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OPERATOR: Good morning ladies and gentlemen. Thank you for standing by. Welcome to The Forzani Group Limited second 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 * 0 for operator assistance at anytime. I would like to remind everyone that this conference call is being recorded on Friday, September 10th, 2004 at 10:00 a.m. Eastern Time. I will now turn the conference over to Mr. Bob Sartor, Chief Executive Officer. Please go ahead sir.

BOB SARTOR: Thank you. Good morning ladies and gentlemen and welcome to our Q2 fiscal '05 conference call. With me today are Bill Gregson, our President and Chief Operating Officer and Richard Burnet, our Chief Financial Officer. As you will have no doubt read by now, our earnings per share from operations were flat with last year at \$0.12 per fully diluted share. We also announced during the quarter, the write-down on our passive investment in the shares of Huffy Corporation of \$0.04 per share due to its decline in value. Overall we got to our numbers slightly differently than I believe then some analysts and shareholders may have expected mainly on lower sales and higher margins. Our cleaner inventory, our closeouts and private brands really helped out in this effort.

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Richard Burnet, our CFO will talk a little more about this as well as our expenses later on in the conference call. We also announced subsequent to quarter end, the planned acquisition of Nevada Bob Canadian business and trademark. And I would like to reiterate, as we said in our release that there is expected to be a positive albeit negligible impact of this in our current fiscal year. I will now ask Richard Burnet, our CFO to cover some of the highlights and then Bill Gregson will provide some additional color to our operating results. Richard.

RICHARD BURNET: Thanks Bob. As you would have seen in our press release, retail system sales for the 13 weeks ended August 1st were 256.4 million, \$6.3 million decrease from sales for the 13 weeks ended August 3rd, '03. Comp sales in corporate stores were down 4.6% while franchise stores decreased 4.1. Overall, comparable retail system sales down 4.4%. The revenue was 216.4 million a 0.7 million or 0.3% increase over the 13 week period last year. Revenue consisting of corporate store sales, wholesale sales, service income, equipment rentals, franchise fees and franchise royalties. Combined gross margin for the 13 weeks ended was up 240 basis points to 36.6% of revenue from 34.2 in the prior year. The increase was a combination of corporate and franchise margin increases of roughly 200 basis points each and included the results from our opportunity buy division. In absolute dollars the combined gross

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margin increased \$5.4 million to 79.1 from the same period last year. (inaudible) operating expenses increased as a percent of corporate revenues to 27.5% from 26.6 in the prior year due to the relationship of the fixed cost component of store expenses against the decline in comp store sales. G&A expenses exclusive of stock based compensation were 8.3% of total revenues or \$18 million dollars, an increase of 220 basis points. That increase and expense is due primarily to a combination of the impact of a full quarter of G&A expenses from our opportunity buy business and start-up costs incurred in the recent relocation of our DC. EBITDA remains static with the 13-week period last year, at 15.5 million and as a percent of revenue EBITDA again remains static at 7.2%. Once again as mentioned in our press release, during the quarter we did review the carrying value of shares we hold in Huffey Corporation and as a result recorded a write-down in the investment of 1.8 million. Exclusive of the investment write-down, pre-tax earnings for the quarter were 6 million or 2.8% of revenues compared to 6.3 or 2.9% of revenues in the prior year. Diluted earnings per share for the quarter were 12 compared to the 12 in the prior year. After giving effect to the write-down, pre-tax earnings were 4.1 million or 1.9% of revenues, again compared to the 6.3 last year. Diluted earnings per share after the write-down were \$0.08 vs. \$0.12. The company's financial position continues to be strong overall. At the quarter end the

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company had a working capital surplus of a 120.4 million compared to a 101 million in the prior year and working capital ratios of 1.48 against 1.42 in the respective quarters. Debt to equity ratios were relatively static year over year at 0.14 in '05 vs. 0.15 in '04 and cash flow per share was \$0.35 per share in '05 vs. 33 in '04. Bill?

BILL GREGSON: Thanks Richard. Obviously, we are very happy with the margins, not as happy with the sales as Bob said, we got to our bottom line in a bit of a different fashion. In terms of the store expenses, Richard mentioned that store expenses were up as a percent of sales because of the drop in comps however just for everybody's information is that our comp store expenses on an absolute dollar basis were actually down vs. a year ago so we're very happy with our expense control at the store level and we're very happy with our inventory levels on a per square foot basis they are down slightly from a year ago. Our inventories are in good shape there's no issues on summer carry-over and that's one of the reasons for our very strong margins. In terms of sales for the quarter, Alberta and Maritimes were the two best performing regions. After that all provinces performed more or less to a similar fashion. In terms of categories for the quarter in sales, hard goods was our best performing category followed by footwear, clothing was our most challenged category

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from a sales perspective. With that information I will turn it back over to Bob.

