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OPERATOR: Good morning ladies and gentlemen and thank you for standing by. Welcome to The Forzani Group Limited First Quarter Fiscal 2005 conference call. At this time, all participants are in a listen-only mode. Following the presentation we will conduct a question and answer session. Instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties hearing the conference, please press star zero for operator assistance at any time. I would like to remind everyone that this conference call is being recorded today Wednesday, June 2, 2004 at 9:30 a.m. Eastern Time for replay purposes and will now turn the conference over to Mr. Bob Sartor, Chief Executive Officer. Mr. Sartor, please go ahead.

BOB SARTOR: Thank you very much. Welcome ladies and gentlemen and good morning to our Q1 conference call. Sitting in the room with me today we have Bill Gregson, our President and Chief Operating Officer, Richard Burnet, our Chief Financial Officer, and Tom Quinn, the President of our Franchise Division.

Well we certainly had a tough, a tough sales quarter with comps down in both corporate and franchise businesses and while we improved our earnings over the prior year, we think we can do better despite the tougher market condition. I've put it in perspective on how tough those sales are in the overall retail sports sector.

The May edition of Jim Rennie's newsletter reported a Stats Canada type market growth for this sector at –4.6% for the first three months of this year. So the story of the quarter in my view is really about increased unit sales as you saw in our press release, which translates into increased market share and solid margin and cost performance.

Other factors such as increased amortization, lower interest expenses and a slight decline in our tax rate largely cancelled each other out. In fact, with a slight increase in those three known components of about 500,000.

Looking at our earnings per share on an (inaudible) basis, you saw in the press release that we reported earnings of five cents versus four cents last year. If we adjust last year's earnings for the impact of the Forzani closure, we would be adding two cents to those. So that's five cents versus six cents and if we normalize the thought-based compensation, we had two cents this year versus one cent last year. Adding those back, we basically put our earnings on par with prior year in our view at 7 cents versus 7 cents, but rather than getting into a ton of detail myself, I'll let Richard Burnet, our CFO walk you through the numbers, after which Bill Gregson will talk about the operations of the business. Richard?

RICHARD BURNET: Thanks Bob. For the period, retail system sales were 227.7 million, a 6.1 million dollar increase from sales for the same period last year. Comparable sales in corporate stores decreased 2.1% while franchise stores were down a percent. Overall comp sales, system sales were down 1.7%.

Revenues for the period were 228.6 million, a 3.3% increase over the same period last year. Combined gross margin for the 13 weeks was up 50 basis points to 31% of revenue from 30.5% in the prior year and absolute dollars; the combined gross margin increased 3.4 million to 70.9 million.

Our operating expenses were up slightly as a percent of corporate revenue to 29.8 from 29% in the prior year primarily due to the relationship of the fixed cost component, which threw our expenses against the decline in comp store sales.

G & A expenses exclusive of stock based compensation were flat or down slightly 5.9% of total revenues decreasing 10 basis points versus the same period last year.

EBITDA was 11.9 million, a 9% increase from the 10.9 last year and as a percent of revenue EBITDA increased 30 basis points to 5.2% compared to the prior year.

Pretax earnings for the 13 weeks were 2.5 million versus 1.9 last year and as Bob said, basic and diluted earnings per share for the period were 5 cents versus 4 cents last year.

Cash flow from operations increased from 7 million to 8.9 million in the current year. On a per share basis, cash flow increased some 21.7% to 28 cents a share from 23 in the prior year. We continue to maintain a strong balance sheet with a healthy working capital surplus of 121 million versus last year's 104 and debt to equity ratio of .16, roughly the same as year-end and last year. Bill?

BILL GREGSON: Thanks Richard. On the retail side of the business, yes as Bob said, it was a continuously a challenging environment from a sales point of view. We're quite happy with a lot of elements of our business. We've reversed the trend that was being established last year in terms of margin side and this year, this quarter on the retail side of our business and on the corporate retail side of our business we had an increased margin over the prior year.

We continue to be examplenary in our cost control. Our comp store expenses were actually lower than a year ago in absolute dollars than they were this year and as they made, it's been a retail nose to actually take your cost down year over year is tough to do.

