

Thomson StreetEventsSM



Conference Call Transcript

CLUB - Q2 2009 Town Sports International Holdings, Inc. Earnings Conference Call

Event Date/Time: Jul. 29. 2009 / 4:30PM ET



CORPORATE PARTICIPANTS

Dan Gallagher

Town Sports International Holding, Inc. - CFO

Alex Alimanestianu

Town Sports International Holdings, Inc. - President, CEO

CONFERENCE CALL PARTICIPANTS

Paul Lejeux

Credit Suisse - Analyst

Cassandra Stevenson

KeyBanc Capital Market - Analyst

David Cohen

Midwood Capital - Analyst

Sree Rodger

Deutsche Bank - Analyst

PRESENTATION

Dan Gallagher - Town Sports International Holding, Inc. - CFO

Thank you for joining us today. This is the Town Sports International Holdings Earnings Conference Call discussing 2009 second quarter results. I am Dan 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. These risks and uncertainties are described in our reports filed with the SEC. We have issued a press release discussing our results for the quarter, which will also be filed with the SEC under Form 8-K.

In addition, for 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. This conference call is also being webcast and may be accessed via the Company's Investor Relations section of our website. Also, a replay and transcript of the call will be available via the Company's website following this call.

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

Alex Alimanestianu - Town Sports International Holdings, Inc. - President, CEO

Thank you, Dan, and good afternoon, everyone. We're pleased to be with you again to provide our second quarter 2009 results. We are now at the halfway point of 2009, and hopefully beyond the halfway point of the current recession, and our business continues to generate significant positive cash flows and has been relatively stable, especially in the areas that we can directly impact and control, like member retention.

For the six months ended June 30, 2009, we produced \$51 million of cash flow from operations, as compared with \$57.3 million in the same period last year. Also, our ability to retain members is reflected in our attrition rate, which we have been able to maintain in a range below 4% per month, and far below the levels we saw in 2002 and 2003 as a result of the last recession.

As we have discussed on previous calls, over the past 18 months we have been very focused on improving the member experience in our clubs, as we believe this is the best way to both retain and attract new members over the long run; and also the best way to grow our earnings. Based on

our member feedback and our mystery shopper scores, we know that these programs are having a strong impact on member satisfaction and the quality of club operations, and we are also confident that this will benefit our bottom line in the future.

The challenges we face today are primarily getting new members to join our clubs in numbers that we've grown accustomed to and getting current members to purchase personal training sessions at historical levels. We view these as primarily economic issues and we will ride out this long recession by reducing expenses and keeping capital expenditures to a minimum, while at the same time continuing to invest in initiatives that improve the member experience and strengthen our brand.

I would like to highlight some information and statistics that we are getting from our clubs to give you a better understanding of our strides in improving our member experience. While our longer-term goal is to bring our attrition rate below 3% per month, in this environment we were pleased with the average monthly attrition of 3.7% for the second quarter. And if not for the initiatives in club operations that we have put in place over the past year, we believe our attrition would be materially higher today.

One metric which we believe affects our success in enhancing the member experience that we have talked about before is overall club usage. Total usage was up 10% in the quarter and up 8% at our comparable clubs, despite our ending the quarter with fewer members.

Another example of our progress is demonstrated by our mystery shopper scores, which continue to increase to new high levels and, for the first time, in June exceeded our initial target set when we started the program over a year ago. We have seen increases every quarter, and we expect ongoing improvement as we continue to improve the way we manage the clubs. For instance, the general manager and fitness service manager bonuses are now tied to these mystery shopper scores.

We have another key performance metric called our net delighted score. For this, we compare customer feedback that is negative versus positive. The net feedback turned positive in the first quarter of this year and increased considerably in the second quarter. So we now have a meaningfully higher percentage of feedback that is positive versus negative, and are nearing our initial target for this metric.

One last thing I want to say about attrition rate is that while the rate has increased for inactive members, which is to be expected as they become more cautious with personal expenditures during a recession, it has remained very flat or even improved for regular and frequent club users, something we are very proud of and which gives us confidence in ultimately lowering our attrition rate when economic conditions improve.