BOB SARTOR: Thanks Bill. Well ladies and gentlemen that about sums it up. We don't have a heck of a lot to tell you today because things are unfolding pretty much as expected. Those of you who had attended our Q4 conference call, if you look back at your notes you will recall, I would have said at that point in time that in the first half we would be basically going after margins because we had lean inventories also sales would be tougher and in the second half we would be pursuing a slightly different strategy with obviously Fall/Winter inventory coming in and a healthy amount of closeouts and private labels coming in that we would be looking at sales. So what you should be expecting is hopefully stronger sales results in the back half with still increased margins but not at those levels as we are obviously going to go after some volume. So for the quarter margins were great, sales were tougher and we had expected them to be and our expenses were up on the G&A side but really due primarily to two issues, obviously a full quarter of the Gen-X admin, and they contributed to the margins, so with the margin comes cost and one time DC cost. The relocation of the Distribution Centre actually cost over \$1 million. So as a result our diluted earnings per share were \$0.08 vs. \$0.12 last year on a operational basis we were flat at 12 vs. 12, now it's

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important to remember that that \$0.08 includes \$0.06 for “one timers” and that is \$0.04 for Huffy and \$0.02 for DC start-up costs. Our cash flows are also very strong those of you have looked at our balance sheet and cash flow from operations see that and our balance sheet continues to be, we believe, certainly of the sport specialty players, the envy of the industry. Finally we will be reporting our back-to-school sales at the end of September and, to the extent that it is required, we will be providing any changes to our guidance at that time. With that I will now turn it over to the operator to open it up for questions.

OPERATOR: Thank you, one moment please. Ladies and gentlemen we will now conduct a question and answer session. If you have a question, please press the * followed by the 1 on your touch-tone phone. You will hear a tone acknowledging your request. Your questions will be polled in the order that 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. Your first question comes from Bob Gibson from Maison Placements. Please go ahead.

BOB GIBSON: Good morning gentlemen.

BOB SARTOR: Good morning Bob.

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BOB GIBSON: Could we just talk about Nevada Bob's for a minute and maybe your thoughts behind that acquisition and what you see as a future for that?

BOB SARTOR: Sure, thanks Bob. The Nevada Bob's acquisition was really spurred on by a belief in our company really that certain strategic initiatives were required in the sport specialty area. We said long ago that we were pursuing over the next four years 2 billion in retail sales and to get there strictly with our existing bevy of banners is not realistic. One of the things we have is a very, very strong franchise infrastructure that, I believe, is probably one of the best in North America. Certainly at what we do, we think we are the best in franchising. And to simply lever more wholesale volume on to that infrastructure makes business sense, so to the extent that Nevada Bob's A. is a great trade name and B. we wanted to get into the pro golf business for some time. This was a natural segue-way in to that business and you should expect to see us do more of that in the future and by that I mean lever(?) more wholesale type specialty businesses on to the franchise platform.

BOB GIBSON: Okay, what about the future?

BOB SARTOR: The future of Nevada Bob's, very straight forward we would continue to expect to grow that business. There's an awful lot of independents out there and the independents in the golf business are no

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different than independents in most other businesses, they are looking for strong central support and that's what we provide. So you should expect to see us grow that business. You should expect to see us transition that business from a licensed business, which is what it is today, to a full fledged franchise business overtime and, yeah, you'll see a lot more stores in future.

BOB GIBSON: What about, does this give you a better presence in the golf business, is this going to help your other stores?

BOB SARTOR: No, to tell you the truth, the Nevada Bob's business is principally in our view what we call a pro-line specialty golf business. In other words people who come in there are expecting to deal with people who are exceedingly knowledgeable about fairly expensive products. To try and put that product in to a Sport Chek would make no business sense whatsoever, in our view because, A. the product price points are significantly higher than the positioning of our stores currently and B. the specialized expertise required is something that can really only be delivered by a specialty retailer. And over and above that, Bob, we really believe that you have to have an owner-operator in that business that gives tremendous credibility from a consumer perspective when you are trying to sell, you know, basically, you know, woods and irons that run up between 2 and \$3,000 a set.

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BOB GIBSON: Okay, great. Could you also just touch on store openings, closings, expansions and then maybe give us an idea of the total square footage at the end of the quarter?

BILL GREGSON: Bob, yeah just in terms of, it's Bill, in terms of openings and that in the quarter, it was very wide quarter for openings as we talk I look for the additions. At the end of the quarter in fact the net additions during the quarter were just over 6,000 feet in the corporate side taking us to just over 3.3 million square feet at the end of the quarter. On the franchise side, in fact there was a reduction as one store was moving, we ended up at the end of the quarter on franchise at a million three seventy five square feet, for the back half there will be more robust in terms of square footage additions we will be opening up a... moving a 20 thousand square foot Sport Chek to a 70 thousand square foot Sport Chek in the Ottawa area and we will be opening up a number of Sport Marts during the back half.

BOB GIBSON: Okay, thank you.

BILL GREGSON: Yep.

OPERATOR: Your next question comes from Jim Durran from National Bank Financial. Please go ahead.

JIM DURRAN: Good morning, I am calling in on a cell phone, so if I break up, I apologize.

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BOB SARTOR: That's okay Mr. Durran.

JIM DURRAN: Thank you. Just focusing on the SG&A line, so can you tell us how much Gen-X would have added to the SG&A line in the quarter?

