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CONFERENCE CALL
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OPERATOR: Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Forzani Group Q1 fiscal 2007 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 Thursday, June 8, 2006, at 9:30 a.m. Eastern Time. I will now turn the conference over to Mr. Bob Sartor, Chief Executive Officer.

Please go ahead, sir.

BOB SARTOR (Chief Executive Officer, Forzani Group Limited): Thank you, and good morning, ladies and gentlemen, and welcome to our first quarter conference call.

With me today, and in the order that they will be speaking are Richard Burnet, our Chief Financial Officer; Bill Gregson, our President and Chief Operating Officer; and Tom Quinn, the President of our franchise business.

Before beginning our conference call discussion, I'm going to ask Richard Burnet to comment on forward-looking information.

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RICHARD BURNET (Chief Financial Officer, Forzani Group):

Thanks, Bob. As we conduct this conference call, there are remarks that we'll make about future expectations, plans and prospects which will constitute forward-looking information. The corporation's actual results could differ materially from the conclusions, forecasts or projections on which such forward-looking information is based.

Certain material factors or assumptions were applied in drawing the conclusions or making the forecasts or projections reflected in such forward-looking information. Additional information about these material factors that could cause actual results to differ materially from the conclusions, forecasts or projections and the materials factors or assumption that were applied in drawing the conclusions or making the forecasts and projections in question is contained in our annual and interim MD&A, which is available on Sedar.

BOB SARTOR: Thanks, Richard. I'm going to today really limit my comments to overview. Both Bill and Tom will talk more about the business and Richard will obviously give you a full financial rundown.

Overall, we were actually quite satisfied with the quarter. We continue to make good progress in all of our corporate banners across the

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country. We really didn't have any weak spots whatsoever on the corporate side.

And also in our wholesale businesses, comprised of our franchise division, our private brand division, and our opportunity buy and license division. Each one of those had had very strong performance. In particular our franchise business was very strong. Our private brand division had a slightly improved performance, and definitely our wholesale business and opportunity buy business was significantly stronger than last year.

Total operating expenses were in great shape, in our view, as a percentage of retail sales, and our G&A costs were very much as expected, with the exception of additional expense recorded for performance-based compensation due to our stronger results.

Richard, our CFO, will now elaborate more on our numbers and will talk briefly about our balance sheet. Richard?

RICHARD BURNET: Thanks, Bob. Ladies and gentlemen, the press release was fairly detailed, so I will limit my comments to financial highlights.

For the first quarter and year to date, retail system sales for the quarter were 299.1 million against last year's 259.9 million, a 15.1-per-cent

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increase. The current year's figures include approximately 6.1 million of sales from The Fitness Source, which we acquired on January 31st.

Corporate same-store sales were up 12.2 per cent, and franchise up 6, for an overall comparable store sales increase of 10 per cent.

Total revenues were 280.4 million versus last year's 238.2, a 17.7-per-cent increase. Breaking out revenues, corporate store revenues of 195.9 million were up 17.4 per cent, and wholesale sales of 84.6 million were 18.5 per cent of last year's first quarter. Consolidated margins for the quarter were 32.1 per cent, 310 basis points above last year.

Corporate store operating expenses as a per cent of retail revenues were 29.5 per cent, a decrease of 140 basis points over the prior year and on a comp-store basis, expenses were 28.2 per cent versus 29.6 per cent last year.

G&A expenses at 19.6 million were 7 per cent of consolidated revenues versus the prior year's 7.3 per cent. As we had indicated in our year-end conference call, the run rate for G&A expenses is returning to historical levels. Absolute dollar increases are a combination of normal course year-over-year increases and the addition of The Fitness Source infrastructure and accruals for performance-based compensation, offset by

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savings now being realized on the completion of the national stores' back office integration.

First quarter EBITDA was 12.8 million against 19,000 in fiscal 2006 and net earnings for the quarter were 294,000 versus a loss of 7.4 million last year. Diluted earnings per share were \$0.01 in the quarter, against a loss of \$0.23 in the prior year and cash flow from operations were 10.2 million, a five-fold increase over last year.

In terms of our balance sheet, the company finished the quarter with working capital of 113.5 million, 92.5 million in '06, and a working capital ratio of 1.4 versus 1.3 in '06.

Accounts receivable days outstanding were down at the quarter end, and our inventory investment on a comp-store basis has been reduced by approximately 5 per cent over the prior year.

I'll now turn it over to Bill Gregson for his comments on the business.
Bill?

BILL GREGSON (President and Chief Operating Officer, Forzani Group Limited): Thanks, Richard.

Obviously a very good quarter. Very happy on the corporate side of the business. Corporate sales were strong, as reported, at a 12.2 comp. This comp was across all banners, was in all provinces. The west was

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stronger than the east and it was across all merchandise categories. Footwear, soft goods and hard goods were all up double digits on a comp basis. So it's fairly equal across the major merchandise categories.

