exceptions, additional debt if our ratio of consolidated EBITDA to consolidated fixed charges is equal to or greater than 2.00 to 1.00. Our 2007 Senior Credit Facility and our Senior Discount Notes, in defining EBITDA for purposes of these covenants, require that different adjustments be made to EBITDA relating to certain extraordinary and non-cash items, including, among others, loss on extinguishment of debt, deferred rent expense and non-cash deferred compensation expense. In both cases, EBITDA as presented in this press release constitutes the principal determinant of compliance with these covenants. At December 31, 2008, we had a total leverage ratio of 2.35 to 1.00 and a ratio of consolidated EBITDA to consolidated fixed charges of 4.55 to 1.00 as calculated under our 2007 Senior Credit Facility and our Senior Discount Notes, respectively. Under the relevant provisions of our 2007 Senior Credit Facility (including the total leverage ratio covenant), we could have incurred additional debt of \$42.8 million under that facility, plus additional debt for acquisitions, capitalized lease obligations and certain other specified purposes, at December 31, 2008.
- Our discussions with prospective lenders and investors in recent years, including in relation to the negotiation of our 2007 Senior Credit Facility and our Senior Discount Notes, have confirmed the importance of EBITDA in their decision-making processes relating to the making of loans to us or investing in our debt securities. The Company anticipates that the lenders of, or investors in, any debt to be incurred by us in the future will look to EBITDA in analyzing the Company's ability to service such debt. EBITDA thus is likely to be a highly relevant factor with respect to the ability of the Company to incur debt, as and if needed, to meet a portion of its future liquidity and capital resource requirements.
- The Company uses EBITDA as a key factor in determining annual incentive bonuses for executive officers, as discussed in our proxy statement. Our 2006 Annual Performance Bonus Plan provides for the award of incentive bonuses based upon the attainment of pre-established performance targets, which in recent years have included an EBITDA-based measure as a principal target. The Compensation Committee used EBITDA adjusted to exclude compensation incurred in connection with stock options and items of a non-recurring nature as the principal target under the Company's incentive compensation program for the 2008 fiscal year. The Compensation Committee is again using an EBITDA-based performance target for purposes of the incentive compensation program for the 2009 fiscal year.
- The Company considers EBITDA to be a useful supplemental measure to GAAP financial data because it indicates our ability to generate funds sufficient to make capital expenditures (including for the opening of new clubs and the upgrading of existing clubs) as well as to undertake initiatives to enhance our business by offering new products and services in accordance with our strategy. EBITDA, which eliminates non-operating items (*i.e.*, interest expense, net and provision for corporate income taxes), provides investors with additional information in conjunction with the statements of cash flows regarding funds available to meet these and other liquidity and capital resource requirements, notwithstanding that the eliminated non-operating items must then be paid with cash resources or borrowings.
- The Company uses EBITDA measures as a supplemental financial metric in management's periodic presentations to the Company's board of directors. The board of directors regularly requests, and is provided with, EBITDA information as part of its on-going review and oversight of the Company's liquidity over the course of each fiscal year.

We do not, and investors should not, place undue reliance on EBITDA as a measure of our liquidity.

Source: Town Sports International Holdings, Inc.

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