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OPERATOR: Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Forzani Group Ltd. First Quarter Fiscal 2006 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 any time.

I would like to remind everyone that this conference call is being recorded on Wednesday, June 8, 2005, at 10:00 a.m. Eastern time.

I will now turn the conference over to Bob Sartor, Chief Executive Officer. Please go ahead, sir.

BOB SARTOR (Chief Executive Officer): Thank you, and welcome, ladies and gentlemen, to the Forzani Group First Quarter conference call for fiscal '06.

With me today are Bill Gregson, our President and Chief Operating Officer; Tom Quinn, the President of our franchise division; Richard Burnet, our Chief Financial Officer; and John Forzani, our Chairman of the Board.

Well, the first quarter was certainly an eventful one for FGL. It was also a painful one, as by now, you no doubt have seen. In looking at our results, one has to get beyond the loss in Q1 of 7.4 million, or \$0.23 per

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diluted share, before seeing anything remotely positive about the current situation. Not surprisingly, as management, being intimately familiar with our business, and where we are right now, we have looked beyond Q1 and we like what we see, and Bill Gregson's going to talk about that shortly.

This conference call will be a little longer than most, because we want to go through our results in detail, so you can better appreciate what was non-recurring and necessary to deal with, during the quarter, versus any sustainable weaknesses signaled by our results.

Richard Burnet, our CFO, will walk you through our results in detail, which include roughly \$0.13 in non-recurring charges, and \$0.03 in timing-related impacts, which will come back to us later on this year.

Non-recurring charges related principally to inventory liquidation and writedowns associated with our renovation program, and the fact that we have significantly shifted our assortment, and we felt that especially some of the clothing associated with the old assortment had to be written down.

And we also wrote down a product line that we had at Gen-X, a close-out, that we felt we needed to move off of, and we have moved off of that. That product was sold into the U.S. in the first quarter.

The timing issues relate to volume rebates and wholesale-license footwear sales, which will come back to us in Q2 and Q3.

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Bill Gregson will share with you some of what we're seeing in our business lately; namely, positive comparable store sales, and sustained positive comparable store sales, finally; and increasing margins.

We're not going to spend time during our conference call on the franchise business's quarter, as it again met its targets. But during our Q&A, Tom Quinn will be happy to answer any questions you have about the franchise business.

So let's get started with our CFO, Richard Burnet. Richard?

RICHARD BURNET (Chief Financial Officer): Thanks, Bob. Just to confirm dates relating to the results, fiscal '06 results are for the 13 weeks ended May 1, 2005, compared to fiscal '05, which were the 13 weeks ended May 2, 2004.

Retail systems sales were 259.8 million, up 32.1 million, or 14.1 percent from the prior year, due primarily to the addition of sales from National Sports and Nevada Bob's. Consolidated revenues, being corporate store sales and retail, wholesale sales, and related fees to franchisees, were 238.2 million, up 4.2 percent from last year. This was driven, again, by the addition of National Sports stores, offset by the softness in corporate comps, which declined 4.3 percent.

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While franchise sales in retail were strong, up 9.4 percent on the strength of athletic clothing and footwear, our wholesale revenues were off 8.5 percent, due, we believe, to the timing of purchases from our franchisees, and, in the case of our close-out business, to the timing and availability of solid opportunity buys.

Looking more closely at our corporate store business, in our SportChek and Sport Mart banners, the decline suffered in Q4 fiscal '05 in ski, snowboard, outerwear, and licensed hockey categories continued, and those results were compounded by a significant decline in spring inline skate sales. The remaining soft-good and hard-good categories fared better, but didn't totally compensate for those declines.

Footwear sales were relatively strong, up 5.6 percent, with strong margins in the quarter.

National Sports fared better, with comp store sales up 0.8 percent, but were hit hard as well by a decrease in licensed product sales. If we back out the licensed sales in National, their comps were up 4 percent.

The impact of these sales results on our combined corporate banners translated into reduced margin dollars and, as mentioned in our press release, we took an additional \$1.3 million charge against dated inventory, to ensure a clean inventory position in our stores.

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On the wholesale side, a one-time writedown of 1.1 million was taken in order to move out of a line which wasn't selling through, and the end result, in respect of consolidated gross margins, was a decrease of 170 basis points, to 29 percent.

Despite these difficulties, we exited the quarter with both comp and total inventories in excellent shape. In fact, comp winter category inventories are down approximately 8 percent over last year, and comp athletic inventories are down 26 percent. Combined comp store inventories were down 9.3 percent at quarter-end.

In terms of total inventory, the increase reflected on the balance sheet is primarily inventories in National Sports, with a very small increase in corporate stores due to increased square footage, with the net addition of 12 stores in the past year.

On the expense side, corporate store operating costs on a comp-store basis were up 80 basis points, strictly due to the sales declines, as, on an average-dollar-per-store basis, they were down 5.4 percent.

The increase in expenses in absolute dollar terms was a result of the net addition of 12 corporate stores in the past year, and the addition of 19 National Sports stores at the start of the quarter.

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The increase in G&A costs are a direct result of the National acquisition, and a full quarter of Gen-X costs, versus just a part quarter last year. Exclusive of those costs and the timing of our ad spend, G&A was in fact flat.

Amortization expense was higher due to our increased store count, combined with our amortization on our Toronto distribution centre, which came online in June of last year, and the recent implementation of a new merchandise management system.

As a result, net earnings after tax for the quarter was a loss of 7.6 million, or \$0.23 per fully diluted share, versus a profit of \$863,000 last year, or \$0.03 a share.

As we mentioned in our press release, \$0.13 of the swing in EPS is related to one-time events, which include the margin hits and provisions taking in inventory, plus another \$0.03 in what we consider to be timing issues.

All of the figures do reflect the impact of EIC 144, and the more recent changes in accounting for lease costs. Bob?

BOB SARTOR: Thanks, Richard. We're now going to spend the balance of our conference call talking about our corporate store base, and specifically focus on what we're seeing now, based upon the significant,

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fairly massive change effort that we're in the middle of, on the corporate side -- certainly the biggest change effort at SportChek since Bill Gregson and I joined the organization in 1997. Bill?