As Richard reported, the blended margin, which is wholesale and retail margin, was 32.1 versus 29.0 per cent. The blend of sales, of revenue, I should say, between corporate sales and wholesale revenues was basically the same, so obviously that means there were some very strong corporate margins.

Inventories are in good shape. Comp inventory at the corporate level is down 5 per cent. The winter inventories, because our winter season ends in the first quarter, were down well into the double digits, in outerwear, in ski and snowboard, all the major categories. So we're very happy with our inventory position from a winter point of view as we all head not that far from now back into fall come August-September.

On the corporate square foot side, we ended the quarter with 4,460,000 square feet, which excludes Fitness Source, and that's down from 4,095,000 at the end of the year, as there were a few store closures in the quarter. And in the second quarter we expect to add 31,000 square feet.

Now I'd like to turn it over to Tom Quinn.

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TOM QUINN (President of Franchise Business): Thanks, Bill. Good morning, ladies and gentlemen.

FGL's franchise business again had a solid quarter. Comp store sales at 6 per cent and the addition of eight new franchise stores, 10 store conversions, and six renovation projects kept us quite busy. We also had a successful launch of the Nevada Bob's Golf brand in the GTA area, with a conversion campaign of the deMarco golf stores to Nevada Bob's Golf in the spring.

Our second combo store of Hockey Experts and Nevada Bob's Golf also opened in the spring in Trois-Rivières. This concept to date is demonstrating a strong potential for the Quebec market. We are currently working to develop our go-forward franchise model and store concept for Fitness Source, which we plan to launch in the fall of this year. We are also aggressively pursuing the development of our multi-banner formats and specialty banner developments in targeted areas of the country. All performance indicators are in line with our objectives and we anticipate another exciting year of development and growth.

With that, I'll pass you back to Bob.

BOB SARTOR: Thank you, Tom. Well, I don't believe that we're firing on all cylinders yet, but we are a much-improved business versus this

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time last year. Our second quarter is off to a great start. But given what we've been through in the past year, we can hardly consider our work finished.

Our corporate business is doing very well but it can do better. We have had great margin performance, and we've taken our inventories down significantly; but frankly, we've yet to fully realize any material benefits from our precision retailing initiatives, so there's up side there. We do expect our business to continue to improve.

Having said that, obviously one quarter does not a year make, and we will refrain from too much hubris at this stage.

With that, I'm going to turn the call over to Matt, our moderator, for a brief Q&A session.

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 that 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.

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Your first question comes Jim Durran, of National Bank Financial. Please go ahead.

JIM DURRAN: Good morning. Just a couple of things. First of all, on the new store growth outlook, you know, modest square footage growth in the quarter. Can you give us an update on what your intentions are with respect to new store activity on corporate and franchise for the year, and what the implications would be to capex?

BILL GREGSON: Jim, it's Bill. I'll talk to corporate store growth for the rest of the year; Tom will talk to the franchise, and Bob can speak to capex.

On the corporate side, it's going to be a fairly quiet year. Next year will be a much bigger year from a point of view of store growth. A lot of the ones we were hoping to open this fall have been pushed off in the spring typically due to developer time lines. So you will see Coast Mountain will have no additional growth this year. Sport Mart will have no additional growth. National will have no additional growth. And there will be probably, I'm trying to think of the number, but I'm going to say it's somewhere between Q2 and Q4, somewhere around 70,000 to 100,000 square feet of growth on the Sport Chek side.

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TOM QUINN: Jim, good morning. On the franchise side, we plan on opening 26 stores this year, as a minimum, including Sports Experts, Atmosphere, Nevada Bob's, Pegasus, and Hockey Experts. And there'll also be some activity in the conversion of existing golf retailers to the Nevada Bob's Golf concept.

JIM DURRAN: Do you have a feel as to how much square footage that's going to add?

TOM QUINN: Approximately 100 and... at my end about 200,000 square feet.

JIM DURRAN: OK. And Bob, on the capex side, what's the implication of all that?

BOB SARTOR: We're not going to tell you, Jim. (Laughs)... Our actual capex numbers are going to be down materially from prior years. We expect our net capex to be right now in the \$30 million range, which still reflects a front half investment and allocation, warehouse management, and pack sizing technology. So that'll be about 30 million.

And we published our year-end results. You probably can see in the cash flow section that our capex numbers this year would have been, or this past year would have been about 50 million. So a pretty material reduction in overall capex, notwithstanding the store activity.

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JIM DURRAN: And given Bill's comments about more square footage growth next year on the corporate side, can you give us a directional comment about what the capex might do in the following year?

BOB SARTOR: Well, I mean, it can only be directional at this stage because we haven't finalized our opportunities, but I would expect, and we will work, actually, to ensure that our capex numbers remain relatively stable with our current projections for this year.

JIM DURRAN: OK. On stock-based compensation, the number was up fairly significantly in the quarter. Richard, can you give us some idea? Do you expect this to be sort of the run rate for the year, or how's that going to play out?

RICHARD BURNET: Well, I mean, a lot of the stock-based compensation is performance-based. So dependent upon the results, the run rate could well be as you saw in the first quarter if our results continue to be as good as they are.

