

# FINAL TRANSCRIPT

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## **CLUB - Q2 2008 Town Sports International Holdings, Inc. Earnings Conference Call**

**Event Date/Time: Jul. 31. 2008 / 4:30PM ET**

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## CORPORATE PARTICIPANTS

**Daniel Gallagher**

*Town Sports International Holdings, Inc. - CFO*

**Alex Alimanestianu**

*Town Sports International Holding, Inc. - President and CEO*

## CONFERENCE CALL PARTICIPANTS

**Paul Swinand**

*Stephens Inc. - Analyst*

**Ed Aaron**

*RBC Capital Markets - Analyst*

**Tom Shaw**

*Stifel Nicolaus - Analyst*

**Sharon Zackfia**

*William Blair - Analyst*

**David Wells**

*Avondale Partners - Analyst*

**David Cohen**

*Midwood Capital - Analyst*

## PRESENTATION

**Operator**

Thank you, ladies and gentlemen, and welcome to the Town Sports International Holdings Second Quarter 2008 Earnings Conference Call. My name is Silvana, and I will be your coordinator for today. (Operator Instructions).

I would now like to turn the presentation over to your host for today's call, Mr. Daniel Gallagher, Chief Financial Officer. You may proceed.

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**Daniel Gallagher** - *Town Sports International Holdings, Inc. - CFO*

Thank you for joining us today. This is the Town Sports International Holdings earnings conference call, discussing second quarter 2008's results. I'm Daniel Gallagher, Chief Financial Officer of the Company.

I caution listeners that, to the extent we make any forward-looking statements in this conference call, they are made pursuant to the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995. These statements are subject to various risks and uncertainties, many of which are outside of our control, which may cause actual results to be materially different from any forecasts we have made.

We have issued a press release discussing our results for the quarter, which has also been filed with the SEC under a Form 8-K. In addition, to those of you who do not have access to this release and filing, we have also made them available at our Website, [www.mysportsclubs.com](http://www.mysportsclubs.com). This conference call is also being Webcast and may be accessed via the Company's Investor Relations section of our Website. A replay and transcript of the call will be available via the Company's Website following this call.

I will now turn this call over to Alex Alimanestianu, the President and Chief Executive Officer of Town Sports International, for discussion on the operations of the Company. And then I will give further detailed financial discussion later in the call.

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**Alex Alimanestianu** - *Town Sports International Holding, Inc. - President and CEO*

Thank you, Dan, and good evening everyone. We are pleased to have delivered another quarter of solid results, and, despite the difficult economic environment, we are able to reaffirm our 2008 guidance, which Dan will discuss in a moment.

Our results in the second quarter were driven by our strategy to offer an affordable and convenient way for our members to achieve their fitness and lifestyle goals, as well as by our efforts to improve the member experience in our clubs. We have made delivering a consistent and high quality member experience a key priority, and we believe this is just beginning to have a positive impact on our business. While some initial programs are in place, there are still many initiatives being reviewed and considered, and we will be able to discuss future efforts with you later in the year.

Highlights from the quarter include a slight improvement in our attrition rate from levels in the same quarter last year, and the continued strong performance of our new clubs. Given the challenging consumer environment, we are pleased with our comparable club revenue growth of 3.2% and with our stable EBITDA margin of 23.9%.

In the quarter, we opened three clubs and closed two, bringing the total number of clubs under operation at the end of the period to 163. Total membership was up 8.2% from a year-ago level, to 517,000 members, which was in line with club unit growth and a sequential increase over Q1.

The new clubs in the second quarter were as follows. We opened a fitness-only club in Bay Ridge, Brooklyn. This is our 15th club in the outer boroughs of New York City, where we have added six clubs since the beginning of 2007. We also opened multi-recreational clubs in Dobbs Ferry, New York, which is our 10th club in Westchester County, and in Washington, D.C. in the Columbia Heights neighborhood, our 19th club in the DC region. All three are performing well, with the Columbia Heights club continuing to break Company records for new club membership performance.

We expect our new club portfolio to achieve in excess of our internal hurdle rate of return of 20%, and we believe this speaks to the effectiveness of our site selection process and our clustering strategy as we continue to build clubs that strengthen our market position in our core regions.