BILL GREGSON (President and Chief Operating Officer): Thanks, Bob. Obviously, the question is, what are we doing in both corporate comps, and what are we doing in both corporate comp margins?

I'm going to focus comments today primarily on SportChek and Coast, and will refer to it as Chek, so I don't have to say as many words. But Chek and Coast are basically run as one business unit. The reason I'm going to focus on SportChek and Coast is that those 2 combined are somewhere between 50 and 60 percent of the total revenues of FGL, and obviously, therefore, have a major impact on the bottom line.

What we've decided to do with SportChek and Coast is to go back and revisit all the key aspects of what it means to be a retailer in sporting goods. We're looking at the store, we're looking at the assortment, we're looking at the visual presentation of that assortment, we're looking at the marketing of those banners, and we're also looking at the operations.

And at the same time we're doing that, we've also made sure that we've done a good, thorough review of our franchise business, to see

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what's working there, and borrowing the items that we feel can be taken outside Quebec to the rest of Canada.

We started that program, and as we got into it, we realized that, in order to make it happen at the speed and to the extent that we wanted it to happen, is that we needed to change our structure somewhat. As of F03, we had changed the structure. SportChek was basically being run by either a VP or a GM or a CMO, but basically, what it meant is that Purchasing and Marketing and Operations reported to other people other than myself. During the buildup up to F03, when we've been very successful in Chek, that was the formula we used to have, is Purchasing Directors, Marketing, and Operations report directly to myself. As of February 1, '05, so a few months ago, we decided to go back to that structure. It meant that I gave a few duties back to Bob, but it freed up my time to spend a lot of time on SportChek, and to begin the revitalization program in earnest, and with a lot of haste.

So if we go through it, and we look at the physical store, obviously, we had a huge growth from '97 to 2002. That generation of stores has not aged well. A dark paint palette, dark lighting, and we thought it needed upgrading. We are upgrading all those stores by August 1st. There will be a few exceptions that are real-estate oriented but basically, by August 1, it

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means that many -- 90 percent -- of our chain will have the updated paint and lighting look that we've seen in places like Square One, and out west here, in Market Mall. So the physical store, obviously very important -- 90 percent by August 1 will be done.

The next thing, then, is the visual, and in terms of the visual is, a year ago at this time, we had a zero-person Visual department. We now have a 12-person Visual department. We believe, our staff believes, and we hear from our customers as well, the stores are much improved, in terms of their visual look. Cross-merchandising, merchandise presentation, all kinds of different standards have been in place. The average store in SportChek looks remarkably different and better than it did before.

But with any retail organization, I believe that the key is the assortment. That's the number-one driver. Began assessing our assortment last fall, so changes were made for this spring. Greater changes are being made for Q3 and for Q4, and the full effect will be for next spring '06, calendar '06. I'm going to take you a little bit through the assortment of what's going on right now.

In terms of footwear: footwear has always been a strength for SportChek, and remains a strength. We've had a very--... And when I talk of results, I'm going to talk basically up to the end of May.

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We have had a very strong spring, both in sales, comp sales, and comp margin dollars. In fact, footwear comp margin dollars, year to date, are double-digit positive.

Going forward, we will continue with what we've done so far in footwear, in terms of an assortment -- more running, more trend footwear, more outdoor. We will continue to increase the brand showcases in our store, telling Nike stories, telling New Balance stories, telling Adidas stories, telling Columbia stories.

And along with that, we have been able to obtain additional allocations of statement in elite product from our major partners. This has led to a higher average ticket, and will continue to lead to a higher average ticket, in much the same success formula that some of the U.S. retailers are seeing right now.

So footwear is definitely a strength, and has been for a long time, and has been a strength this past spring.

On the outerwear side, SportChek and Coast have a long history in outerwear, and it has always been a strength, in terms of our assortment. We did composite for this spring, but it came at a price, and that price was margin. We believe that there's a massive shift this year, or this coming fall, in terms of what outerwear product stands for, so along with the

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tougher outerwear season we were having, we decided to take the writedown and to move a lot of units.

So, going into this fall, we have a greatly reduced inventory level, which I'll talk to in a second. We'll have a much greater "The North Face" assortment, which is something that's been done very well for our franchisees in Quebec. We'll have more fashion. We continue on with a very strong private-brand program. Columbia, which is obviously a major part of our assortment, is completely revitalized for this fall. They realized that they were getting a little stale, and we believe it's the strongest Columbia program in a number of years. And with the outerwear program, we have a much enhanced success rate program, focusing on brands and focusing on fashion and focusing on color.

On the clothing side, we broke our clothing into 4 stories for this spring, and presented it that way in our stores: an athletic story, outdoor story, a fashion story, and a license story. And of course, with all those, we have accessories cross-merchandised in all departments.

To give you a little flavor on where we're going on the athletic side, we've added a much wider range of brands: Adidas Originals, Puma, Converse, for instance. On the athletic technical side, we have had great results from brands such as Under-Armor, Nike, and Adidas Clima. And we

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continue, on the clothing side -- or I should say, we're starting new programs of integrated brand marketing for footwear and apparel. This is new for us this year -- you may have seen Adidas Clima on TV. You will see similar programs later in the year from Nike and from Reebok.

On athletic clothing, year to date, again to the end of May, we have comp positive in sales. Our margins have been lower, as we cleared out product, but our inventories are in spectacular shape. We expect to see a continuation of the positive comp effect through Q3 and Q4, and the full effect next spring.

On the outdoor clothing side -- and again, this is basically North Face and Columbia -- we have had a phenomenal spring. We've had double-digit comp sales and double-digit margin increases. Some of the things coming up for this fall is, North Face is only in 50 doors for men, and 25 for ladies this spring. It will be in all doors for both genders for back-to-school. And this fall, we'll also be launching 10 Columbia shops within our stores, for sportswear.

On the fashion side, the fashion side has always been... the last few years, has been a trouble spot for us. I'm glad to report that we now have positive comps for spring. Again, it's going to come at a lower margin as

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we cleared out inventory, but our inventories are in phenomenal shape, and the recent comp and wholesales and margin are very encouraging.

Much greater brand focus in our fashion. Vans, Burton, and O'Neill are all working very well for us, and we've got great success this spring from a better-quality enhanced-styled private label program.