BILL GREGSON: No. Actually the Gen-X impact would expect to add somewhere between on a typical quarter between 2 and 2.8 in the quarter. It depends on the quarter and the special buys they do because of the commission nature of their business. So it's not a fixed solid item because a lot of what they do is commission driven.

JIM DURRAN: Right, and just looking at your gross margin. Very strong performance in the quarter, much stronger than any amount in the first quarter, but as we look out into Q3, Q4 gross margins were actually up in the prior year. I am just interested in knowing on the 240 basis points that you delivered in this quarter, how much of it was recovery of soft year ago and I think it was casual apparel markdown virtually vs. increased closeouts and private label and other factors?

BILL GREGSON: Definitely there was a significant portion that was recovery of, from prior years, Jim, which also from the prior year would have driven sales as well but definitely a portion of it is, is our focus on increasing our margins on a day-in, day-out basis over the prior year. So I can't give you an exact breakdown but you're right, there was a significant

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portion due to recovery from a prior year but there is definitely a built in portion that will be on a go forward basis as well.

JIM DURRAN: Okay.

BOB SARTOR: Directionally speaking, for the benefit of the folks out there who are probably wondering about the relationship between margin and sales, we... as I said earlier, we said we were going to be going after the margin in the front half, margin rate. In the back half we would be going after more volume with what we've got planned. I think we are going to be excitingly promotional in the back half but not to the extent that we're prepared to completely sacrifice the margin basis points. So you are going to see a lowering of margins relative to last year. We still expect to be in better shape than last year and obviously we are hoping that that will translate in to stronger sales.

JIM DURRAN: Okay, last question. Just... you're talking about the more aggressive promotional stance in the second half. You've introduced your television-advertising program, should we be expecting SG&A as a result of advertising spent to be up or are you just reallocating dollars?

BILL GREGSON: Just reallocating dollars Jim, you should not expect advertising costs to be higher than a year ago.

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JIM DURRAN: Okay, and on closeouts, are you aggressively going after increase in closeouts as a percent of sales as well as private label at the same time?

BILL GREGSON: Yes certainly as our relationship and our ownership of Gen-X unfolds, I mean it's, Q2 is our first full quarter that we own Gen-X and as that continues, it's proved to be a very good source for us of increasing the amount of closeouts that we get because they look at a worldwide scale vs. previously when we typically looked on a Canadian scale. So we would expect to have a higher blend of closeouts for the back half than we did a year ago, which is obviously one way of trying to drive sales while still maintaining margins.

JIM DURRAN: Great, thank you.

BOB SARTOR: Jim, just and for the edification for the folks out there is well with respect to Gen-X, I think a lot of folks were underwhelmed by our acquisition of Gen-X in the first quarter and I like to call it a sleeper acquisition because what we got in Gen-X is an absolutely outstanding management team. They really know their business, they fit in very well with our culture and quite frankly they've hit the ground running and have already made a noticeable impact on our business, and this was strategically a very important acquisition for us and we saw its impact manifested in our Q2 margins as well.

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JIM DURRAN: Thank you.

OPERATOR: Your next question comes from Tay Wilson from Laurentian University. Please go ahead.

TAY WILSON: Hi, it's Tay Wilson here. It's about Gen-X as well, I have been buying your shoes at your first store for umpteen decades and I do that because I have to get size 14's and in the bad old days it was the only place, I had to go all the way to Western Canada to get them but with Gen-X it seems like you should be able to market big foot sizes or something as a once a month deal or something like that in all of these stores such as Sudbury. Do you have that, is that my idea of Gen-X?

BILL GREGSON: No, Gen-X is a opportunity business. They buy excess inventory from suppliers, whatever a supplier had left over, it can be footwear, it can be skis, it can be clothing. They act as a go-between from suppliers to retailers around the world to get rid of excess inventory.

TAY WILSON: Yeah, but often the excess inventory is big foot sizes, isn't it?

BILL GREGSON: Not necessarily.

TAY WILSON: Not necessarily. Okay, thank you.

BILL GREGSON: Okay.

OPERATOR: Your next question comes from Kathleen Wong from CIBC World Markets. Please go ahead.

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KATHLEEN WONG: Good morning. Can you give us an update of your new Distribution Center in Mississauga in terms of the crossover from your old Distribution Center and your products delivering to the stores on schedule and whether the operating expenses are within your budget?

BOB SARTOR: Yep, I'll a Kathleen, its Bob Sartor, I'll talk about that. We transitioned from our old DC to our new DC in the month of June. Needless to say going from under 200 thousand square feet to 500 thousand square feet is an event, especially when that 500 thousand square feet is very, very automated. We expected start-up would run us about a million, it ran us about a million dollars as expected. We did not capitalize those costs, we expensed them in to the quarter as is our habit when we open stores and do things of that nature. We are fully operational in the new DC and we'll be more then happy to walk shareholders and analysts through our Distribution Center in future. In terms of delivery to store and so on, no disruption to deliveries and what we expect out of our new DC is a significant reduction in our labor costs per unit because of the degree of automation we put in there. And more importantly because of obviously the addition of wholesale business like Gen-X, we will have additional space to accommodate closeouts.