Looking out over the balance of 2008, we remain on track to open 11 clubs this year. In addition to the five clubs opened in the first half, we have opened one club for pre-sales in the third quarter in Westborough, Massachusetts, our 23rd club in Boston, and we expect to open five clubs in the fourth quarter.

In order to drive new member sign-ups in the current environment, we have been offering greater promotions on our joining fees, as well as more generous member referral programs. We are paying for these promotions and programs in part by reducing our advertising expenditures, which are down more than \$1 million year to date, or nearly 22% versus prior year. In this environment, we believe that switching dollars to joining fee promotions and referral programs is more effective than spending on traditional advertising.

On the expense control side, during the second quarter, we successfully tested an energy management and reduction program in 10 of our clubs, and we expect to expand the program to another 25 clubs by yearend.

As is our practice, we will raise monthly dues rates on existing members effective September 1. This year's increase will average slightly less than 2%, for an estimated monthly increase in membership revenue of approximately \$600,000. By design, this is a smaller percentage increase than in prior years, as we formulated the rules this year with a view to minimizing the increase in attrition that generally follows the dues increase announcement.

Now I'd like to update you on several of our operational and member service initiatives.

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The Membership Consultant Hiring and Compensation Plan that we rolled out in four Washington Sports Club sites in February continues to meet our expectations. The program is now in place in 18 Washington Sports Clubs, as well as in our new clubs in Westborough, Massachusetts and West Hartford, Connecticut. Our plan is to continue to expand the program to all new sites as clubs open and to be live in all clubs by early 2009. All of our initial objectives have been met. We are achieving sales targets with fewer but more productive consultants. The program is attracting more experienced sales personnel, and retention is better than under the old program. Importantly, the new program has freed general managers to focus more on the customer aspects of the business and less time on directing membership sales activities.

In May 2008, we rolled out a new and comprehensive General Manager Training program in the Manhattan region. The goal of this program is to train experienced managers, hired externally, on how to successfully manage a TSI club. The program focuses on leadership and management of people, sales, operations, and fitness with an emphasis on the total member experience that we are instilling into our club culture. This program is fully engaged in the Manhattan and Boston regions and will be operating in all regions by September 1. It represents a significant step towards achieving consistent management readiness and improved performance.

We are in the 3rd month of our mystery shopper program, and we are seeing improvements in the overall performance of the clubs, with scores rising approximately 14% percent from our baseline numbers. In addition, the performance of our member call center, as measured by response and resolution times, has improved impressively as a result of our planned increases and upgrades in staffing.

As these and other initiatives continue to enhance the member experience, we plan to achieve increased membership growth through greater referrals and lower attrition as well as increased ancillary revenue and increased pricing power. We are confident that we have the right strategy in place to drive long term sales and earnings growth, and, in the meantime, we believe that our core customers will remain dedicated to their health and fitness goals despite a challenging economy.

I would now like to pass the call over to Dan Gallagher to cover a more detailed financial statement review.

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**Daniel Gallagher** - *Town Sports International Holdings, Inc. - CFO*

Thank you, Alex.

To focus on second quarter results, our consolidated revenue was \$129.4 million, an increase of \$9.6 million, or 8% over the prior year. The key driver of the growth was membership revenue, which increased by \$8.1 million, or 8.3%, to \$105 million.

Ancillary club revenue, which includes personal training or small group training and our Sports Club for Kids program, rose \$1.5 million, or 7.3%, to \$22.8 million for the quarter. In the month of May, our personal training revenue was flat when compared to 2007, while April and June were up on average 12.0%. During the first six months of 2008 our member participation in personal training increased to 8.4% from 7.2% in the same period of 2007. We still believe we are positioned to drive double-digit ancillary revenue growth going forward.

Revenue at our comparable clubs - those clubs opened over 12 months - increased by 3.2%. This increase was driven by member growth of 1.5%, an overall average price increase of 1.0%, and ancillary and other revenue growth of 0.7%.