Certainly, the toughest area for us in clothing has been in the licensed, with the NHL lockout. In fact, the lost sales in license business has resulted -- not just in license, but in total SportChek comps -- a negative 2.5 comp for year-to-date, just from lost license sales, and over a \$2 million margin loss to SportChek from license sales in the first 4 months of the year.

On the hard-goods side, hard goods has always been a strength for us. We think it will continue to be a strength, but we think it can continue to be much stronger than it is. We have had good results this spring in golf, bike, camping, fitness, and team, and tough results in ski, snowboard, hockey, and inlines.

The inline market, for us, was down 31 percent, which meant 1.5 margin dollar hit. Going forward, for next spring, is we're planning right now, our golf, biking, camping, and team assortments to more than offset

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any losses in inlines. We believe, with the proper assortment, we can pick up all we've lost in inline, and then some.

On precision retailing, I'm going to talk to for one second. That has been a weakness for us, traditionally. What I mean by "precision retailing" is planning, allocation, replenishment. We've been operating, for the 8 years that Bob and I have been here, on an antiquated system. We began the process of changing that system over, a few years ago. It was completed in November of this past year. It is now in place. So we now have the tools. However, at the same time, the tools, you need to have people that go with the tools, and we have begun to build a team. Started in April of this year, and we hired a senior executive to lead this part of our business, of planning, allocation, replenishment. The senior executive is Alan Goldberg, who came to us from Roots as the COO, and he is currently building the team.

I can't state how much I believe that planning, allocation, replenishment will have a positive effect on our corporate business. Traditionally, we have not done a good job in that; we have not been in stock to the level that we need on basic stock; and on our allocations, we have under-supplied our top-volume stores and over-supplied our bottom-volume stores. We think it is a huge positive opportunity for us, both in

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sales, both in margin. We will begin to see the benefit of it this fall, and the full benefit next spring.

On the marketing side, marketing, one of our strengths has been our tactical flyer program, but one of our weaknesses has been the lack of balance of a brand message with a tactical message, and the lack of balance that we have between flyers and other media. We are correcting that, and we're correcting that in full force, for the back-to-school period. The back-to-school period is obviously a big hockey period, a big footwear and clothing period for us, and it's the second-biggest selling season for us, after Christmas.

To give you an idea of what we're doing, by way of example, for the back-to-school period, last year, for hockey, we had an 8-page flyer and we had SportChek hockey brand TV commercials that started after the hockey event that we ran. This year, our 8-page flyer is going to 16. Yes, we'll have lots of deals in it, and, I think, better deals than a year ago.

But the extra 8 pages isn't all about deals. Two pages will be for footwear and clothing, to showcase training for hockey, and the programs that we have in footwear and apparel to train for hockey. We will also use the additional pages to showcase the breadth of our hockey assortment.

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We have recently gone through an exercise in all our categories of what it means to stand for something in that category, what does it mean to be a hockey store. As a result, we've added 60 SKUs to our hockey assortment, to stand as a hockey store. We will showcase that in our flyer. You will see a lot of detail; you will see a lot of breadth story, so that people know, when they look at it, that we are the hockey store.

The SportChek hockey brand TV will start before the event, and continue through, and this year, we will be adding tactical radio to support the flyer, and we will also be adding tactical TV to support the flyer, 2 things that we have not done for a long time.

As well, then, moving on to footwear and clothing, last year, we had 3 flyers; this year, we'll have our 3 flyers. However, we have massive changes in our assortment on the footwear and clothing side, and it has been very, very well received, and the checkouts have been great, and the margins have been great this spring. We need to tell people about that. So we will add 2 brand pieces. We will add a footwear apparel brand TV campaign, and we will also add a footwear apparel 24-page image print piece. And on the tactical side, we will also add radio to support the flyer.

And finally, in terms of brand co-op, which we believe is strategic advertising as well. Last year, in the key back-to-school period, we had

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none. This year, for the first time since I've been here, is that we will be on TV with a co-op Nike SportChek commercial that we're very excited about, and it just happens to be footwear, showcasing footwear and clothing that is designed for training for hockey. That will run for the whole month of August, and will feature one of the top NHL stars.

In terms of the operations side, or the customer service experience, a number of things are going on here. I won't go into all the detail, but some of the ones that are happening are increased selling hours on the floor. With a couple of years of negative comps, we've got a little conservative, and at some point, it becomes a self-fulfilling prophecy. We have put more hours back on the floor, and it has had a very positive result on our comps in the recent months.

We'll be launching e-learning for our staff later this summer. We'll increase the number of trainers that we have in our Operations department, and we will introduce specialty department trainers so that we can really focus on key categories.

This past year, we completed an operational restructure to increase the regional focus, and we've recently just completed our district manager conference, and it's the most energized I've seen our staff in a long, long

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time. They love the new look of the store, they love the assortment, and they love what's coming up, in the way of market.

So, what makes us so bullish, in light of the obviously poor results that we had for Q1? For us, obviously, the results are lagging indicators. We get the benefit of looking at some of the leading indicators. I'm going to summarize what some of them are, and just emphasize some of the points that I have made.

On the more subjective side, in terms of the leading indicator, we've had great feedback on the renovated stores from both our staff and from customers, and, going forward, we have 2 more waves of renovation, one in June and one in July, and as I said, by August 1st, 90 percent of our stores will be up to today's standard.

Visually, just observationally, our stores look much better. We have a beefed-up marketing for our key selling periods, the first one being hockey and back-to-school. I was just taking you through that. And again, I re-state, I can't emphasize it enough, the effect that we think proper allocation and replenishment will have on margins and sales at our stores levels. And we're just beginning that process. We will see a benefit in the back half, and obviously, a much greater benefit next year.

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Some of the hard numbers, the leading indicators, then. Our category results, spring to date, which would be to the end of May, when this was compiled -- again, this is for SportChek and Coast. On the footwear side, to the end of May, high single-digit comp sales; double-digit comp margin dollars. Decreased comp inventory. So that's a great scenario, when you can increase your sales, increase your margin, and reduce your inventory. The inventory that we have today has a much higher margin in it than a year ago, which means we have a much higher fresh percent, which is obviously, you know, that's a very leading indicator. And going into a key back-to-school period for footwear, Joggers has ceased operations in Ontario, and there is a reduced number of Athletes World stores, over the last number of months.