Looking at other metrics in the quarter, our total membership at the end of the second quarter was 503,000, down 2.7% from a year ago. Membership decline primarily reflects the economic environment's impact on our ability to recruit new members, which again is something that is harder to control than keeping existing members happy. This year-over-year decline is in line with our internal expectations and will likely continue through the end of the year.

Corporate and group memberships continue to be a bright spot. We ended the quarter with approximately 61,000 corporate members, an increase of 25% over Q2 2008. We also sold approximately 5% of our new memberships in the quarter on line through a program we launched in December. We continue to focus on group and online sales channels to reach new members, as these channels enhance the experience of joining our club while also reducing our new member acquisition costs.

The noticeable area in which we saw a drop-off for the quarter was same-club revenue, which was down 6.3%. One of the key issues within this decline was ancillary revenue, another area that is being directly impacted by economic conditions and therefore is more difficult for us to control. Similar to what we saw last quarter, despite usage in our clubs increasing our members are spending less money on our ancillary services, just as they are in other areas of discretionary spending.

We're also seeing in-club advertising weaken, which is another part of ancillary revenue that we have little control over.

Price also contributed to the same-club revenue decline. To respond to the consumer's extreme price sensitivity, we are discounting new memberships, such as our first month free or current summer free program, which lowers our overall monthly dues rate.

We're also seeing some members trade down to lower-price plans while at the same time we are losing some older members who paid higher monthly fees.

And finally, a reduction in membership is also impacting same-club revenue. Unfortunately, we believe each of these issues will remain in place for the rest of the year. We believe the same-club revenue decline could get a little worse in the second half of the year.

On the expense front, we continue to review our cost structure in search of operating efficiencies. Our new central laundry facility in Elmsford, New York, has now been successfully in operation for more than two months. We continue to expect to see \$1.5 million of laundry-related cost savings in 2010.

Through the reduction of club operating hours and the cross-training of club personnel, we have made reductions to overall corporate and club payroll by nearly \$5 million on an annual basis, while at the same time upgrading the quality of our club management teams and the corporate team that supports the club.

We are also making progress on our rent renegotiations and expect that we will achieve cash savings in occupancy costs of roughly \$1 million this year, and at least that amount next year. Some of these reductions are longer-term, or some just provide short-term relief, but we are doing everything we can to align our current expenses with revenue trends.

We are taking advantage of the real estate market's weakness to extend club leases where it makes sense to do so, and are also closing clubs that are not performing up to our financial expectations or strategically do not benefit our portfolio.

There were no club openings in the second quarter and there are no additional greenfield club openings expected this year. As a reminder, we opened four clubs in the first quarter.

We closed our club in Parsippany, New Jersey, on June 30 as (inaudible). This was our fourth closing of the year. We have two other clubs slated to close this year and we are assessing one or two others for possible closure.

Looking ahead, while we have had to lower our internal earnings budget for the second half of the year, our key goals for 2009 remain the same - to maintain a solid balance sheet, to stay safely above our debt covenants again this year, while continuing our initiatives to improve the member experience.

With respect to the balance sheet, we started the third quarter with \$16.1 million less net debt outstanding than we carried at the end of last year. And the recent amendment to our senior credit agreement, which Dan will discuss later, provides us with further room on our primary financial covenant.

Also, now that we have made good progress on our member experience and other operational initiatives, which has been a critical priority since I took over as CEO in November 2007, we have heightened our focus on the sales and marketing fronts.

To further that agenda, we are in the final stages of interviewing candidates for our Vice President of Sales and Marketing position. While this will be a new position for the Company, the costs will replace that of our former head of Corporate Sales, who left the company during the second quarter.

The initial goals for this new vice president, in addition to driving membership sales and ancillary revenue, will be to review our go-to-market strategy and brand positioning as well as certain aspects of our sales model. We expect to fill this key position shortly with a highly talented executive who will bring new leadership skills and vision to the sales and marketing area and help drive the effectiveness and productivity in this critical area of the business.