We have included in our earnings release made available today an analysis of our EBITDA for the quarter. EBITDA was \$30.9 million for the second quarter, which is an historical quarterly high for the Company and represents an 8.1% increase over the second quarter of 2007. Our EBITDA margins were 23.9% for the second quarter of 2008 and for the second quarter of 2007.

Depreciation and amortization expense was \$13.9 million, when compared to \$11.7 million in Q2 of 2007. As a percentage of total revenue, the second quarter 2008 was 10.7% compared to 9.8% for the same period last year. During the quarter, we

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recorded an impairment loss of \$755,000 on fixed assets of a remote club that did not benefit from being part of a regional cluster and therefore experienced a decline in asset fair value. We also recorded an impairment loss of \$387,000 related to an agreement to close a club prior to its lease expiration. Partially offsetting these charges was approximately \$600,000 of insurance proceeds received for fixed asset damages. We expect depreciation and amortization expense to approximate 10.2% of revenue in each of the remaining quarters in 2008.

Total operating expenses for the quarter grew to \$112.9 million, an increase of 9.3% from last year's second quarter.

Club operating expenses totaled \$41.5 million, an increase of 9.4% over the prior year. Looking ahead, we expect club operating expenses as a percent of revenue to approximate 34% for each of the next two quarters.

Payroll and related expense in the second quarter increased 9.2% to \$48.7 million as compared to \$44.6 million in the same period last year due to a net increase of 11 clubs as well as an increase in payroll related to the sales staff. Because we have been running promotions on our joining fees in an effort to drive sales, we are limited to the amount of payroll costs that can be deferred. We expect to continue our promotions on our joining fees in the upcoming quarters and therefore expect payroll as a percent of revenue in the last two quarters to approximate the levels experienced in this quarter.

Our operating income for the second quarter was \$16.5 million compared to \$16.4 million in the prior year's quarter.

Gross interest expense was \$5.6 million for the quarter compared to \$6.4 million in the prior year's quarter. The reduction in interest expense was principally due to a decrease in the interest rate charged on our term loan facility from 7.1% in the second quarter of 2007 to 4.4% in the second quarter of 2008.

Fully diluted earnings per share were \$0.26 a share compared to \$0.24 a share in 2007.

As you know, in May we announced a 19-month stock repurchase program to repurchase up to an aggregate of \$25 million of the Company's common stock, which is expected to continue through December 2009. We have not made any repurchases to date. As we stated when we announced the repurchase program, repurchases may be made from time to time, at our discretion and depending on a variety of factors, including prevailing market conditions.

Turning to our liquidity, total debt at the period end stood at \$312.8 million, and cash was at \$10.5 million, giving a net debt figure of \$302.3 million. In addition, we have a \$75-million credit facility in place, of which \$63.5 million was unutilized as of June 30.

Cash flows from operations for the first six months of 2008 totaled \$57.3 million compared to \$48.2 million for the comparable period in 2007. An increase in EBITDA contributed to \$5.6 million of the improvement in cash flows from operations. In addition, the net changes in certain operating assets and liabilities increased \$4.5 million, primarily due to decreases in prepayments made to landlords and the timing of other vendor payments. Cash paid for interest decreased \$4.3 million, while cash paid for income taxes increased \$5.0 million.

Capital expenditures totaled \$44.5 million year to date, and we expect capital expenditures for the full year of 2008 to approximate \$90 million to \$95 million. This amount includes \$21 million to continue to upgrade existing clubs. We will spend approximately \$9 million to enhance our management information system and \$6 million for the construction of a new regional laundry facility in our New York market.

The remainder of our 2008 capital expenditures will be committed to building or expanding our clubs. We also expect to receive approximately \$9 million in tenant incentives from this construction from our landlords during the full year of 2008.

We believe our investments will continue to provide solid returns. Our own internal measure of returns indicates that we produce 24% return on operating capital. Broadly, we define return on operating capital as EBITDA as a percentage of capital we use to

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run the day-to-day operations of the business. For the technically inclined, operating capital includes - gross fixed assets, working capital, excluding cash, deferred member revenue and costs, and deferred lease liabilities.