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KATHLEEN WONG: Okay, that's great. In terms of modeling, should we expect to see about, like, \$5 million higher G&A expenses going forward on a year over year comparison basis?

BOB SARTOR: On a pure dollar basis, you should expect to see increased G&A expenses, only because we have got the full year impact of Gen-X that is going to come in there. So, yes, you should see it higher, the specific amounts we haven't given out yet but directionally speaking one should model more G&A costs not because of the previously core Forzani business but of course because of the layered on acquisition.

KATHLEEN WONG: For the gross profit margins improvement in the quarter, is it mainly coming from hard goods and footwear? Just wondering if the margins of apparel have actually gone down year over year?

BILL GREGSON: No, apparel in fact was significantly up for the quarter.

KATHLEEN WONG: Is it mainly because of getting out of the casual apparel and focusing on the technical apparel in the stores?

BILL GREGSON: It was, I mean, there's a few reasons for it but probably the most dominant reason was last year in terms of being over inventoried and slashing those inventories by moving product out at

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reduced prices. This year was a much better composition of our inventory, we didn't need to do that.

KATHLEEN WONG: Okay, that's great. Thanks very much.

OPERATOR: Your next question comes from Mark Anderson from Axial Capital. Please go ahead.

MARK ANDERSON: Hi guys, just a couple quick questions on sort of the competitive front and, you know, the liquidation activity of some of the larger competitors in the space. I was wondering if you could comment on store closings and what you are seeing there.

BILL GREGSON: Mark, are you asking about the US or?

MARK ANDERSON: I'm actually asking about it in Canada.

BILL GREGSON: Okay, the sporting goods industry in Canada remains at this point, I would classify it as more on the downturn of the cycle rather than at the peak of the cycle. And it is, you know, every business has some cycles to it, so right now it is very competitive. As we have talked about in prior conversations and meetings and that is we believe that that is a long-term opportunity for us. We are well positioned with a, as Richard pointed out, with a very strong balance sheet, a very strong cash flow, a very high level of profit and over half the business in Canada in sporting goods is done by private corporations who we don't believe are anywhere near as well financed. So sporting goods is a tough

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business right now in Canada and we think that that is long term a great opportunity for FGL.

MARK ANDERSON: We think you are doing a pretty good job just sort of muddling through right now, just trying to get a little clarity on, you know, what you are seeing out there. I know I recognized it's a downturn and as the largest player in the space in Canada it seems like a good opportunity to further consolidate.

BOB SARTOR: Mark, it's Bob Sartor, to put it in context, obviously most of our competitors are private companies, we obviously don't have access to their records and frankly nor should we but, you know, we use our franchisees as a real good barometer of what an independent might be feeling. Our franchisees and of you have seen our stores both in the province of Quebec and outside the province of Quebec are absolutely outstanding sporting good stores. They have a phenomenal assortment of clothing, they have really modern big stores and they obviously have the advantage of our buying power and our marketing clout and so on behind them. And given the season we have had particularly in Eastern Canada, and anyone living in Eastern Canada knows that its been cool and its been wet. If they had a tough time, fortunately our franchisees are very well healed and get easily weather the storm. I can't imagine what some of these other small chains are feeling. It has got to be tough out there and I

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have said all along that there is in my view only one ultimate conclusion to this picture show, as the saying goes, and we are just going to have to wait it out.

MARK ANDERSON: Well, that's great. Thank you.

OPERATOR: Your next question comes from Keith Howlett from Desjardins Securities. Please go ahead.

KEITH HOWLETT: Yes, I had a question on the Gen-X revenue shows up in wholesale revenue, is that correct?

(MULTIPLE SPEAKERS): That is correct.

KEITH HOWLETT: And the 2 to 2.8 million that you mentioned to Jim's question that was SG&A per quarter?

BOB SARTOR: Yeah, and that's what it would be and it would fluctuate as I said based upon the volume that they do because a lot of there business is what I call contingency based so obviously depending on the amount of business they do. So what would normally happen is as the expense base flexes for commissions so will the gross margin flex.

KEITH HOWLETT: I see. The management gets paid on commission.

BOB SARTOR: That's right, they're on commissions.

BILL GREGSON: They have commission sales people too Keith, not just the management.

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KEITH HOWLETT: And then just on the... just also on the wholesale line is there any contribution in that from say the Victoria Hockey Program or those sorts of things yet?

BILL GREGSON: No it's, where it would be is, I mean, where... buried in the whole retail line is where, the sales that we ultimately have will at retail level be in the retail store sales obviously. And in terms of our Vic, we sell to ourselves, we own the Vic and we sell to ourselves so it's an internal brand its just the same as a private label business that we have and in terms of Vic obviously hockey really kicks up in August which is after the quarter.

BOB SARTOR: But you will see an impact in the future, not this year but in the future as Vic hockey is sold from our Wholesale Intersport North America division to other retailers outside Canada.

KEITH HOWLETT: Great, thanks. And just on the inventory levels, were you planning for a system wide decline in sales is that why inventory's in line or in other words the sales seemed a bit weak, I'm just wondering how that weakness related to your plan for sales so how that would be it through to inventory level.