In the near term, we are stepping up our promotions to attract new members. We have been pleased with the success of our summer free promotion, which waives the monthly dues through August when paying an initiation fee of \$49 to \$69.

We are running several other promotions this quarter which target very specific groups, and we are also offering to all new members our Fitness Journey program, which offers a complimentary structured exercise program, including meeting with a member of our fitness team once per week for six weeks. The primary objective of this program is to engage and inspire our members to make exercise an important part of their weekly routine.

This will be the foundation of our future fitness platform. July is the inaugural month for the Fitness Journey program and we expect to offer it more broadly in the coming months to existing members, and particularly to inactive members, where we see an opportunity to reengage and motivate them to return to the club.

To drive revenue in the personal training area, we're increasing promotions on less-costly 30-minute personal training sessions; regular sessions are 60 minutes long.

We have recently completed a review of our membership pricing and will be adding our two-year commit membership option to 27 clubs. This membership type is generally at a \$10 per month discount from our one-year commit membership option. After these additional clubs are added, approximately one-third of our clubs will offer the two-year commit membership option. We will also be reducing dues on our one-year commit membership option by \$5 to \$10 per month at 24 clubs. We have taken these steps at our most price-sensitive clubs in order to make sure that our price points are properly aligned with the marketplace and to make sure that we are maximizing new-member sales at these locations.

Also, each year in September we increase dues of existing members. Given this year's consumer environment, and the impact the dues increase might have on attrition, our dues increase is planned to impact less than 10% of our members and result in a very modest overall increase in dues.

And finally, we don't know when or what type of federal healthcare plan will be passed in Washington, but we expect that there will be clear recognition in the legislation that fitness and exercise are basic integral components of wellness and prevention, and we are hopeful that the reform legislation will provide meaningful financial and tax incentive to promote and support fitness club membership.

So in summary, we feel good about how we performed through the first half of 2009. Whether it is positive longer-term trends in fitness or the initiative we are pursuing right now to improve our clubs, we are confident that we will be well-positioned when the economy begins to improve.

As we stand now, we feel like our business is stable. We continue to be focused on completing the roll-out next month of our Operational Excellence program, making sure we continue to upgrade our member experience as we believe it is the most effective membership retention tool we can deploy, and also that it will build strong word-of-mouth support for our brand over the long term.

We are also now bringing a greater focus to strengthening the sales and marketing functions within our Company, and look forward to speaking more about this in the future.

But I'm most excited about the feedback we are getting from our members about how our club teams and our fitness programs have improved their lives. And also that we are now getting more positive customer feedback than negative for the first time since we started tracking this metric. We know that our brand now has positive momentum. And while the economy may keep this momentum from showing up on our bottom line over the short term, we are confident that it will benefit our Company and our shareholders in the years to come.

Now I'd like to turn the call back over to Dan Gallagher to provide more details regarding our financial performance. Dan?

Dan Gallagher - Town Sports International Holding, Inc. - CFO

Thank you, Alex. I'll run through the details of the quarter and then discuss our outlook for the third quarter.

For the second quarter, our consolidated revenue was \$123.9 million, a decrease of 4.2% over the second quarter of 2008. Membership revenue was \$101.7 million, as compared to \$105 million in the same period last year. And as of June 30, 2009, we had 503,000 members, which is 2.7% fewer members when compared to June 30, 2008.

Total ancillary club revenue totaled \$20.9 million, a decrease of 8.1%. Within ancillary revenue, personal training revenue declined 9.2% to \$15.2 million, while other ancillary revenue declined 5% to \$5.8 million.

Revenue at comparable clubs -- those clubs opened over 12 months -- decreased by 6.3% for the quarter. Within same-club revenue, the components were as follows -- price declined 1.9%, membership declined 1.9%, and ancillary club revenue and fees declined 2.5%, with the drop in personal training having the biggest impact on ancillary revenue.