As of July 1, 2008, we had 4.222 million square feet of club facilities under management compared to 3.838 million square feet at the end of the second quarter of 2007, a 10% increase. Our target is to bring our total club count to 168 clubs with a total of 4.368 million square feet on December 31, 2008. Our net club increase will be 7 this year, with 11 openings and 4 closures.

Based on the current business environment, our recent performance, and our current trends in the marketplace, and subject to the risk and uncertainties in our forward-looking statements, the Company is reaffirming its guidance for 2008.

The Company continues to expect the opening of a total of 11 new clubs in 2008 and currently expects revenue for the year to be in the range of \$510 million to \$520 million, or approximately 8% to 10% growth over 2007, driven by club membership, ancillary revenue growth, and the maturation of recently opened clubs, as well as new clubs opened during the year.

We continue to expect net income to be between \$21.3 million and \$22.3 million for 2008 compared with 2007's net income of \$13.6 million. We expect annual EPS between \$0.80 per share and \$0.84 per share for the full year, with a similar quarterly cadence for the remainder of 2008 to that of 2007. This EPS guidance assumes 26.5 million shares outstanding and does not assume any of the potential shares repurchases.

We would now like to turn the call over to any questions anyone has.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). And the first question comes from the line of Paul Swinand from Stephens. You may proceed.

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### Paul Swinand - Stephens Inc. - Analyst

The first question was-- Both on your last call and the analyst day, some people asked about what Marty might do. And, obviously, you said it was too early to say anything. But, now, we've been hearing in the marketplace even that some of the centers are excited about some new ideas that he has. And you said that there was a lot of low-hanging fruit. So what--? Can you share with us maybe what the low-hanging fruit is and what you're going to attack first there?

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### Alex Alimanestianu - Town Sports International Holding, Inc. - President and CEO

I think that the programs that I mentioned in the prepared remarks are already starting to show you what the low-hanging fruit is. So the mystery shopping program, which preceded Marty, is already really pushing the general managers in the clubs to bring their A-game every day. And you're seeing that in the improvement in the scores. So just the fact that they're competing and getting ranked, getting scored, and, in the next year-- In 2009, we also have their compensation tied in part to the scores. That is going to continue to push performance. So that's certainly one thing that we're benefiting from.

I think the other programs that we've had underway are also helping us in terms of the membership consultant hiring comp plans. So those are things that are definitely moving us in the right direction.

I think the attrition rate, which has been stable or, actually, down a little bit in the second quarter of this year versus last year in a really difficult consumer environment, shows-- at least suggests directionally that the club and the member experience is improving somewhat. So it is early. And, as I've always stressed -- or I have on the last three calls-- the change in the culture

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inside the clubs from a culture that really emphasized sales to one that balances sales and service is a process. And it's not hitting a light switch and seeing change. But it is incremental. We're having success already.

And Marty is spending his time now, after his discovery phase, as we call it, really working on his operating plan. And he's well into that. And as soon as he gets that done, then we'll start implementing some of the bigger changes, which are focused in the areas that you would expect - the organization in the clubs, the people in the clubs, and the systems in the clubs, as well as some corporate things. But, primarily, the experience in the club, which is primarily governed by those three things - the organization, the people, and the systems. So, I hope that gives you something-- an answer to that question.

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**Paul Swinand** - *Stephens Inc. - Analyst*

Okay. Thank you for that. And a question on the corporate sales. Last quarter, you were very excited about the corporate sales. Is that still strong? And is that getting to the point where it's a material part of the total sales effort, or is that still pretty (inaudible)?

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**Alex Alimanestianu** - *Town Sports International Holding, Inc. - President and CEO*

We're still very pleased with that business and the way it's growing. Corporate members are now nearly 10% of the overall membership. The revenue is growing faster there in that area of the business than anywhere else. And it is a slightly more challenging environment in the second quarter and, primarily with getting new corporate accounts to join the program. It's just taking more work, and it's a little slower. But, overall, the growth there is tremendous. It has been and continues to be tremendous.

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**Paul Swinand** - *Stephens Inc. - Analyst*

Thank you very much.