On the clothing side, just a recap, and again, it will come as a surprise, but we've got to start somewhere, and the first thing we've got to do is get some positive comps. We've had single-digit comp sales increases, spring to date, in our athletic assortment, in our fashion assortment, in our outerwear assortment. They've all had margin dollar declines, as we improved our inventory. But in these categories, we have 25 percent less comp inventory, which I cannot stress enough, is a major leading indicator. And we have a higher margin in that inventory, which

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means we have much more fresh. The new stuff that we have bought has worked well, and we have obviously taken the pain of cleansing a great deal of our inventory. That will be completed by the end of July, when we complete our renovation sales.

There's some clothing categories, though, that do have positive comp margin dollars. We have double-digit comp sales increases in both accessories and outdoor clothing. We have a double-digit comp margin dollar increase in our outdoor clothing, and a single-digit margin dollar increase in accessories, both with increased stock turns, both with higher margin in the inventory, as we see here today. Again, more fresh.

Obviously, license was a disaster for us this spring. The good news is, the NHL playoffs finished last year, I believe, this Monday. We will not be comping against those NHL numbers any more. Year to date, license business is down 58 percent, and the year-to-date comp margin dollars are down 74 percent.

One of the other benefits of clothing, on a go-forward basis, is the same as footwear. Joggers has ceased operations in Ontario, and there is a reduced number of Athletes World stores.

On the hard-goods side, we have year-to-date positive comps for biking, golf, camp, team, and fitness. Those are all very strong categories

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for us. We like where the inventories are going, we like where the margin's going, we like where the comps are going.

We've had negative comps in inline, and as I pointed out, was a huge drop, ski, snowboard, and hockey. On the inline skate side, the season is almost over. April is the biggest month for inline skates. After that, each month becomes lower. By the time you get to August, inline is a non-factor when it comes to a total sales amount.

Ski, snowboard and hockey: obviously, we're coming into those seasons. We believe, for these categories, for fall '05, that we have great opportunity. Improved allocation and replenishment is a major factor, when it comes to hard goods. We will have enhanced marketing programs, all of which I spoke to, and others still to come for the rest of the Q3 and Q4, and we've defined each category, what product we need to stand for something in that category. That's been done, and the SKUs have been added. And we believe the combination of allocation, replenishment, the marketing, and the improved assortment, and also, an improved accessories package to go with them, will be a major factor in driving comp sales and margins. And of course, in Ontario, we will face less competitive pressure for hockey, with the acquisition of National Sports.

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So, overall, we like the trend. In April and May, we have had positive sales comps, and that has continued on, so far, June to date, as we're 9 days into June. Our most recent margins are positive comp. We have much less of an inventory, significantly less inventory. That's a major leading factor. And we have much more margin in that inventory, as it is fresh.

Ninety percent of our stores will have a fresh update, will have the fresh look, by August 1. The Visual team continues --and we have a lot more initiatives on the plate for the back half, as well -- continues to improve the look of our store.

We've greatly expanded our marketing for the key back-to-school period, and will do so also for the key fall and winter periods.

We are balancing a brand message with a tactical message. We are balancing flyers with TV, radio, and print.

We face less competition than we did a year ago.

So, as we stand here today, obviously, we are completely unsatisfied with the results for the first quarter, but we're aren't sitting by and watching it; we aren't sitting by and blaming the weather; and we aren't sitting by and blaming the NHL strike. We're getting a lot of information, a lot of data, but what we're doing about it is, we've gone and

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changed the structure to go back, to have the focus on SportChek and Coast that we had while SportChek and Coast had phenomenal results, and we have re-examined every single aspect of it, and we are changing them very quickly.

I'm the most optimistic I've been in at least 3 years, in terms of our opportunities in SportChek and Coast. And I believe that our inventories are of the best quality and the best levels that they've been in probably 6 years.

When it comes to our 2 other corporate banners, Sport Mart and National, as Richard or Bob would allude to -- I forget whose speech it is -- National, we're very pleased with the results so far. It has over-exceeded our expectation; has had positive comps; and we've been able to add a lot to the margin line, with the buying power that we have.

On the Sport Mart side, the Sport Mart side has been challenged, as has the SportChek side. We are in the process of developing a revitalization program, much as we've done for SportChek and Coast, and Sport Mart will be positioned as a discount banner, going forward. It is today -- it's just not perceived as a discount banner by the consumers -- and we have a number of initiatives to make that happen.

Well, with that, I'd like to turn it back over to Bob.

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BOB SARTOR: Thanks, Bill. I just want to spend a minute talking about our wholesale Gen-X division. We did have a tougher first quarter in that division. As I said earlier, part of it was a close-out that we sold into the States, which obviously is a non-recurring thing. Every 4 or 5 years, you get a tough close-out, and this quarter happened to be the quarter in which we got it.

Another reason why Gen-X had a tougher quarter was, last year, we had an Airwalk footwear license, which shipped a lot of product in the first quarter, and did very well. The thing about licenses is they expire, and that license did expire, and was replaced by a Vision footwear license, but it only started shipping in Q2 of this year. Orders are strong for the Vision brand, and we expect the Vision brand to be a very good contributor for Gen-X for the balance of the year.

As Bill pointed out, a very pleasant surprise for the quarter was National Sports, which positively comped, and exceeded our profit expectations. We now believe that National will be actually a reasonable contributor to profitability in its first year.

As you can attest, many of the changes in our SportChek business are grafted from our very successful franchise operations. Certainly, it's no surprise that the multi-pronged marketing initiatives dovetail that; the

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recent store renovations, designed to present an updated store base, very much mirror what we've done in our franchise business. Certainly, the fact that we're renovating 50-plus stores in 4 months is very aggressive.

Writing off slow-moving product that simply doesn't fit with the new assortment strategy is also aggressive. We could have taken death by a thousand cuts, and simply lived with lower margins for another 12 to 15 months, but we felt that wasn't the right way to do things.

Increasing our media and production in a tough market is aggressive, but we think it's a smart move, especially our multi-pronged media approach to SportChek. And certainly, taking the axe, as I like to call it, to licensed and inline skates product was aggressive. But they all were, in our view, essential, to ensure that, by back-to-school, we had a renovated SportChek store base, and we had fresh, desirable inventory in their stores.