Price was impacted by an increase in members that have their membership on freeze, promotions to attract new members to our clubs, and cancellations by members that paid higher rates than our member base average. The decline in membership is a reflection of the challenges in recruiting members in this consumer environment.

Because we ended the quarter with 4.2% less members at our comparable clubs, and we expect continued pressure on ancillary revenue, a decrease in comparable-club revenue is expected in the third quarter.

Total operating expenses increased 2% for the second quarter of 2009 when compared to 2008. We ended the quarter with a 2.5% increase in total club months under operation, from 483 at the end of the second quarter of 2008 to 495 in the current quarter. Also, total member usage was up 10%. These increases put pressure on payroll and related expenses as well as club operating expenses.

Overall, payroll and related expenses decreased by \$407,000, or by 0.8%, to \$48.2 million in the second quarter due to several factors. The decrease was due to lower management incentive bonus expense as well as a reduction in personal training payroll. This was partially offset by higher payroll costs associated with discounted membership fees.

The payroll costs we can defer are limited to the amount of initiation fees collected. Thus, lower fees resulted in an increase of approximately \$1.3 million in payroll expense.

Club operating expenses increased \$3.5 million, or by 8.5%, to \$45.1 million. This increase is principally due to expenses at the 11 clubs we opened subsequent to April 1, 2008. Also in the quarter, we recorded \$700,000 of rent expense in connection with an anticipated judgment in favor of one of our former landlords.

And our advertising and marketing costs for the quarter increased \$669,000, to \$1.5 million. This puts our year-to-date advertising and marketing spend in line with the first six months of 2008.

General and administrative costs totaled \$7.5 million for the quarter, a decrease of 15.8% versus the second quarter of 2008. The decline was principally due to an \$866,000 decrease in liability insurance expense. We experienced a decline in claims activity as well as a reduction in claims exposure associated with our decrease in membership, and this had a positive impact on our claims reserves.

Depreciation and amortization expense totaled \$14.3 million for the quarter, an increase of 12.8% versus second quarter of 2008. The increase in depreciation and amortization was primarily driven by the 11 new clubs added after April 1, 2008.

As a result of these items, operating margin for the second quarter of 2009 was 7.1%, as compared to an operating margin of 12.7% in the second quarter of 2008.

Interest expense was \$5.3 million for the quarter, compared to \$5.6 million in the prior year's second quarter. We continue to benefit from a decrease in short-term interest rates charged on our outstanding term loans. Interest charged on our term loans averaged 2.2% this second quarter, compared to 4.4% in the second quarter of last year.

Fully diluted earnings per share for the second quarter were \$0.11, compared to earnings per share of \$0.26 last year. Our weighted average diluted share count for the second quarter of 2009 was 22.6 million shares, down from 26.5 million shares in the second quarter of 2008.

As you know, we previously announced a stock repurchase program to repurchase an aggregate of up to \$25 million of the Company's common stock, which continues through December 2009. We repurchased 2.1 million shares at a total cost of \$5.4 million in the first quarter of 2009, resulting in a decrease of total common shares outstanding from approximately 24.6 million shares as of December 31, 2008, to approximately 22.6 million as of June 30, 2009. We did not have any stock repurchases during the second quarter of 2009.

Cash flows from operations for the first six months of 2009 totaled \$51 million, compared to \$57.3 million for the comparable period in 2008. The decrease in cash flow from operations is primarily due to the decrease in earnings.

Cash paid for taxes decreased almost \$10 million over the period.

Next week, we will be making the first cash interest payment on our senior discount notes, totaling \$7.6 million. This will reduce our third quarter cash flows from operations when compared to the third quarter of 2008.

Capital expenditures totaled \$28.5 million year to date, and we expect capital expenditure for the full year of 2009 to approximate \$50 million to \$53 million. This amount includes approximately \$23.5 million to continue to upgrade existing clubs, \$8.6 million to support and enhance our management information systems, and \$4.5 million for the completion of the new regional laundry facility and corporate office.