As Richard pointed out, our general administration cost, we're below a percent up to a year ago and only up $200,000 in absolute dollars year over year for the entire corporation. Our inventories are down. We're down roughly at comp store level about 5.9%. So when you look at it, as Bob mentioned the market down 4.6 for sporting goods, Forzani outperformed that. We increased our margins at corporate stores. We reduced our cost in absolute dollars on comp stores and we reduced our inventories. We continued to position ourselves for going forward.

A little flavor on by region and by category on a relative basis, the west was stronger than the east in sales and in terms of sales by category, hard goods was the best performing area followed by footwear and clothing was our poorest performing area. In terms of comp store inventories, it reflects that exactly. Biggest decreases in comp inventories are in clothing followed by footwear followed by hard goods.

On a go forward basis; we continue to work on our margins. We still believe that there is lots of opportunities to still continue with higher margins at corporate retail stores year over year. We will continue with our very stringent cost control and we're looking at all the different parameters that make up, that affect sales and continue to work on many different things to get a more robust sales number in this tough environment. I'd like to turn it back over to Bob now.

BOB SARTOR: Thanks Bill. Well in a nutshell there you have it folks. As expected, retail pricing continues to be tough as some of our private company competitors struggle with over inventory positions we believe. We believe in certain cases those competitors need cash to satisfy the bank requirement, more to free up, open to buy and that has resulted in unsustainable pricing to turn that inventory and there really can be only one outcome to that scenario and that is fewer players at the end of the day.

Margins we expect will continue to improve as the year progresses on our part as the full impact of various merchandising initiatives we have underway are felt. The positive impact that the Gen-X close outs and our private brands as well as really leaner, fresher branded in season inventory will have on our margin, we'll continue to be felt throughout the year.

On the cost side ladies and gentlemen, it's a hunkered down mentality and as opportunities come up on the acquisition front, we will be waiting. It's clear that a reduced industry growth rate combined with poor balance sheets and over inventory positions for some of our primary privately held competitors will result in increased price competition in the near term and I believe a great growth opportunity for our company in the intermediate term because this price competition in a tougher marketplace will only increase attrition.

I think in our company here at the Forzani Group we really are controlling all of the elements that we can control. We're managing our margins very well in a tough environment. Our G & A costs were virtually flat. Our comp store expenses are down and we're reducing our inventory per square foot.

During this period of competition, it is I believe by doing these things that we're going to emerge far stronger than ever, but ladies and gentlemen, make no mistake, costs in the near term will be a struggle for all retailers in our sector.

As far as guidance for the year is concerned, we really see no change at this point. I will now turn it over to the Operator for the question period.

OPERATOR: Thank you. Ladies and gentlemen, we will now conduct a question and answer session. If you have a question, please press the star key followed by the one on your touchtone phone. You will hear a three-toned prompt acknowledging your request. Your questions will be polled in the order they are received. Please ensure you lift the handset if you are using a speakerphone before pressing any keys. One moment please, for your first question. The first question comes from Jim Durran of National Bank Financial. Please go ahead.

JIM DURRAN: I'm just wanting to focus on clothing. I know it was a soft spot last year and you're indicating that it was still a weaker, one of the weaker areas this year. What are changes in the dynamics of what's going on with clothing? I assume the casual clothing piece is largely done.

RICHARD BURNET: Actually no Jim, I mean our casual clothing by, we had a half decent quarter in casual clothing driven a lot of having a having a halt of (inaudible) unit at much higher prices because of the price deflation we were going through last year. So our margins were strong in casual clothing. We, our refocus on casual clothing isn't necessarily we're getting out of it, it's just to do hopefully the similar business in terms of dollars with a lot less inventory at a lot higher margin and so that area was reasonably comparable on a comparative basis, was reasonably, we're reasonably happy with, for the quarter. The athletic clothing in itself did not perform particularly well in terms of, margins were fine, inventory levels were fine, sales have not been to the degree that we would like.

JIM DURRAN: Is that a response to new product that's not taking off or what would that be?

RICHARD BURNET: I think it's somewhat a response to the, just to the overall industry to say to the athletic apparel industry. Some of the things that did work well though after the quarter, we introduced something that's been doing very well in the states, under armor and we put that into, we had been testing it previously, we put it into all stores in May. We've had a tremendous result with that, so we continue to tweak our assortment, to try and drive sales. Right now the athletic apparel business as a whole is not particularly robust. We would expect though with the Olympics coming up this August, that typically athletic clothing does get a boost from, in an Olympic year as you get closer to the Olympics.