Combined with a substantially improved visual merchandizing presentation, the lower store inventory levels that Bill spoke to, and a more aggressive marketing campaign that really tells the story of the breadth of our offering -- we had expected, and are currently getting that lift in comps that we have been working so hard to achieve, for over 20 months now.

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SportChek is the sales, earnings, and cash flow generator of FGL. As such, we had to get it back on track. Half-measures, we believe, simply would not have worked. We think the work we've done with SportChek, the work we've done on our assortment, the tremendous marketing we've got planned for the balance of the year... And in a market like Ontario, when we combine that with significantly reduced competition, it should definitely benefit us significantly in the back half of the year.

I'd now like to open things up to questions, and ask our moderator, Maria, to begin the Q&A.

OPERATOR: Thank you. Ladies and gentlemen, we will now conduct the question-and-answer session. If you have a question, please press the * followed by the 1 on your touchtone phone. You will hear a tone acknowledging your request. Your questions will be polled in the order they are received. Please ensure you lift the handset, if you're using a speakerphone, before pressing any keys. One moment, please, for your first question.

Your first question comes from Jim Durran from National Bank Financial. Please go ahead with your question.

JIM DURRAN: Good morning. Just a first question. Q1, was it well below your budget?

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BOB SARTOR: Our first quarter was... if we take into account, Jim, the one-time write-off, yes.

JIM DURRAN: And if you exclude them?

BOB SARTOR: No, it wasn't significantly below.

JIM DURRAN: Okay. And you had mentioned \$0.03 attributable to timing issues.

BOB SARTOR: Yes.

JIM DURRAN: Can you go back and explain what those were?

BOB SARTOR: Sure. I mean, 2 of the fundamental issues there... Actually, there were 3 issues. Obviously, our M&P calendar is such that we had an ad spend shift in the first quarter, so we'll pick that up in the second quarter. The second issue is, just from a procurement perspective, a lot of new product. You know that our inventories are down 25 percent, for example, in athletic. A lot of the new product that's coming in to replace that will be coming in... is actually coming in now, hence the VR shifted from Q1 to Q2. And the last item, obviously, the Airwalk license last year shipped a lot in the first quarter, and not much in the second and third, and then we lost the Airwalk license on the Gen-X side. We picked up the Vision license. Shipped nothing in Q1 and we've got hundreds of

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thousands of pairs of footwear have been shipped into the U.S. in Q2 and Q3.

JIM DURRAN: Last question, and then I'll pass it on to somebody else. Just on the marketing and SG&A side, are we talking about more dollars being spent in aggregate for the year, on the marketing side, or... how does that work, versus last year?

BILL GREGSON: Yes, we will spend more, Jim. I would say, in the range of... On an absolute dollar basis, on a gross spend, before recoveries from our vendors, in the 15 percent range, more than last year.

JIM DURRAN: Okay, so as far as sort of the expense rate outlook for the year, adding more labor into the stores, and increasing marketing expense, so sounds like, unless we get major torque in the revenue line, that we shouldn't see any further expense rate savings this year.

BILL GREGSON: I'll talk to the labor side, Jim. It's Bill. On the labor side, actually, the labor won't cost us percentage. In fact, since we've added hours, we've driven our sales up and reduced our payroll as a percent of sales, because a certain percent of your labor costs are fixed. What we're adding are incremental hours that are variable, that are selling hours. And as you increase your sales, you reduce your fixed costs. So, in

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fact, as a percent of sales, we would expect our store labor costs to go down, as a percent of sales, and it has, since we've added the labor hours.

BOB SARTOR: Jim, maybe another way to look at it is, here's our philosophy. We are basically refreshing the entire big-box corporate store base. We are putting in that big-box all-new product on the clothing side, or substantially new product. We are adding the labor hours to service the customers when they come in to look at it, and we are telling the breadth of product story with things that are like catalogues, that really talk about the breadth of our footwear and clothing offering, and the new footwear and clothing offering.

We don't believe now is the time to try and reduce the absolute amount of dollars we spend in our stores. We think, at the end of the day, if you build something, you've got to tell people about it, and when they come in, you've got to be able to sell it to them.

On the G&A side, our approach is really straightforward. We've always managed G&A tight; we continue to manage G&A tight. We don't need to add to G&A to drive our comp store sales. The only area in G&A we've added in the past year, and the effect of it is felt in the first quarter, and you know, extant, or once we back out the full-quarter impact of Gen-X, because we actually only had them for part-quarter, and the

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National G&A, even with the visual merchandizing, our overall G&A costs are in line.

But visual merchandizing, we think, is an essential component of the re-do. Our stores have to look as good as all of the other stores in the malls, because SportChek is a mall concept. If our clothing -- which it has, in the last year and a half -- if our clothing looks crappy, people won't buy it.

BILL GREGSON: Jim, just to give you maybe a bit of a flavor on the amount of the marketing spend -- if we got a 1.5 percent increase in comps, that would more than pay for the marketing spend. If we got roughly a 0.75 percent increase in margin, that would more than pay for the marketing increase.

JIM DURRAN: Great. Thank you.

OPERATOR: Your next question comes from Benoit Caron from Canaccord Capital. Please go ahead with your question.

BENOIT CARON: Thank you. Good morning, gentlemen. Question here, regarding the same-store sales across the nation. Can you give us more details regarding same-store sales at SportChek and Coast, and maybe Sport Mart -- how they've fared in Ontario, and how they've fared across Western Canada?

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BILL GREGSON: I guess the flavor would be that B.C. was the toughest area for us. Ontario started off poorly, and got stronger, and Ontario's been very strong lately, especially with the weather breaking. So... And the rest is kind of a mixed story, but B.C. would have been the weakest in the first quarter, and Ontario was kind of representative with the rest of the country.

BOB SARTOR: To put it in perspective, Benoit -- it's Bob Sartor -- the western part of the country, for the quarter, was down a little over 5 percent. The eastern part of the country was down under 3 percent. Ontario actually drove that for us. Obviously, it's probably the best results we've had in Ontario in some time, and that's what I said in my wrap-up.