The remainder of our capital expenditures principally relates to 2008 and 2009 new club openings. We opened four clubs and closed four clubs in the first half of 2009 and we plan to close two additional clubs in 2009.

Turning to our balance sheet, total debt as of June 30, 2009, was \$324.3 million, and our cash position was \$12.8 million, a net debt figure of \$311.5 million. In the first six months of 2009, our net debt outstanding decreased \$16.1 million.

On July 15, 2009, we amended our 2007 credit agreement to revise the language to EBITDA, such that we are now permitted to add back all noncash charges related to the impairment or write-down of fixed assets, intangible assets, or goodwill when performing the leverage ratio test. Related to the amendment, we also agreed to reduce our revolver commitment from \$75 million to \$63.8 million. As of June 30, we had \$5 million outstanding on our revolver and \$13.3 million of letters of credit outstanding. We continue to have adequate room on the primary financial covenant with our senior credit facility, which expires February 27, 2012.

As of June 30, 2009, our gross leverage ratio, taking into account the revised definition of EBITDA, was 2.05 to 1, while our covenant requires a ratio of 4.25 to 1 or below.

Turning to our outlook, we are limiting our guidance to the third 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 third quarter includes the following.

Revenue for the third quarter is expected to be between \$117 million and \$119 million versus \$128.1 million for the third quarter of 2008. We expect payroll, club operating, and depreciation and amortization expenses in dollars to be similar to the second quarter of 2009, although increased as a percentage of sales.

We expect third quarter general and administrative expenses to approximate first quarter levels.

We expect a net loss for the third quarter of between \$1.5 million and \$2.5 million and a loss per share to be in the range of \$0.07 per share to \$0.11 per share, assuming a 34% effective tax rate and 22.6 million weighted average fully shares outstanding.

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

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS) Paul Lejeux, Credit Suisse.

Paul Lejeux - Credit Suisse - Analyst

Hey, you guys. Paul Lejeux.

Alex Alimanestianu - Town Sports International Holdings, Inc. - President, CEO

Hey, Paul.

Dan Gallagher - Town Sports International Holding, Inc. - CFO

Hi, Paul.

Paul Lejeux - Credit Suisse - Analyst

Hey. What percent of your members are inactive right now? Just wondering what that looks like relative to the same time last year, and how that may have trended over the last couple of quarters.

Dan Gallagher - Town Sports International Holding, Inc. - CFO

Paul, it is trending down. There are so many different definitions, actually, that we look at that I don't want to be too granular about any particular definition. And the industry standard is around 20%. But the definitions are all over the place in terms of what period of time the member's been inactive, whether it's 30, 60, 90, and how active is active. So I could tell you it's trending down and we're very focused on keeping that trend going in that direction.

Paul Lejeux - Credit Suisse - Analyst

Did you say it's about 20%, you would say, or--?

Dan Gallagher - Town Sports International Holding, Inc. - CFO

I think that's the industry norm.

Paul Lejeux - Credit Suisse - Analyst

Any you think you're around that level?

Dan Gallagher - Town Sports International Holding, Inc. - CFO

It depends on the period of time we're looking at. And we don't want to get into granularity on that definition.

Paul Lejeux - Credit Suisse - Analyst

Got you. And can you remind us -- you've got a couple of clubs and pools where you have members come in for the summer. Are those members already, for the most part, included in that second quarter membership count?

Alex Alimanestianu - Town Sports International Holdings, Inc. - President, CEO

When we give out our membership count numbers, we actually exclude the summer members. So those are our full-time members that we disclose.

Paul Lejeux - Credit Suisse - Analyst

Okay. So how many, approximately, would you typically get during the summer months that are excluded?

Alex Alimanestianu - Town Sports International Holdings, Inc. - President, CEO

That are excluded? We'll put it in our 10-Q, but basically we have two types of summer members. Some are the pool members, which join our outdoor pool complexes; and others are our student memberships, which are the kids that are back from school and are here for the summer. So there's two different types of them. But I don't want to give out an exact number; all I can tell you that together, the group, we are trending very similar to last year.