JIM DURRAN: Right. Just looking at the first quarter instead of listening to some of the dynamics that are driving this that performance measures. I'm interested in hearing what you think for the total year the current dynamics, how they might change some of the objectives you had for the total year and what I mean is cost or sales you were targeting 1% up and we're seeing negatives right now. On store operating expenses etcetera, you're expecting basis point improvement, which we didn't see in this quarter although you know, obviously very well managed. It was just because the revenue growth wasn't there. So are we going to see a different way of getting to EPS guidance than what was previously published in the 2005 objectives?

BOB SARTOR: Jim, it's Bob. You may very well see that as obviously comps continue to be difficult, we have a very intense focus on working our mix and working our business to grow our margin. So you may see comps, you may still see comps at 1%. We've said all along, we thought the back half would be stronger, but we obviously are planning for a worse case scenario in which case you will see certainly a lot of work on our margin. In the first quarter I think we did a really good job and I think if we're continuing to that in the second quarter. So what you will see is stronger margins. On the cost side, I mean our G & A costs virtually flat and when your investing in new technology and opening new warehouses to be able to come in almost flat dollars is phenomenal performance and you're going to continue to see that kind of aggressive cost management on the G & A side.

Our corporate store expenses really are a function of sales because obviously all the variable pieces are very tightly managed. It's the fixed cost and you're looking at the worse quarter of the year for fixed cost lows. So you're going to see basis point improvement in corporate store expenses.

JIM DURRAN: Okay. Last question just on your tax rate in the quarter, it was quite low. Can you give us an indication as to what kind of tax rate you're expecting for the year now?

RICHARD BURNET: Jim, it's Richard. We're anticipating the 36.5% to carry through the year.

JIM DURRAN: Okay.

OPERATOR: The next question comes from Bob Gibson of Maison Placements. Please go ahead with your question.

BOB GIBSON: Good morning gentlemen, two quick questions. You have noted that franchise comp store sales were down pretty significantly for the first part of this quarter. Is there something unusual happening there or maybe you can give some color on that.

TOM QUINN: Hi Bob, it's Tom Quinn with the franchise. Basically in the first part of this second quarter the reason the comp store difference was down, we were up against some significant renovation sales that we did last year in that first period that drove a lot of heavy comps. That's taking some of the stores from 7000 square feet up to 20,000 and there's usually a three to four week major sale activity and we had several of them going on last year at this time.

BOB GIBSON: Okay and actually that leads into my next question. Could you comment on store renovations? How that's going and then maybe segway into how soccer might be looking at?

RICHARD BURNET: Well just in terms of our overall store program for the year, we believe as Bob pointed out that now is not the time to take a step back. Now is the time to continue to be aggressive as we have been for the last seven or eight years in terms of store development. We believe as we increase our market share of which we did last year and which we did in the first quarter, we put much greater pressure on our competition. So overall for the year, our plans remain the same, which are five, at least five Sport Chek stores, 15 Sport Mart stores and on the franchise as high as at least 18 stores that are either remodeled or expanded or new stores.

BOB GIBSON: Okay and then maybe what you could, could you talk about soccer and it's getting to be that season now.

RICHARD BURNET: Soccer is not a huge part of our business. When you think about soccer versus hockey, unfortunately you need a lot less equipment to play soccer. Some cleats and some shin pads and a bit of clothing. But it is a focus for us. The year that was coming up, this year we have taken a position that we want to do a lot more soccer business. We tell a ton of soccer cleats. So what we've really done is beefed up the clothing area, a lot of it. Our soccer business is up so far. We expect it to be up a lot in the upcoming months with the Euro Will it have a material impact on our bottom line? No, it's just, it's not that big a category.

BOB GIBSON: Right, but you're continuing, you think to roll out that category.

RICHARD BURNET: Oh absolutely, yeah.

BOB GIBSON: Okay. Thank you.

RICHARD BURNET: Yeah.

OPERATOR: The next question comes from Kathleen Wong of CIBC World Markets. Please go ahead with your question.