BILL GREGSON: Keith, we weren't planning for a decline in sales. We knew sales were going to be tough but we weren't planning for an absolute decrease what we were looking for obviously as Bob mentioned

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in the beginning is making sure we get to the bottom line and we have to get there in a different fashion. So, going in this year with much cleaner inventories enabled us to really work the margin line, the margin dollar line and be as cognizant of that as the sales line because ultimately it's margin dollars that pay the expenses. How we manage or open to buy, we typically have flexibility to react to sales trends and that so no, I guess the short answer is no we weren't planning a sales decrease but we reacted to the sales decrease trend to make sure that our inventories remain in good shape.

KEITH HOWLETT: I see, so you did it by reducing the amount you bought during the quarter sort of idea.

BILL GREGSON: Yeah, we always have a hold back and that we do or don't spend depending on what's going on.

KEITH HOWLETT: And when we look at the inventories that are up something like 11% its obviously got Gen-X inventory in there now. So when we are looking at 11% up year over year, I mean, what is sort of the retail, like the non Gen-X (inaudible).

BILL GREGSON: I don't know that we'll give the exact breakdown Keith, but there is really three parts to the increase, one as you mentioned correctly is Gen-X, the second would just be new stores that have opened over a year ago and the third part is with Gen-X and with everything that

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our buyers are doing, our closeout percent will be up and we have stockpiled more closeouts in our new bigger warehouse to get ready for the back half to try and drive sales while at the same time being able to manage margins. So we do have more opportunity buys stock-piled for the back half than we did a year ago.

KEITH HOWLETT: Just one question on the store opening program, in the annual report it, and I know these are sort of more guidelines than fixed objectives but the plan was for 20 corporate stores and 18 franchise stores and I am just trying to get a sense given the pretty light first half.

BILL GREGSON: We will hit 19 corporate stores Keith and on the franchised stores part of that number is also talks about is part franchise is a big part of that is renovations and that but probably on an equivalent basis around 12 on the franchise side.

KEITH HOWLETT: 12, that's openings and renovations?

(MULTIPLE SPEAKERS): Yep.

KEITH HOWLETT: And so were do you think your roughly speaking your square footage will end the year.

BILL GREGSON: Gee, I don't know if I have that number sitting with me right now but we can get that for you offline but don't have it here right now.

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KEITH HOWLETT: Maybe just finally are there any things, you introduced the so-called finished line, Nike program, as I understand. Is that in the stores? How is it doing? Is there any other category or section of that store where you're getting, you know, great success sort of thing?

BILL GREGSON: Yeah, the Nike running thing is doing very well. We are very happy with that, we are very happy with, we are very excited about the rest of the year and going in to next year as we work with Nike to really support that... that wall with some different product than might be in the market place. So I think over the next 12 months you will see that grow, it's off to a great start but it's not where it is going to end up being if we can still make it better from a product point of view and we will and so we are looking at some other things like that nothing that I can really talk about right now but in terms of areas that, you know, some of the highlights if you want, you know, it was a very good bike year for us. We had a good golf year, our technical clothing program remains, continues to do well. So those are some of the areas, I don't know if there was anything specific you are looking for Keith or?

KEITH HOWLETT: No, I was just wondering if there was anything that's really, sort of, looks like, you know, you'll get a lot of sales bumped in the second half.

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BILL GREGSON: I mean the second half is obviously dominated by ski, snowboard, outer-wear and obviously in the Christmas season, apparel. So, yeah, I mean I think the consumer will see some very different things in our outerwear collection than a year ago, they'll see what they've seen before but we also have added much more of a fashion element and on the ski/snowboard side, we have a very high share in that business, we have a great assortment of inline product, we have a great assortment of closeouts and hopefully we'll have a great assortment of snow around (inaudible) for people to ski and snowboard on.

BOB SARTOR: Keith, its Bob Sartor, one other thing. We certainly do have some very concrete sales building planned with unique products in the back half but for competitive reasons we really can't go into that level, product by product detail.

KEITH HOWLETT: Okay, and just one last question on BC, you didn't mention BC as a good market, I thought, I'm out here in the East but I thought that BC was the only place that had good weather, I thought Alberta weather wasn't that good, but?

BILL GREGSON: For the full first half of the year BC is... let me check my notes here... I believe BC is our best region in the country for the full first half. For the second quarter, Alberta and the Maritimes were stronger.

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KEITH HOWLETT: So in BC... but nothing specific in BC, just?

BOB SARTOR: No, no I mean it was good it's just the other two regions were just that much stronger for the second quarter.

KEITH HOWLETT: Great, thanks a lot.

OPERATOR: Your next question comes from David Hartley from First Associates. Please go ahead.

DAVID HARTLEY: Hi, good morning everyone. Just a quick question on the G&A question brought up earlier. In terms of a percentage of sales going forward, is it going to increase or decrease?

BOB SARTOR: I would think that as a percentage of sales, you are going to see a slight increase and the reason is because remember that G&A expense is associated with wholesale revenue. But as well you should expect to see improved margin so from a net perspective you should see a deterioration in our ratios or a deterioration in our EBITDA margins.