Paul Lejeux - Credit Suisse - Analyst

Both of those -- the pool and the students -- are excluded?

Alex Alimanestianu - Town Sports International Holdings, Inc. - President, CEO

Yes.

Paul Lejeux - Credit Suisse - Analyst

Got you. And I guess, just wondering if you've seen any higher percentage of-- I don't know, maybe you call it early cancellations, once members are released from a committed membership. Are you feeling like people are paying more attention to when that membership lapses so that they can cancel on those commit memberships?

Alex Alimanestianu - Town Sports International Holdings, Inc. - President, CEO

We haven't seen anything significant in that respect. I think people are paying more attention to all expenses, and the thing we're focused on is especially the inactive group and how to make sure that we're doing everything we can to get them back into the clubs. That's where the biggest dropout attrition risk is, as we see it.

Paul Lejeux - Credit Suisse - Analyst

Can you give percentages in terms of what percent of your membership are month-to-month versus one-year versus two-year?

Dan Gallagher - Town Sports International Holding, Inc. - CFO

Give me a second on that, Paul. I know something you usually ask for is how many are in their commit membership? And right now, that number's-- 37.3% of our members are in a commit membership contract.

Paul Lejeux - Credit Suisse - Analyst

And that's probably skewed much more toward the one-year, correct?

Dan Gallagher - Town Sports International Holding, Inc. - CFO

Yes, very much so.

Paul Lejeux - Credit Suisse - Analyst

Okay; that's good enough for me.

Dan Gallagher - Town Sports International Holding, Inc. - CFO

I can follow up on the percent and commit versus noncommit; I've got it. The month-to-month would be, obviously, 62.7%, and as far as the commit contracts, over 70% of them are one-year commits.

Paul Lejeux - Credit Suisse - Analyst

Okay, great.

Alex Alimanestianu - Town Sports International Holdings, Inc. - President, CEO

Jul. 29. 2009 / 4:30PM ET, CLUB - Q2 2009 Town Sports International Holdings, Inc. Earnings Conference Call

Okay, Paul.

Dan Gallagher - Town Sports International Holding, Inc. - CFO

Thanks, Paul.

Operator

Cassandra Stevenson, KeyBanc Capital Market.

Cassandra Stevenson - KeyBanc Capital Market - Analyst

Hi, guys. I'm just calling in for Scott Hamman.

Alex Alimanestianu - Town Sports International Holdings, Inc. - President, CEO

Okay.

Cassandra Stevenson - KeyBanc Capital Market - Analyst

I was wondering, first of all, if you could talk about the competitive landscape in sort of your end markets. Are you perhaps benefiting at all from smaller clubs going out of business? And just general trends.

Alex Alimanestianu - Town Sports International Holdings, Inc. - President, CEO

Yes, the number of clubs closing is certainly accelerating, and it's not just smaller operators, it's also Bally's clubs and Crunch clubs and some other regional players that are closing clubs. And we're benefiting from that across the four regions. I expect that'll accelerate. It's hard to quantify the impact of it at this point, but certainly in this difficult time the smaller, less well-capitalized clubs with thinner margins are the ones that are most vulnerable.

Cassandra Stevenson - KeyBanc Capital Market - Analyst

Okay. And then, you talked a lot about attrition already, but I was wondering if you could give us an idea as to a timeline for improvement.

Alex Alimanestianu - Town Sports International Holdings, Inc. - President, CEO

Well, the third quarter is a seasonally high quarter for attrition. And then in the fourth quarter, we expect to see some improvement. In terms of narrowing the gap versus prior periods, we expect to see that in the fourth quarter. So we're going to see less-- we're going to see a return closer to the prior-period attrition rates. We've been averaging around 50 basis points higher but we expect that to come down in the fourth quarter.

Cassandra Stevenson - KeyBanc Capital Market - Analyst

Okay, great. And then lastly, I was just wondering if you could speak about maybe any adjustments you made to sales commissions or that structure, just to realize better marketing efficiencies in terms of member acquisition costs.