KATHLEEN WONG: Good morning. Were there any store closure costs included in these store operating expense line in the quarter? I'm just referring to the three stores, which were closed under the Columbia Mountain Shops Banner.

RICHARD BURNET: Well under the Columbia Mountain Shop, that was an opportunity buy if you will in terms of inventory. The stores that we took over were fully fixtured. We didn't put any money into them. We took them over for a short term so there was no cost associated with either the opening or the closing of those stores.

KATHLEEN WONG: Okay. My second question is can you comment on the competitive (inaudible) in western Canada, Ontario and Quebec and if you could also talk about your promotion of strategies in June and July in each of these regions given the weaker cost for the three weeks today.

RICHARD BURNET: We, on the promotional strategy side, I mean that's not something we want to share with the world too much in advance of having a promotion during a particularly robust sales period. We know, basically our promotions tend to be national other than the obvious for Sport Chek or for franchise, which is focused in the province of Quebec.

We tend to be province wide. In terms of the competition landscape in western Canada there is the Forzani Group and really not a whole let else with the, you know there's some independents that do some business. But with our acquisition to Sport Mart a few years back, they were the single biggest regional out there. Of course we face the, in terms of nationals, I mean in the footwear part of the mall business, Athlete's World and Foot Locker are right across the country and obviously in some hard goods at some price points. Canadian Tire is right across the country, but particular to western Canada there are no major regionals for western Canada.

In Ontario, (inaudible) was the most competitive market. There's a number of regionals there obviously, National Sports, Joggers are two of the biggest. In the far, in the Maritimes, it's (inaudible) and I'll let Tom speak to the Quebec based regional competitors.

TOM QUINN: In Quebec, the region tends to be one or two or three group store operators like an Andre Lalonde, Bernard Trottier, or the (inaudible) of smaller independent buying members.

KATHLEEN WONG: Okay. That's great. Thank you.

OPERATOR: The next question comes from George Hartman of Dundee Securities. Please go ahead with your question.

GEORGE HARTMAN: Hi. Just thought I'd take a slightly different angle on the close outs, which had been growing and as you've mentioned as a big factor in the first quarter results. Let's reverse that and ask you how high a proportion of your business should close outs be? What's your target?

RICHARD BURNET: George, it's really tough to have a target because close outs is not a, are not there all the time. They come and go and they tend to be overall, you tend to find a lot of close outs, but they may switch from category to category and some years it's ski and some years it's inline skates and some years it's footwear. Typically in athletic apparel, there's a lot less in athletic apparel because of the court issue for moving from other countries right now. So we think we can have more close outs than we have to date. We can grow, that's one of the reasons for the acquisition of Gen-X. We don't have a hard target of where we want to get to, it's more directional in that we think that we can do more than we're doing today by playing on an international scene rather than just on a Canadian scene.

GEORGE HARTMAN: What's the ratio say between successful close out purchases and I guess the unsuccessful ones or do you have such things?

RICHARD BURNET: Well I mean, pretty tough to, most of our close outs, really very rarely do we have an unsuccessful close out. But I guess in terms of margin difference, at the end of the day quite often it's you know, it’s 10 points a higher margin on a close out that drives business, that drives sales, that’s discounted. But you still often make 10 points you know, is a good increase over your regular margins.

GEORGE HARTMAN: So you’re at rarely, do something that doesn’t work out on the margin side or you’re left with liability inventory that you have to.

RICHARD BURNET: I can’t think of one that comes to mind.

GEORGE HARTMAN: Okay. Now with regards to your clearance activities that you had less of, I guess it still suggests that there’s some left, some more clearance activity left, I was wondering where regionally and what category perhaps?

RICHARD BURNET: Well I mean its business as usual right now for us. I mean you always have clearances. You change over from season to season. You buy product that has a six month shelf life, but from a point of view of our absolute inventory levels we’re, it’s not like it was last year where we had more than we needed and we needed to take unusual clearance initiatives. We’re back to business as usual.

GEORGE HARTMAN: So in terms of aged inventory?

RICHARD BURNET: We’re in better shape than we’ve been in a long time.

GEORGE HARTMAN: Okay. In terms of Ontario versus the west, you've spoken about it. Can you be a little more specific about the comp store performance in the two regions and yeah let's lead with that for now.