I think we're in for some really good things in Ontario in the back half, particularly in back-to-school, because I believe that the "buy one, get one free" insanity of last year that characterized, I think, the final throes of the intense competitive pressure in Ontario, is behind us.

BENOIT CARON: Okay, and how's the new lines, Columbia and North Face and Ripzone, how are people reacting to these lines? We toured some of your stores in Ontario, and it seems like... I felt like I was walking into a Sport Experts, more and more. I was wondering, how... I mean, you're mentioning that you'll be taking the best of Sport Experts

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atmosphere, to replicate that into SportChek / Coast. How long will that take, for this process to be implemented across the nation?

BILL GREGSON: Well, it's... Not that long, actually. It's... part of... If I talk to this... I think this... It's Bill, it's not Tom. But if I talk to what I think the success factors of SportChek are in Quebec, one is the physical look of the store. Two is the visual presentation of the product that they have. Three is the marketing program that they have, a well-balanced program that combines both strategic and tactical. And then, four obviously is the assortment, a very appealing assortment. The review I just went through for SportChek addressed all those issues.

In terms of the specific questions on the assortment, franchises had a phenomenal success for a lot of years with Columbia sportswear. SportChek is having phenomenal success for the last 12 months Columbia sportswear. The franchises had a long history of phenomenal success with the North Face sportswear. SportChek just introduced that this spring, into limited doors, and we'll have it for all doors for fall.

For outerwear, some of the key drivers for franchise that haven't been in SportChek have been Orage for ladies', and the North Face for both men's and ladies'. And those programs are in SportChek in earnest, for this fall. If you look at the apparel side, I talked about Vans, Burton,

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O'Neill, as well, on the fashion side. And Ripzone has been both a staple for franchise and for corporate, for a long period of time.

So there's lots of notes-sharing going on, there's lots of looks at both ways, and absolutely, corporate is borrowing some of the success stories from franchise, and putting them into the... from a store point of view, having them in, in full force, for this fall. But it's more than just the assortment; it's the marketing, it's the store look, and it's the visual on all components I've talked to.

BENOIT CARON: Okay, and maybe just a couple more precisions, and I'll leave it to somebody else. You mentioned a line that didn't move well with Gen-X. I was wondering, what line was that? And regarding Sport Mart, you're talking about you will need to revitalize the banner. What do you plan, in terms of that? Is that merchandise layout, the way stores look, lighting... what exactly do you have in mind for Sport Mart?

BILL GREGSON: On the line, we really don't want to comment to that. I don't know if that's fair to the wholesaler, to the supplier. But suffice to say, we have zero product left of it. So it was a complete write-down. We have zero product left.

In terms of Sport Mart, the single biggest thing is the positioning of it. It is a discount banner, but it hasn't been communicated as well as it

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should be. So that is both from a marketing, external marketing point of view, and from an in-store communication point of view.

We are also rationalizing what the categories are... what Sport Mart's going to stand for, from the point of view of categories. And we believe we have a massive opportunity on the value footwear side, and we have gone after that for the back-to-school period.

We also believe we have a big opportunity on the value hockey side, and of course, in the summer, on bikes and on golf, to offset the inline business.

So it's a matter of assortments, doing with the assortment. The biggest issue is the positioning, and then the marketing that follows that positioning. And in terms of the in-store, once the marketing is... the position and the marketing are set, and once the category assortment plans are finalized, then whatever physical changes need to be made in-store, to support that, will be made.

BOB SARTOR: Yes. I mean, Benoit, it's Bob Sartor. Certainly, the good news from a Mart perspective is that the store size and the general layout of the store, which is simply a square box, will remain. We don't have any issues there. It's just a question of... One of the things that we talked about on the margin side, other than just the fact that we have had

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to communicate the discount positioning, and it was exceedingly difficult, obviously, to communicate the discount positioning in the past year, when we were told that we could not discount out-of-the-box and compared to an MSRP price -- you'll recall the well-publicized problem we had with the competition bureau on that front. Sadly, a large portion of Canadian retailers still do that, so we're disadvantaged. So we've had to rethink how we're going to communicate our discount positioning in that banner.

One of the bigger issues, and Bill talked about categories -- certainly, a massive opportunity, with the demise of Joggers and the significant reduction of Athletes World stores in Ontario, for our banner on the Sport Mart side is value footwear. We think there's lots of business, as much as \$200,000-250,000 a store in additional footwear that can be done. That's a lot of business.

BENOIT CARON: Thank you, gentlemen.

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

KEITH HOWLETT: Yes, on National Sports, would it have been... had a positive operating profit in Q1?

BOB SARTOR: Yes, it did, actually. And quite frankly, above what we expected. The new management team has worked out very well there,

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and these folks actually operate... you know, for the concept they have, they operate a pretty good store.

KEITH HOWLETT: And so, in terms of seasonality, is it basically we'll make money in every quarter, then?

BOB SARTOR: Under the FGL auspices, I suspect it will, Keith. I think this probably would have been its first-ever first quarter operating profit. Obviously, our buying power has significantly improved the margin side of their business.

KEITH HOWLETT: And then, just on the Gen-X, Airwalk, Vision business, can you just explain... Those licenses are not close-out, I take it.

BOB SARTOR: No. No, those are actually licenses that really allow Gen-X to function very much as a supplier to retailers, and do bookings and contract-manufacture the product, typically offshore. So, for example, on a license, it usually will be for a one-, two-, or three-year period, and then the Gen-X folks will actually design and create the product, they will market the product -- usually in the U.S. -- and then they will manufacture and deliver. So the Airwalk license expired. When it expired, we still had not secured a replacement license, and that's obviously something we've got to do in the future, is make sure that by the time one lapses, the other

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one is secured. And so, for Q1, we were busy producing footwear, as opposed to shipping footwear, and we're now shipping footwear.

KEITH HOWLETT: I see. And so the Airwalk would be for sale of Airwalk in markets other than the U.S.?

BOB SARTOR: No, the... Correct. It depends on where the license is. Sometimes, we'll have a license, or Gen-X will have a license, that applies to U.S. only; sometimes it will be U.S. and Canada; sometimes it will be Europe and Canada. In the case of Vision, it's a North America license.

KEITH HOWLETT: I see.

BILL GREGSON: But Gen-X no longer has an Airwalk license.