BILL GREGSON: Maybe one other way to look at it is on our retail sales the bulk of our expenses for retail are in store operating. For the wholesale side of which by doing the Gen-X acquisition bumps up that business. The entire amount of expenses for our wholesale sales are in G&A.

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DAVID HARTLEY: I see, okay. Alright, the Sport Chek/Coast Mountain you put those two stores together and just curious how it's doing so far has there been any, I don't know if the word is cannibalization, but could you give us an update on that.

BILL GREGSON: Well we Coast and Chek aren't always together.

DAVID HARTLEY: Right, just in some areas right?

BILL GREGSON: In some areas and we've really done it as really, I guess one way to look at it is we've talked in the past is FGL is doing more and more business in the outdoor category? Coast Mountain was our entry in to that. Coast when it is attached to a Sport Chek in some ways is the outdoor department for the whole store, the comps store we call it. So we are happy with that. What you will see, what you will continue to see is that Sport Chek whether there be a Coast attached or not and obviously by far the majority of Sport Chek's don't have Coast's attached to them is you will see Sport Chek do more outdoor business on their own.

DAVID HARTLEY: Okay and how many stores of Sport Chek right now are with Coast and how many do you envision over the next couple of years.

BILL GREGSON: I think there is, I think it's 10 or 12, somewhere in that range of Sport Chek's have Coasts attached to them. I don't know what the exact number is.

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DAVID HARTLEY: Okay.

BILL GREGSON: And I think what you will see over the next numbers of years is your are going to see things like what we are doing in Ottawa, where we are doing a 70 thousand square foot Sport Chek and it is all Sport Chek but it just has a big outdoor department in it. So I think the trends, we don't get hung up on what is called Coast's or what is called Sport Chek, what you will see is you will see FGL do more outdoor business in some shape or form.

BOB SARTOR: And David, its Bob Sartor, you'll also see stand alone Coasts where necessary we've actually got one signed up for next year already.

DAVID HARTLEY: Okay and is there a possibility that can you morph Coast in to a different kind of retail environment. I think the Bass guys are coming in to town in Toronto with kind of an interesting store with a pool and fishing and all that. Could you do something along those lines? Am I getting a little crazy on you here?

BILL GREGSON: Probably. Yeah, you are probably getting a little crazy. The Bass Pro-Shops obviously has a huge focus on fishing and hunting. When I talk outdoor fishing and hunting aren't two categories that we're currently in with no plans to get in to. Outdoor for us is more of the

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camping, more of the outerwear and more of the footwear variety, which is quite different from Bass and the Bass Pro-Shop thing that's a 130 thousand square foot. To do the lake and rivers and the boats and all that you need a massive amount of square footage and with the number of stores that we have obviously this country couldn't support a 130 thousand square foot Sport Chek's right across the country.

DAVID HARTLEY: Okay, and last question if I may. In terms of your strategy in Ontario, I mean, it's obviously an area where you want to get greater penetration. I mean what is the quickest route to that penetration for you guys and could you just lay out the strategy for me please?

BILL GREGSON: Actually, I can't because its (inaudible) for competitive reasons but suffice to say is that, and we've said this before, is we have a very high market share in Alberta, and in BC, and in Quebec. We want to duplicate that in Ontario and we are focusing and we have strategies to get us there.

DAVID HARTLEY: Okay, thank you.

OPERATOR: Your next question comes from Kathleen Kent from BMO Nesbitt Burns. Please go ahead.

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KATHLEEN KENT: Hello, I am just looking for more details on the Gen-X, just to clarify. So Gen-X sources opportunity buys for the Forzani banners but in addition it also sells merchandise to other retailers.

BOB SARTOR: That's correct.

KATHLEEN KENT: Can you sort of give us a breakdown on how much business it does (inaudible) the Forzani banner.

BOB SARTOR: Well, generally at acquisition the Forzani banners represented approximately 20% of Gen-X's business and obviously that is a directional issue and that will flex each and every quarter depending on the opportunity buy, the nature of the product and where it makes more sense to have that product but at acquisition it, the what I would call the vertically integrated piece of that was approximately 20% of Gen-X's business.

KATHLEEN KENT: And the rest of its business is it primarily in the US?

BOB SARTOR: It is.

KATHLEEN KENT: So, can you give us percentage of your closeout now and where you see that going?

BOB SARTOR: Well, you mean in terms of general, as a company?

KATHLEEN KENT: No, in terms of the Forzani banners.

BILL GREGSON: In terms of the retail?

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KATHLEEN KENT: Yep.

BILL GREGSON: It's in the low double digits and I can't give you a number where it is going to go, I can just give you a direction. We think... and one of the reasons for acquiring Gen-X is we think with Gen-X involved and it's not just Gen-X, we don't just source our closeouts through Gen-X, we source closeout through our suppliers, through other closeout people, we just happen to own Gen-X but directionally we would like to increase that percentage, it very much depends on the year. It's not something that over a course of time you can have a certain percent but it fluctuates from quarter to quarter depending on what deals are available. Sometimes you get huge ones and sometimes it is a little dry out there so we're in the low double digits right now and looking to increase it.