BOB SARTOR: George, it's Bob. What we're obviously for competitive reasons, we're not going to get into blow-by-blow comp numbers, by region or by banner. Certainly and we said it directionally that Ontario is a tougher marketplace. There's more competition and we're newer to that market, but we've also said and I'll repeat it now that we are absolutely committed to achieving in Ontario what we've achieved in Quebec and in western Canada.

GEORGE HARTMAN: Okay. Thanks.

OPERATOR: The next question comes from Keith Howlett of Desjardins Securities. Please go ahead with your question.

KEITH HOWLETT: Yes, I wonder if you could speak about comps in another way by category in terms of how footwear stacked up versus apparel versus hard goods?

BILL GREGSON: As I've said Keith, it's Bill, that the, directionally hard goods were the strongest area followed by footwear and then apparel not as strong as those other two.

KEITH HOWLETT: So were any of the three in positive territory.

BILL GREGSON: Yeah.

KEITH HOWLETT: One out of three, two out of three?

BILL GREGSON: Keith, go on to the next question.

UNKNOWN SPEAKER: Yeah, let's not split hairs here.

KEITH HOWLETT: Okay. How about month-to-month, February, March, April, were the comps, how was the trend month to month?

BILL GREGSON: We got better as we, as the quarter went along and you see I mean, three weeks you can see that was reported for the first three weeks of May, that corporate was up. I know three weeks is not a, does not constitute a trend but yeah, sales got better as the quarter went along.

KEITH HOWLETT: And what would the Columbia Sales have added to the system sales.

BILL GREGSON: Not material, it was four stores that were a total of about 16,000 square feet.

KEITH HOWLETT: And they were open for one or two months?

BILL GREGSON: They were open for 60 days.

KEITH HOWLETT: Okay, so I just trying to see if they, is that, so roughly speaking, is it like a million or 2 million or is it like 3 million?

BILL GREGSON: I just said they're not material. Yeah. Four stores, 16,000 feet, we have almost 5 million square feet, so.

KEITH HOWLETT: Right, I think you were up 6 million in the quarter on system sales, but so, hard to say what material is relative to 6 million, but in any event, on the inventory, which was up 10%, is that mostly in the new stores?

BOB SARTOR: Well it obviously is a function of new stores. It's a function of having a new wholesale business in Gen-X and yeah, that's where it is and the function of stock piling some close outs to supply the label in our warehouse. I keep going back to Bill's comment I recall was in fact our inventory density per square foot is increasing that comp base.

KEITH HOWLETT: And then just finally on cannibalization. Is it possible to know how much your comp numbers impacted by cannibalization of new stores?

BOB SARTOR: From that perspective we I think, Keith, you and I've had probably about 20 offline discussions on this. We basically do some fairly significant linear aggression and repression analysis on new store openings. We usually know exactly what the impact is and the impact varies based on distance and the age of the existing stores in the marketplace, so yes we do know exactly what the impact is. The impact is usually immaterial enough that on a net basis we can still get our 20 point (inaudible) in the first year on a new investment after taking into account the reduction in sales of the cannibalized store.

KEITH HOWLETT: Okay. Thanks.

OPERATOR: Ladies and gentlemen if there any additional questions at this time please press the star key followed by the one. As a reminder if you are using a speakerphone, please lift the handset before pressing any keys. The next question is a follow up question from Jim Durran of National Bank Financial. Please go ahead with your question.

JIM DURRAN: Just wondering on the gross margin improvement in the quarter, do you have any idea how much of the increase was attributable to less mark down activity on casual apparel versus last year?

RICHARD BURNET: Jim, don't know, I couldn't tell you the number, the effect. I haven't done that calculation.

JIM DURRAN: But apparel gross margin had been up in total?

RICHARD BURNET: Yes. Yes.

JIM DURRAN: And on footwear, the understanding is that Athlete's World is out there liquidating inventory to close stores.

RICHARD BURNET: Yeah.

JIM DURRAN: Is that geographically to the best of your knowledge focused in Ontario or is it right across the country in equal proportion?

RICHARD BURNET: It's a roving, seems to be a roving thing Jim. I think it was in March. No it was in April they did the Maritimes and British Columbia. I understand from Tom they're currently doing a quote back. I haven't seen it in Ontario yet unless it's on right now. They seemed to pick a region and go with it for a few weeks. They don't do it all at once.