BOB SARTOR: No. That one expired.

KEITH HOWLETT: I see. And on the capital budget for the year, what's the anticipation there?

BOB SARTOR: Well, the anticipation there is that, now that we have the National acquisition under our belts, we will be holding off on any capex investments for Sport Mart in Ontario. We will be... There's probably only 2 markets in which we have a minor rationalization to do, and that's, quite frankly, very small. So we'll deal with those in the coming year.

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And we want to get National's profitability up to a point where we think it *can* go with our buying power and our marketing clout, and at that point in time, we would expect to grow the National business, actually, in Ontario.

From an overall capex perspective, we expect to be lower than last year's numbers. It's tough to give you a number right now, because we've got a couple of very interesting real-estate opportunities in front of us, which we may take advantage of. But certainly, we'll be below last year's numbers.

KEITH HOWLETT: And then, just finally on the sort of image and price positioning of SportChek -- there was, I guess, in the past, quite a focus on the close-outs and the flyers, and I'm wondering whether there's any change in that, whether you're going to try and, you know, position it more as a store for expert sportsmen, or it's still going to be--

BILL GREGSON: No. In fact, Keith, we're going to continue with the flyer program and with price item. We will... and if you go and look at our franchise, our franchise business does the same thing. It's the balance that was, we think, was out of whack. In fact, it was 100 percent price-item flyers. So we're not reducing the price-item business that we do. What we are reducing... what we are adding to, though, is we're adding to image TV,

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image print. We're adding some radio back, to support the flyers. So we're balancing our media buy, other than just flyers, and we're balancing our strategic with our tactical, and there will be... And we're not looking to reduce the amount of close-outs.

Having said that, in terms of our assortment, you talk to about authentic or sports [inaudible], as I mentioned, we've gone back and redefined what it means to be a hockey store, what it means to be a ski store. And you will see a greater assortment of authentic merchandise in our store, you'll see a wider breadth of merchandise in our store, and you will also see a lot cooler merchandise in our store. And you will see that in accessories as well.

And so, it's a multi-pronged approach to the image thing.

BOB SARTOR: Keith, it's Bob Sartor. Just 2 more minor points. First, while we will have competitive ads, as *Sport Experts* does in the province of Quebec, I think it's safe to say that the, shall we call it, the heat in those ads will be reduced, because we have a far less intense competitive situation facing us now than we had in the last 2 years. So, you know, should you expect to see an entire store on sale every second and third week? We don't have to -- we have incredibly clean inventory. We have more margin in that inventory. Our average price point is up, and

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we're seeing it now in our comps. So I guess, to put it in a word, we don't expect the SportChek stores to look like they looked before, and we don't expect them to be marked down as heavily as they have been before.

KEITH HOWLETT: Great. Thanks.

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're using a speakerphone, please lift the handset before pressing the keys. Your next question comes from Jim Durran from National Bank Financial. Please go ahead with your question.

JIM DURRAN: Two things. First, National Sports. Can you tell us how much revenue it *did* contribute in the quarter?

BOB SARTOR: We typically don't disclose individual banner stats on a quarter-to-quarter basis. We'll likely do so in year-end MD&A numbers.

JIM DURRAN: Okay. Just back to the capex question. Has there been a change, in terms of new-store growth plans, then, overall, and how much square-footage growth you think you'll deliver this year?

BILL GREGSON: Actually, there has been a change, Jim. There's definitely been a change from what's happened in prior years. SportChek this year actually happens to have probably more opportunities than it has in the last few years, so, you know, we would look to probably 8 new

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SportChek stores for the entire season. Most of them, you know, the average 20,000-square-foot size that historically we've done. There's a couple of opportunities to do some bigger SportCheks -- not the 75,000-footers, but 40,000-50,000-footers. Don't know if they're going to happen this year, or if they're going to go into next year. So, from a, I guess, a strategic point of view is, we continue to open SportCheks.

With the purchase of National, we looked at that as a major expansion program this year, obviously, adding 20 stores to our mix. And with that, we have decided that, for this year, is that we will halt the expansion of Sport Mart as we figure out just exactly what the Ontario market's going to look like for us, going forward, between Sport Mart, National, and SportChek. There will be, I believe, one new Sport Mart this year, and that's compared to the typical 15 I think we've been doing every year for the last number of years. And so, I would say, overall, then, is that you're going to likely see, from new, from organic growth, from Sport Mart and Chek, less square-footage growth than in the past years, but obviously, with the acquisition of National, we look at that as growth, and so, greater square-footage growth in total.

BOB SARTOR: I guess, Jim -- it's Bob Sartor -- just to add to that... I think it's safe to say that our singular focus right now... Because we think

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we've got the real estate portfolio. So our singular focus is getting our sales-per-door up, getting our margin realization up, and improving our inventory productivity, and some of the tough decisions we had to make to finally purge the dregs of the remnants of the assortment, particularly on the clothing side, that weren't going to work, in our new revamped SportChek, are designed to do that just. Quite frankly, the biggest incremental contribution we're going to get right now is from our existing store base, and that's where most of our energy is focused, as opposed to greenfielding.

JIM DURRAN: Last question, just back to Gen-X. Aside from the writedown, could you give us some idea as to what kind of EBITDA impact Gen-X had in the quarter, year over year?

BOB SARTOR: We're not going to get into that level of detail or the opening of the [inaudible] to that level. It was lower than last year's but certainly not material in the context of our overall loss for the quarter.

JIM DURRAN: Okay, great. Thank you.

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

CANDICE WILLIAMS: Good morning. I realize the focus is on sort of the SportChek, but I am a little bit curious as to the golf strategy. Is there...

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what is the plan, sort of to help Nevada Bob's come... be able to go sort of fisticuffs with Golf Town?

THOMAS QUINN (President, Franchise Division): Good morning. It's Tom Quinn. With Nevada Bob's, what we're doing is, we're looking at it as a 36-month stage process. The first thing we're going to do is integrate the existing Nevada Bob's group into our system, our franchise system. After that, what we are doing is, we launched and created a new advertising campaign for the banner; had very positive results in the first quarter, after introducing it. We also launched our first new prototype for the go-forward position of that banner, about 3 weeks ago, and early indications show that it's exceeding expectations, both on the sales and margin side.