Alex Alimanestianu - Town Sports International Holdings, Inc. - President, CEO

We have not revised our commission structures on the membership consultant compensation plans.

Jul. 29. 2009 / 4:30PM ET, CLUB - Q2 2009 Town Sports International Holdings, Inc. Earnings Conference Call

Cassandra Stevenson - *KeyBanc Capital Market - Analyst*

Okay, thank you.

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

You're welcome.

Operator

David Cohen, Midwood Capital.

David Cohen - *Midwood Capital - Analyst*

Hey, guys.

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

Hey, David.

David Cohen - *Midwood Capital - Analyst*

Nice to see the costs sort of come more in line in the quarter. I'm wondering, is there more room to reduce costs on payroll-related and club operating as we try-- I understand you said it was set for the third quarter, but is there additional reductions that could happen over the second half in those areas?

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

It's a constant effort, but it's a balancing act between maintaining the level of service that we need to maintain, especially in an environment where usage is up 8% at comparable clubs. So the demand is very strong for us and the clubs are very busy. So you have to be extremely careful about cutting housekeeping or group exercise; or operating hours, for that matter. So it's a constant effort. We're focused on that as well as corporate expenses. I don't think, Dan, we have anything specific to talk about other than what we talked about?

Dan Gallagher - *Town Sports International Holding, Inc. - CFO*

No, other than-- Yes. We are always looking for efficiencies, payroll or otherwise, but you're specifically asking about payroll, and while we're continually looking at it, there's nothing to report as far as a major change in structure. Alex did report in that usage is up pretty significantly, so we have that to fight off while we continue to look for efficiencies.

David Cohen - *Midwood Capital - Analyst*

And your comment, you suggested that G&A for the third quarter would look more like the first quarter. Why are we seeing the uptick? Because you had a nice decline from Q1 to Q2 -- why the reversal back up to Q1's level?

Dan Gallagher - *Town Sports International Holding, Inc. - CFO*

One of the areas we saw some savings in in the second quarter was our liability insurance reserves, and that's not something that's necessarily going to perpetuate. But having said that, we have been looking at G&A, and the levels we're at this year, overall, I expect to be a little better than last year.

Jul. 29. 2009 / 4:30PM ET, CLUB - Q2 2009 Town Sports International Holdings, Inc. Earnings Conference Call

David Cohen - Midwood Capital - Analyst

Okay. And then, you guys aren't planning on opening any additional clubs in 2009 -- is that correct?

Dan Gallagher - Town Sports International Holding, Inc. - CFO

That's correct.

Alex Alimanestianu - Town Sports International Holdings, Inc. - President, CEO

That's correct.

David Cohen - Midwood Capital - Analyst

And are you spending money-- you're investing capital now, planning for 2010 opening?

Dan Gallagher - Town Sports International Holding, Inc. - CFO

No.

David Cohen - Midwood Capital - Analyst

I'm just looking at your-- and you've basically kept your outlook the same for CapEx. You spent about \$28 million-- you said you have the laundry facility opening and you're not opening any new facilities, so I'm trying to understand where, in the second half of the year, you're going to spend as much capital as you suggest you might spend -- up to \$25 million in the second half of the year when there are no club opening.

Dan Gallagher - Town Sports International Holding, Inc. - CFO

Sure. We have a decent amount of our equipment replacements and upgrades that happen in the second half of the year. We continue to have our IT initiatives under way. But it is safe to say we spent more of our CapEx in the first half of this year than we expect to spend in the second half of this year.

David Cohen - Midwood Capital - Analyst

Okay. And my last question -- you opened about 15% of your clubs since June 30, 2007, right? 24 clubs? Can you give-- (inaudible) the order of magnitude of the EBITDA drain or drag that accompanies those clubs? I mean, is it a couple of million or is it high single-digit millions?

Dan Gallagher - Town Sports International Holding, Inc. - CFO

That's not something I give out on a call like this, David. I don't have that readily available.

David Cohen - Midwood Capital - Analyst

Okay. All right; thanks, guys.