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**Operator**

And the next question comes from the line of Ed Aaron from RBC Capital Markets. You may proceed.

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**Ed Aaron** - *RBC Capital Markets - Analyst*

I wanted to ask a follow-up question on customer acquisition costs. You mentioned an increased level of promotion, offset somewhat by advertising expense. Are those two essentially a wash, or does one outweigh the other?

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**Daniel Gallagher** - *Town Sports International Holdings, Inc. - CFO*

I would say the payroll costs are slightly outweighing the other that we're incurring because of the discounting of the joining fees. But, as we do meet on a monthly basis and look over our promotional strategy, we certainly do consciously take from advertising dollars to put them towards discounting of our joining fees. That's basically what we've been doing.

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**Ed Aaron** - *RBC Capital Markets - Analyst*

Would it be accurate to say that the increase in customer acquisition cost is greater than what's reflected on the P&L, since the promotions are-- the non-advertising promotions are amortized over the life of the membership?

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**Daniel Gallagher** - *Town Sports International Holdings, Inc. - CFO*

No. Actually, they're not, because what happens is, to the extent we're discounting initiation fees, that limits the amount that we can defer. So what we are experiencing right now is actually a slight lift in payroll because we're actually expensing more of those costs than we would in the past. So, we're not deferring the same level that we would have in the past; we're actually deferring less.

**Ed Aaron** - *RBC Capital Markets - Analyst*

Okay. I thought that maybe you'd been paying your salespeople more in terms of incentives. But I must have misunderstood.

**Daniel Gallagher** - *Town Sports International Holdings, Inc. - CFO*

No.

**Ed Aaron** - *RBC Capital Markets - Analyst*

Okay. Helpful. And, then, some ancillary revenue. You mentioned some volatility in the quarter. Is there anything to explain that? I know, in the fourth quarter, for example, there was some disruption in that business. But it just seemed a little lumpy this quarter with the month of May.

**Alex Alimanestianu** - *Town Sports International Holding, Inc. - President and CEO*

May was anomalous. We do expect double-digit growth for the balance of the year. The participation rates are increasing, which indicates to me that the Tri-Pack program is working. We're getting more people to personal train. Last May was a very successful month. It grew-- I think it was the second-biggest growth month of the year.

**Daniel Gallagher** - *Town Sports International Holdings, Inc. - CFO*

Yes, it was.

**Alex Alimanestianu** - *Town Sports International Holding, Inc. - President and CEO*

So I think the comparison was difficult. But we're looking at it and scratching our heads a bit. Since April and June, we performed differently. And our expectation is that we will see double digit-growth in that area. I think the economic environment is-- Maybe it's creating a little more volatility, but I don't-- I just want to consider it at this point an anomaly, and then we'll take it from there and see what happens next quarter.

**Ed Aaron** - *RBC Capital Markets - Analyst*

Okay. And then just one more question, if I could. It's not a big number, but you have, I think, four store closures, you said, for the year. Does that have any impact on your comps when you close those stores and those existing members switch over to other clubs that you have?

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**Daniel Gallagher** - *Town Sports International Holdings, Inc. - CFO*

To the extent we're able to keep those members, those members would be in another club. And they would go into our comps, obviously, because of those other clubs we have. But, to the extent we're closing clubs, they're usually clubs that have a fairly low membership base, and that's partly why we're closing these clubs. They're not our flagship clubs with a model amount of members (inaudible). They're usually clubs that are older, that we perhaps acquired, and they're getting on in age, and they don't really have the membership base that a typical club has. And, depending upon how close it is to other clubs, we keep some, and we do lose some.

**Ed Aaron** - *RBC Capital Markets - Analyst*

Okay. Thanks, and nice job in a tough environment, guys.

**Operator**

And the next question comes from the line of Tom Shaw from Stifel Nicolaus. You may proceed.

**Tom Shaw** - *Stifel Nicolaus - Analyst*

Just a couple of quick questions. I'm just curious if you've seen, I guess, through the first six months, any change with members selecting either the Commit membership versus month-to-month.

**Alex Alimanestianu** - *Town Sports International Holding, Inc. - President and CEO*

No. The Commit membership is still, by far, the membership of choice.