In addition to that, we're also in the process of recruiting a number of strong independent retailers across the country that have contacted us, wanting to be part of the Nevada Bob's group.

BOB SARTOR: Candice, it's Bob Sartor. Another way to put it is, when we acquired Nevada Bob's, we had said to ourselves, "Okay, we're up against a formidable and great competitor in Golf Town. We're up against the person who has staked the big-box positioning. And we have a franchise business that is... the cornerstone is the servicing all the requirements of a retailer, so that the retailer doesn't focus on one thing

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only -- customer service and store conditions. So our view is, we have to be everything that Golf Town is not, to co-exist successfully with Golf Town. That's exactly the strategy we're pursuing, in a nutshell. I would certainly invite you to listen in to our AGM, where Tom will talk about the golf business in more detail, and when we'll in fact be showing photographs of the store, and you could not find a store more different than a Golf Town.

CANDICE WILLIAMS: Okay. Fair enough. Thank you.

OPERATOR: Your next question comes from Judy Cameron from Bodnar & Company. Please go ahead with your question.

JUDY CAMERON: Hi. I was just wondering, could you give us the EBIT numbers for the corporate and the franchise stores, for the first quarter?

BOB SARTOR: We typically only disclose in our financial statements when we release segmented information. Very tough to get EBIT because we have one consolidated infrastructure, so we haven't disclosed that in the past, and don't believe we're in a position to do so now.

JUDY CAMERON: Okay. And could you just go through the number... How many hours did you increase the stores, for being open?

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BILL GREGSON: I don't know that the number of hours is the important. I think the direction of what we've done is gone back to saying, just like we track comp sales, but we're tracking comp hours, and the sales that those hours are producing.

JUDY CAMERON: Okay.

BILL GREGSON: So we have... At some point, it becomes the question, do you put on more hours first, or do you wait 'til you get more sales? And what we did is, we put on more hours first, and we put on a positive comp in hours, and that resulted in a positive comp in sales.

JUDY CAMERON: Okay.

BOB SARTOR: Just to clarify one other thing -- we are not changing our store hours. We're changing the number of hours, man-hours, we put into our stores. The store hours are obviously set by either the government or landlords, as the case may be.

JUDY CAMERON: Okay.

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

GEORGE HARTMAN: Just a little clarification. How much of Gen-X's business is licensed, versus close-out?

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BOB SARTOR: Well, currently, as we speak, it's mostly license. One is with the shipments of Vision footwear. In the first quarter, it was exclusively close-out, virtually.

GEORGE HARTMAN: What is it, on an annual basis?

BOB SARTOR: On an annual basis, what we're seeking to do is a good blend of roughly 50-50, and that's what we had last year, and that's what we're trying to do this year.

GEORGE HARTMAN: Okay, thank you.

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

JIM DURRAN: Just wanted to focus on Q2 versus Q2, in terms of any carryover. So it sounds like ski, snowboard, outerwear markdown risk has pretty well been digested in the first quarter?

BILL GREGSON: Jim, I guess the overall direction is, yes, you're right. On ski, snowboard, and outerwear, it was mostly done in the first quarter. Our expectation... Q2, there... we have, we're running, I think... I believe it's 4 waves of renovations. We had one wave of renovation sales in Q1. We'll have the remaining 4 waves in Q2, which has a negative impact, primarily on our clothing areas. So the negative margin hit in ski, snowboard and outerwear in Q1, yes, you're right, is greatly diminished in

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Q2. There is an inline hit in Q2, as we aggressively reduce our inventory, and that position is a tough sales period. And in Q2, we will also see an effect on clothing and footwear, as we reduce the... as we complete the renovation sales.

The overall impact, though, will be less in Q2 than it was in Q1, and by the time we get to Q3, we will have finished the initiatives that we're doing that are negative margin... or I should say, lower margin impact.

So yes, you're right, for your question, but there are some factors in Q2, and as far as we can see, Q3 right now, when we stand, is that we plan no initiatives ourselves that will affect the Q3 margin.

JIM DURRAN: Great. Thank you.

OPERATOR: Your next question comes from Sheila Broughton from Pacific International Securities. Please go ahead with your question.

SHEILA BROUGHTON: Oh, hi. Sorry, I might have missed this. I was just wondering if you had some reasons for the poor inline sales.

BILL GREGSON: Yes, it's just a category that is no longer in vogue. Bikes are getting strong [inaudible], but inlines aren't there. It's just there is nobody doing a lot of inline. Everybody's doing reduced inline business, in this country. So it's just... it's a waning category.

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SHEILA BROUGHTON: So aside from bikes, is there another opportunity you can see that rolling into?

BILL GREGSON: Yes, as I mentioned in our comments, is that, in fact, we're quite bullish about next spring, for it, and having... doing a lot of work on it right now. And we think it comes from 4 categories. We think it comes from camping, we think it comes from team sports, such as soccer, and next year is a World Cup year, which traditionally gives us a big lift in soccer. We see it coming from bikes, and we see it coming from golf, in the SportChek stores. The golf assortment in SportChek is quite different from the golf assortment in Nevada Bob's, as they play at 2 different levels of the price strategy. But yes, we think there's 4 opportunities to more than pick up the inline losses.

SHEILA BROUGHTON: Okay, great. Thanks.

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

BOB SARTOR: Right. Thank you very much. As I said earlier to one of our listeners, we are going to be webcasting our AGM, which starts in a little over an hour. We will have some additional color on the upcoming initiatives, and some additional color on our golf strategy, as well as our running and walking banner, which we are christening as Pegasus, and will

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be launched in the back half of this year. If you wish to listen in, you can simply sign on to our website and follow the instructions.

Folks, thank you very much for listening in. As you can imagine, as a senior manager in this company, and including Bill and Tom and Richard and I, a very painful thing to have to have done, but we felt, quite frankly, that one necessary purge was better than a continuing, lingering situation. The faster we move towards the revamped stores, the revamped assortment, the revamped marketing, the faster we can get on to the next growth wave that we feel is just ahead of us.

If you have any follow-up questions, we will be in management meetings today, but we will be checking our emails and telephones, so certainly, we will try and return them as promptly as possible.

Thank you very much, and good day.

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

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