KATHLEEN KENT: So what other expenses does Gen-X incur? Is it just the only thing at the G&A is just their commission, is just their salaries?

BILL GREGSON: Well, they have a staff, they have an office, they have people in various parts of the world because they have to source around the world.

BOB SARTOR: But it is principally people costs, commission costs, those kind of things and office costs.

KATHLEEN KENT: How many people in total are we talking about?

BILL GREGSON: Probably not for this conversation...

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BOB SARTOR: No, and we don't really get into that level of detail Kathleen.

KATHLEEN KENT: Oh, okay. And just a quick one, is there going to be any cost associated with the DC in Q3?

BOB SARTOR: We don't expect there will be, no. I mean other than normal operating costs.

KATHLEEN KENT: Yeah, but not because you said 1 million specifically was for the opening of your DC.

BOB SARTOR: No, we're started up as the saying goes, we're operating and obviously the only difference is with almost 500 thousand square feet comes more rent expense but we had factored that in to our expectations.

KATHLEEN KENT: And can you give us sort of a the monthly rate in the same store sales growth through the quarter?

BOB SARTOR: We typically don't provide that level of detail for competitive reasons.

KATHLEEN KENT: Okay, that's all. Thanks.

OPERATOR: Your next question comes from Jim Durran from National Bank Financial. Please go ahead.

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JIM DURRAN: Just following up on the comp store sales question. I presume that what you are doing is you're waiting for the entire back-to-school period to be concluded before you release those numbers right?

BOB SARTOR: Yeah, we'll be... actually, I will be talking about that as well as guidance information at the conclusion of our conference call.

JIM DURRAN: When we look for the back-to-school numbers to come out what rough time frame should we be expecting that to happen?

BILL GREGSON: For them to come out Jim, or?

JIM DURRAN: Yeah, I mean like first week of October or?

BILL GREGSON: Yeah, end of September, early October. As you know the labor day shifted this year, also there has been a trend in, for a few years and it has been talked about in the press and that about people buying later so where as back -to-school use to be all pre a lot of its post now. We adjusted our marking calendar accordingly to that so, I guess what I am saying, is everything is a little later this year. So, we will wait until the end of September, early October to complete what we believe is the new back-to-school period.

JIM DURRAN: Right. A number of people have sort of been talking around this issue of looking out and seeing if and when we might see a rebound in the industry performance. As I understand, I am not seeing anything in any sort of major categories were there is anything either

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technologically new or a new sort of lets say extreme sport coming on stream that is going to cause the industry to return to much higher growth rate numbers so would I be wrong in assuming that really what we need to do is cycle through the current environment before we get back to some industry stability.

BILL GREGSON: Yeah, I think you're 100% right Jim, like we mentioned earlier is that we think that the current tough environment is actually very good for FGL in the long term because of us being well financed with a high level of profitability vs. what's well financed private corporations who probably don't have the same level of profitability in a tough environment. We think obviously in the long term that leads to consolidation of the market place so I think you're bang on.

JIM DURRAN: Last question, just on square footage. I know you don't have the data with you but there is just this one store where we are going to a 70 thousand square foot store, which is the second, we'll call it super sized store that you're going after. Would you expect your square footage growth this year though to be line with what you were originally intending?

BOB SARTOR: Generally, yes because in our original square footage expectation we did not factor in a 75 thousand footer. So

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obviously we'll be short one on the corporate side, short a few on the franchise side but we'll likely make most of that up on a bigger Chek.

JIM DURRAN: And is this, I mean, historically I know that there has typically been, sort of, a reference early in the year to how many stores and square footage and most often I think we've come out with square footage growth greater than originally planned. Is there something out there in the environment in terms of ability to negotiate good rent deals that's an impediment to more new store growth or are you being sensitive to the current market conditions and to the whole half (inaudible).

BILL GREGSON: No Jim, we are always an opportunity player as you know. We do believe that there is room for a lot more corporate stores and franchise stores in this marketplace and we also believe that more corporate and franchise stores will expedite the consolidation of the marketplace especially during this downturn in the sporting goods industry. It's just this year the real estate plays weren't there. We're very encouraged for next year that we think we will have especially on the Sport Chek side, a much more robust year. They're like opportunity buys they kind of come and go depending on what's happening so for next year we don't lose anything prevailing in the marketplace it's just a matter of opportunities and for next year we are thinking that Sport Chek can be

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much more aggressive in terms of the amount of square foot... square feet that it adds.

JIM DURRAN: And do you... this sort of, you know, 70 thousand square foot version. Is this another example of a real estate one off or are you beginning to contemplate opening generally, you know, I'll call it significantly larger stores in key markets?

BILL GREGSON: It again is a real estate opportunity. It's driven by the real estate opportunity, Jim. If the real estate opportunity in terms of the right financial deal is not there, we won't go and do 70 thousand feet for the sake of doing 70 thousand feet. It really is dependent upon the real estate deal so it is hard to have a program of... no were are not converting Sport Chek's to 70 thousand feet right across the country. Ultimately, there might be 10 to 15 of these but they'll come based when the real estate deals come.