Alex Alimanestianu - Town Sports International Holdings, Inc. - President, CEO

Jul. 29. 2009 / 4:30PM ET, CLUB - Q2 2009 Town Sports International Holdings, Inc. Earnings Conference Call

Thanks, David.

Operator

Thank you. (INSTRUCTIONS) [Sree Rodger], Deutsche Bank.

Sree Rodger - Deutsche Bank - Analyst

Hi Alex, Dan; how are you?

Alex Alimanestianu - Town Sports International Holdings, Inc. - President, CEO

Good; how are you.

Sree Rodger - Deutsche Bank - Analyst

Good. Congratulations on that bank amendment. That was well done.

Alex Alimanestianu - Town Sports International Holdings, Inc. - President, CEO

Thank you.

Sree Rodger - Deutsche Bank - Analyst

You're welcome. My two questions -- one's a follow-on from an earlier question. In terms of new competition, in at least one part of New York you have a David Barton's gym and a 24-Hour Fitness opening sort of surrounding a couple of your gyms. Are you seeing a lot of that type of new competition coming into some of your markets? And how do you think that will impact your business?

And let me ask my second one as well at the same time. I was wondering if you might be able to share with us what the correlation is between unemployment and your various sort of revenue drivers -- new-member sign-ups, attrition, ancillary revenues.

Alex Alimanestianu - Town Sports International Holdings, Inc. - President, CEO

I'll take the competition part first. The number of new clubs opening in '09 and '10 is expected to be lower than -- and for obvious reasons -- lower than it has been historically. So while there has been an increase in competition in the past few years, that is subsiding to some degree.

Our position in Manhattan is we have 39 clubs and we have the leading market share and the leading network and we have just a tremendous presence and market position and brand recognition. So we've competed against David Barton and 24-Hour already against their 25th Street club and David Barton over the years, and it's really not a material issue. We take all competition seriously, obviously, but if we do everything we need to do and focus on the key operational initiatives and improving the things we're focused on improving, then we're not concerned about getting our share of the market.

In terms of correlation between unemployment and ancillary revenue, we haven't done any regressive analysis recently, but--

Dan Gallagher - Town Sports International Holding, Inc. - CFO

We also look at consumer confidence as well as unemployment. But it is safe to say as consumer confidence and unemployment trend against us, our ancillary revenue goes down because that's what we've been seeing.

Jul. 29. 2009 / 4:30PM ET, CLUB - Q2 2009 Town Sports International Holdings, Inc. Earnings Conference Call

Sree Rodger - Deutsche Bank - Analyst

I also meant all revenue, not just ancillary revenue but new member sign-ups and also attrition. I mean, clearly, the more people out of work have to impact your business, correct?

Alex Alimanestianu - Town Sports International Holdings, Inc. - President, CEO

Correct.

Sree Rodger - Deutsche Bank - Analyst

And you never looked at the correlation of that?

Alex Alimanestianu - Town Sports International Holdings, Inc. - President, CEO

We look at the correlation in the sense that when unemployment goes from 5% to close to 10% right now, we know that that is one of the reasons why we're having a more difficult time signing up new members and keeping members; absolutely.

Dan Gallagher - Town Sports International Holding, Inc. - CFO

Yes. We are pleased to see that the banks have started making a lot of money again and Wall Street is turning the corner. So that helps our New York Sports Club network tremendously. So maybe we've bottomed out here in this market, although that's very hard to predict. But we're looking for an increase in hiring, obviously, and that will help us. And we're hopeful it's coming sooner rather than later.

Sree Rodger - Deutsche Bank - Analyst

Great. Thank you.

Operator

It appears we have no further questions. I'd like to turn it back to Mr. Gallagher for closing remarks or comments.

Dan Gallagher - Town Sports International Holding, Inc. - CFO

Okay, thank you. That completes our call today. We look forward to updating everyone when we release our third quarter results. Thank you.

Operator

That does conclude today's call. We do thank you for participation.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2009 Thomson Reuters. All Rights Reserved.