**Tom Shaw** - *Stifel Nicolaus - Analyst*

And the mature club comp for the quarter?

**Daniel Gallagher** - *Town Sports International Holdings, Inc. - CFO*

1.8%, and that compares to 2.6% prior quarter.

**Tom Shaw** - *Stifel Nicolaus - Analyst*

Okay. And you had previously talked about attrition rates being a little higher in the second half. Any change to that outlook?

**Daniel Gallagher** - *Town Sports International Holdings, Inc. - CFO*

Well, I think on a quarterly basis, we always have a list in attrition in the third quarter, and we're continuing to expect that this year, where it gets closer to 3.5% on a monthly basis in the third quarter. And then it comes back to us. It comes back down in the fourth quarter. So we do still expect to see some lift in attrition in the second half of the year.

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**Tom Shaw** - *Stifel Nicolaus - Analyst*

And would you say that 3.5%-- Is that comparable to what we saw in 3Q of '07?

**Daniel Gallagher** - *Town Sports International Holdings, Inc. - CFO*

Yes. That's about the same amount as last year.

**Tom Shaw** - *Stifel Nicolaus - Analyst*

Okay. All right. Thanks, guys.

**Operator**

And the next question comes from the line of Sharon Zackfia from William Blair.

**Sharon Zackfia** - *William Blair - Analyst*

Last year in your club operating expenses, you kind of saw a big variation between the third and the fourth quarter, which you didn't see back in 2006. I'm just wondering-- Can you remind us if there was something weird that happened last year? And, this year, will those club ops be more normal or even-weighted between the September and December quarter?

**Daniel Gallagher** - *Town Sports International Holdings, Inc. - CFO*

I don't have that specifically. I could certainly speak to this year, in the sense that we're going to have-- I think I said on the call about 34% is where we're going to end up, where I do see perhaps advertising being a little bit volatile last year compared to this year. And we're predicting that a little bit more closely this year. But we also having-- We're expecting a spike in some utility costs in this fourth quarter that perhaps we didn't have to that level last year.

**Sharon Zackfia** - *William Blair - Analyst*

Okay. So is that low 34ish good to use for both quarters? I'm just trying to figure out the seasonality in the back half of the year on that.

**Daniel Gallagher** - *Town Sports International Holdings, Inc. - CFO*

I think 34% is what I'm looking at for both quarters.

**Sharon Zackfia** - *William Blair - Analyst*

I was kind of interested in your energy management test. Obviously, you're rolling it out, so you've seen some good things there. Can you kind of quantify for us what kind of savings you're getting from that? And, actually, what is energy management, because I think everyone's got a different definition.

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**Daniel Gallagher** - *Town Sports International Holdings, Inc. - CFO*

Sure. I can do that. Basically, it's a program we piloted at nine or ten of our clubs, where we install this management system, and it basically monitors on an hourly basis how much energy we're using at the club. And, from a remote site, you can basically turn down or turn up all aspects of the club, whether it's HVAC, the sauna, and even the lighting. What we're doing is we're finding that there's a decent population of the clubs that, during the evenings and at night when the club is closed, certain things were left on in the past that we're now remotely shutting off or lowering. And then, throughout the day, to the extent we have peaks and valleys in membership usage, we're also using it as an opportunity to monitor how much energy we're using at the club, whether it's to keep things cool or whether it's to keep the saunas running. And the investment in this-- It's about \$50,000 a club to put this system in place. And, based on our initial sample, we found that some of these things pay themselves back within ten months. Some of them are a little more; some of them are a little less. But, on average, it's probably less than two years. So it's a very good opportunity for us, especially in advance of the utility increases that I think the population out there is expecting coming up in general. We're going to be having-- Unless something changes with utility prices, I think just about all retailers are going to be expecting some spikes in that going forward.

So I think this will more so help mitigate any spikes we're going to have in '09 as opposed to have net savings. But we're very anxious to keep rolling it out, certainly at our bigger clubs that consume more energy.

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**Sharon Zackfia** - *William Blair - Analyst*

Okay. Thank you.