BOB SARTOR: Jim, Bob Sartor. Going back to the bigger store. One of the other reasons we take these bigger stores deals is, they allow us to test new merchandising ideas, new fixtures, new product lines and assortments and, you know, learning for example we got Londonderry, a lot of that was applied in a more conventionally sized Sport Chek that we opened up in the first quarter and (inaudible) in Calgary and in second quarter at Market Mall also in Calgary and these newer generation Sport

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Chek's are basically junior cousins of big stores. The big stores give us the latitude to really play with the assortment that (inaudible). It is also an opportunity to experiment with new ideas.

JIM DURRAN: Not to, sort of, try and bring it to a conclusion, I think Londonderry was opened last Fall if I recall.

BILL GREGSON: Opened, I think, first couple of days of December, Jim.

JIM DURRAN: Yeah, is it too early for you to say that a 70 thousand square foot store isn't a desirable format size?

BILL GREGSON: It's... no we are very happy with Londonderry and based on the success in Londonderry that's why we did the one that we are doing in Ottawa. It doesn't have to be 70 thousand feet, again, it goes back to the fact that it's a real estate play first. It's a matter of what the developer has and what they need, when they are looking to move. And we can operate in 70 thousand feet. We can operate similar... we can operate basically the same concept in 50 thousand feet. It depends on what the landlord has. But 70 thousand feet can and does work for us.

BOB SARTOR: I think the important thing to know is unlike some other retailers who say I need a box that is 20 or 30 thousand square feet and has to be built exactly to these dimensions and so on, that's a very expensive real estate strategy and it's also in our view given what we sell

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and the variety of the product we sell not a necessary strategy and that's why you have seen different size Chek's and as I said before, it's always a great opportunity for us to experiment and what the Edmonton experiment has shown us with Londonderry is that we can take profitably more volume out of that market.

JIM DURRAN: Alright. Okay, so last question. Just the newer store design, and the color scheme and the different category presentations that you've done in the newer stores. Are you thinking of going back to older stores and fixing them up as opposed to doing a full scale reno or relo?

BILL GREGSON: Yeah, I think, you know there is two main (inaudible), well there's more than two but for the purpose of this conversation, I mean, the two biggest things that are different in the new stores vs. the old stores is the lighting system we've put in and the paint palette that we have used and I'm not promising anything, we haven't sat down and got our budgets yet for next year. We are just in the process of doing it, and we haven't sat down and analyzed to the nth degree, we've stunned some analysts but not where we need to be yet on both the cost and the return on all of the paint and the light but I think there is a good chance you will see a number of stores with... brightened up next year, in terms of either the light package or the paint package.

JIM DURRAN: Great. Thanks a lot.

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OPERATOR: Ladies and gentlemen if there are any additional questions at this time, please press the * followed by the 1. As a reminder if you are using a speakerphone, please lift the handset before pressing any keys. Your question comes from Candice Williams from Raymond James. Please go ahead.

CANDICE WILLIAMS: Hi there. I am wondering if you can shed a little bit of light on the Ontario situation just in terms of the 15 odd new stores you will be opening up in the second half. Will there be a bent towards Ontario in general while you said Ontario was weak do you feel your picking up market share there?

BILL GREGSON: Candice, it's Bill. Yeah, the last few years, the majority, which means more than 50% in this case of our stores have been in the Ontario market. Nothing is different for this year and yes I do think we are picking up, well I know we are picking up market share in Ontario. The trendex numbers reflect that obviously the challenge for us and, you know, the strategy that we're working on is to pick it up at a faster pace.

BOB SARTOR: Alright, if there are no further questions.

OPERATOR: There are no further questions at this time, Sir. Please continue.

BOB SARTOR: Thank you. Folks as a wrap up as we had said we expected to basically trade some sales from margin in the front half.

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Interestingly enough for those of you who model our business I think are going to have to do some thinking about the relationship between overall revenues and gross margins and the impact on G&A because of things like Gen-X. We will continue to look at opportunities to drive gross margin dollars, because as our President, Bill Gregson, so succinctly put it, we are in the business of generating gross margin dollars and in a tougher part of the cycle we have fortunately the luxury and the strength and the wherewithal do to just that. Back half you should see more promotion, you should see more closeouts in our stores, some interesting advertising. I think the combination of that along with our power of sport campaign at Sport Chek will certainly get us noticed particularly in Ontario and we are going to continue to hammering away on that. Our focus this year has been, and continues to be on profitability. The sales will come and I believe they will come in chunks because at some point in time this very difficult climate will claim some victims and as was the case in BC when that happened a few years ago we ended up with a sustained period of double digit comps. When that happens, we don't know but in the meantime we are managing the business, for profit, keeping our balance sheet very clean as the saying goes our (inaudible) dry. For those of you who have follow-up questions, if you would be so kind as to leave them on our voicemails. We are entering in a few moments an off campus meeting

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with our board to look over some strategic issues, so we will be in and out of meetings all day and will attempt to get to you as quickly as possible. So please be patient with us. Thank you very much for attending today's conference call and have a great day.

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

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