JIM DURRAN: And how much of a factor would it be in your footwear performance?

RICHARD BURNET: It's I don't know that we've seen a direct, being, I don't think I could sit here and say that it is zero factor. It's tough to; it's a tough factor to quantify. There's just so many other factors that go on. Suffice to say I think, so yes there is a short-term factor. What it is, I can't tell you Jim. We like the long-term factor in that if you're selling everything at 50 off, we want you to probably to do more sales because every more dollar you do in sales, you're going to lose more money.

JIM DURRAN: Yep.

RICHARD BURNET: So we think for the long-term it plays well and to what Bob talked about is the consolidation of our industry.

JIM DURRAN: Great. Thank you.

RICHARD BURNET: Yeah.

OPERATOR: The next question comes from Kathleen Kent of BMO Nesbitt Burns. Please go ahead with your question.

KATHLEEN KENT: Hi. Just a quick question, just curious, is there more close out activity done in Ontario relative to western Canada?

RICHARD BURNET: No, because typically the people buying close outs tend to be national. Obviously in terms of absolute dollars, yes because Ontario's the biggest retail market there is but national chains buying close outs to put it into all their stores, but I'm going to guess, I mean I don't have the stats, but I'm going to guess that the percent of business done in close outs is the same in western Canada as it is in Ontario for a national chain.

KATHLEEN KENT: Okay. I was just speaking with reference to you guys.

RICHARD BURNET: Okay, no it's, we distributed evenly across the country based on store sales.

KATHLEEN KENT: Thanks. That's all I have.

RICHARD BURNET: Yeah.

OPERATOR: the next question comes from Candice Williams of Raymond James. Please go ahead with your question.

CANDICE WILLIAMS: All right, good morning, just a quick question regarding the opportunity buys. You said that they had contributed to an improved margin. I was just wondering is that the Gen-X contributing or is that a result of the Columbia Mountain?

RICHARD BURNET: Both. I mean, they were both good for us so and Gen-X cause it's not only with Gen-X but also to our retail side of our business because with Gen-X we are seeing more close outs up for our retail business than we had previously. They have their own wholesale business of which the majority is in the U.S. But they also now, we're getting; we're getting more deals at retail because of ownership with Gen-X.

CANDICE WILLIAMS: Thank you.

OPERATOR: The next question is a follow up question from Jim Durran of National Bank Financial. Please go ahead with your question.

JIM DURRAN: Yeah, just wanted to look at where we're at in terms of Sport Chek, the size of stores going forward. How the Londonderry store has held up and whether you've managed to find a site for a larger store test somewhere else.

RICHARD BURNET: We're going to put one in your back yard actually Jim. We're going to move your house and you know, we have found one. Going forward, I mean we're still basically doing 20,000 square foot Sport Cheks. That is the norm. The 70,000 feet that we did in Londonderry is holding up very well. We're very happy with it. It's I think as you know Jim was very much based on a favorable real estate deal. Our motto is not 70,000 feet. Our motto is 20,000 feet and it will be 70,000 feet in the appropriate location when we can find, when the right real estate deal presents itself. We're not going after 70,000 feet regardless of the rent. So the one that we've found is, we'll be opening this fall. Another 70,000 square foot in Ottawa and (inaudible) and again it's a favorable rent deal. We have a store there already. It's a very similar scenario to Londonderry. We have a store there already, a 20,000 footer. It does very well. We've got what we've think is a very good real estate deal and based on the success we've had in Londonderry, we're going to replicate that in Ottawa.

JIM DURRAN: Great. Thank you.

OPERATOR: Mr. Sartor, there are no further questions at this time. Please continue.

BOB SARTOR: Thank you ladies and gentlemen for your attendance today. Our annual general meeting, which will take place at 10:00 this morning, Mountain Standard Time will feature a more detailed discussion of the marketplace and the various operational initiatives that we have underway this year. For those of you who wish to tune in. It will be web cast and details can be found on our corporate website. With that, I'll thank you again for tuning in and if you are trying to reach us, unfortunately we are preparing for our AGM. We will likely be out of cell phone range for the next couple of hours before the AGM, but should be available afterwards. Thank you very much and good day.

OPERATOR: Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. You may now disconnect your lines.