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**Operator**

And the next question comes from the line of David Wells from Avondale Partners. You may proceed.

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**David Wells** - *Avondale Partners - Analyst*

Just a couple of quick questions. First off, kind of interest expense sequentially was down. I didn't know if kind of a similar run rate for the back half of the year was appropriate or if we should be thinking about continued decreases there.

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**Daniel Gallagher** - *Town Sports International Holdings, Inc. - CFO*

A big piece of our interest relates to a variable interest rate term loan. And we had about 4.4% interest expense on that term loan in this quarter. So, to the extent rates go up and down, which they were a little volatile, I would say, in the first six months-- We've had some ups and downs in our interest rate. It's a little hard to predict, but I would say this quarter is more indicative of the first quarter, but I'm not so sure I would use this quarter as a run rate. If rates go up ever so slightly, we would certainly have an increase in interest. So it's a little tricky to forecast. But I would say this quarter is more of an indicator than last quarter.

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**David Wells** - *Avondale Partners - Analyst*

Secondly, in terms of your choice with regards to your price increase. Presumably, perhaps inflation and rates are running a little bit higher than that. Are you expecting any sort of corresponding margin pressure that you're kind of giving in a little bit of margin to keep attrition rates low? What does that impact look like, if any?

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**Alex Alimanestianu** - *Town Sports International Holding, Inc. - President and CEO*

The assumption is that, with lower attrition, we're going to make up for the impact that we've absorbed in the past. So that's the approach we're taking. I don't know. Dan, did you have anything?

**Daniel Gallagher** - *Town Sports International Holdings, Inc. - CFO*

I think that's accurate. And I think the amount we increased dues was not very far up on an average basis from what I would have expected anyhow. So I don't think we're going to have margin pressure for this reason, that's for sure.

**David Wells** - *Avondale Partners - Analyst*

All right. And then, I guess a last question. On a sequential basis, it looks like some of the ancillary club revenues were down in terms of a year-over-year increase. And then, at the same time, attrition had started to kind of kick up a little bit sequentially. Are you seeing--? Should we interpret that as the consumers who are in the Commit program at this point are not dropping out at this-- are just scaling back with their spending within the club? Is that the correct interpretation of that, or is there some other dynamic?

**Alex Alimanestianu** - *Town Sports International Holding, Inc. - President and CEO*

I think the participation in personal training is going up. So the number of people who were taking advantage of the personal training programs is increasing. There may be pressure on the number of sessions that people are training in any given period. So they continue to train but maybe, instead of six times a month, they're training five times a month. But more people are doing it. So we think the population of people participating is going to benefit us, and we expect it to make up for some of the pressure on the number of sessions, if you follow what I'm saying.

**David Wells** - *Avondale Partners - Analyst*

Thank you very much.

**Operator**

(Operator Instructions). The next question comes from the line of David Cohen from Midwood Capital. You may proceed.

**David Cohen** - *Midwood Capital - Analyst*

In the analyst day presentation, you guys looked at different cohorts of clubs. And there were those clubs that had been opened in the last 24 months, and there was a trailing 12-month EBITDA drag from that. I'm curious with this one quarter, and, obviously, kind of the continuing maturation of some clubs but there are new clubs, did that change at all? Are those 24-month clubs still a drag, or are they closer to breakeven? Where do they stand in terms of aggregate profitability?

**Alex Alimanestianu** - *Town Sports International Holding, Inc. - President and CEO*

That's not information we give out specifically in detail. We don't follow that group of clubs as we move along. But I can say that those clubs are performing fairly well. They're actually performing at or ahead of our expectation. So if there is an EBITDA drag, it's no more than we would have expected.

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**David Cohen** - *Midwood Capital - Analyst*

Okay. All right. Thanks, guys.

**Operator**

At this time, we don't have any further questions. I will pass the call over for closing remarks to Dan Gallagher. You may proceed.

**Daniel Gallagher** - *Town Sports International Holdings, Inc. - CFO*

Well, thank you very much. We look forward to updating everyone when we release our third quarter results. Thank you.

**Operator**

Thank you, ladies and gentlemen. This concludes the presentation. You may now disconnect.

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