BOB SARTOR: Yes. I think it's a nice problem to have. Obviously, if we're making accruals for future pay-outs two or three years down the road, that means that our expectations of the business are positive and that we are feeling bullish and hence we are beginning to accrue.

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JIM DURRAN: Last question, just on Genex. I think you had said earlier that the private branded side was up only slightly, while the wholesale business was up quite substantially. Where are we on Genex? Like, is it operating as you had expected, or are we still behind? And you know, is it just a quarter too early for a bigger ramp-up on the private brand side?

BOB SARTOR: Well, yes, the private brand side is simply a timing issue on the foreign exchange side of things. So we're not really concerned there. We actually have really good sell-through, no issues there.

On the FGL wholesale side of things, frankly, you folks don't have the benefits of seeing their budgets, and we were looking for just on top line alone a 100-per-cent increase in sales. And they came awfully close, you know, quarter over quarter, to achieving that – so tremendous performance.

They still have a ways to go. The real challenge in that business is balancing what I would call the stability of the licence side of the business, which is a booking business, with the opportunity business, which, as you know, is either a feast or famine business.

We had some weakness in the opportunity side of things in the first quarter. I can tell you, based on some things we've done recently, the

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opportunity side of the business will not be an issue for Q2 and Q3 and our licence booking business is doing very well. So we're actually pretty bullish about that business this year.

JIM DURRAN: Great. Thanks, Bob. I'll let somebody else take over.

OPERATOR: Your next question comes from Ryan Balgopal, of Scotia Capital. Please go ahead.

RYAN BALGOPAL: Thanks. Good morning. I'm wondering if you could just talk a bit about the status of the replenishment system into the stores, the allocation system, how that's going.

BILL GREGSON: It's Bill, Ryan. The replenishment system's been in place for quite some time now, almost a year, on the replenishment side, which represents a fairly small amount of our business right now, but it is a very high-margin business.

We've had great improvements. We brought our in stock up almost to our target, and coming from a very low starting point. So so far, the replenishment side has been a contributor, definitely, to our numbers from a point of view of being in stock, increasing our sales in basic stock, and doing it at a very high margin.

The allocation system in fact is live right now. It went live this week. That benefit is going to be a go-forward basis, and we'll start to see some

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of the benefit this fall and obviously much more getting into next spring. So this is the week that it went live, so we're very... it's been a lot of work. A lot of people worked very hard on that, and so we're very glad to have that one, as of this week, under our belt and beginning to start to reap some of the benefit.

And the other part of precision retailing was planning, and planning has been up and running for almost a year now. And we're starting to see the benefit – and you can see it in our balance sheet numbers – we're starting to see the benefits of improved stock turns. And the planning department has played a big role, along with the purchasing group, in improving those stock turns.

So some up and running, some providing benefits already, and some still the benefits are ahead of us.

RYAN BALGOPAL: On the allocation system, I think that was previously done manually, if I'm not mistaken.

BILL GREGSON: Correct, yes.

RYAN BALGOPAL: And so are you still sort of monitoring that, kind of running, you know, both things parallel until you're absolutely sure that the allocation system is flawless?

BILL GREGSON: Yes.

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RYAN BALGOPAL: OK. OK. Maybe if you could just talk about assortment. That was one of the issues that you were going to work on. You felt that some of your assortments were kind of weak. I think you were going to put in some camping to offset inline and then other assortments in clothing with maybe some new brands. I'm wondering if you could just talk about how that's gone recently.

BILL GREGSON: Well, I mean, the assortment issue changes by banner, because each banner has its own position, and therefore the assortment has to support that banner position.

But very generally, Ryan, on Sport Chek, we talk about Sport Chek, which obviously is our biggest corporate banner, the trend overall has been to make sure we're in stock on all the items you need to be a sports store, and that's where basic stock has played a huge role. It's to keep our core promotional program that we've always had and has played a big part of our success. And then it's to add more authenticity, more higher price, more fashion, more authentic goods to the assortment.

And with that, and in terms of categories, outdoor apparel, Northface and Columbia's one where we've added. In footwear, Merrill is where we've added; and in camping, you're right, camping is one that we've added.

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Just to comment on inlines, inlines has actually been a surprisingly good category this year. We're very happy with the... well, we're ecstatic with the inline results. We had a pleasant surprise on the inline side.

So overall, the assortment is very much where we want it to be at this stage. There has been a lot of improvements, either in adding to the assortment, either a couple of new categories, or just some better product, either from an authentic quality point of view or from a fashionability point of view. And we still have more steps to take; but for this spring we're right where we want to be.

On Sport Mart, which is probably the other one to talk to in terms of size of banner, Sport Mart, the assortment there has continued to focus more and more on the value selection from the best brands, and with a big focus on both value hockey and value footwear. And as I said, all banners comped nicely in the first quarter, so we're very happy with the progress we're making on the assortment as well in Sport Mart.

RYAN BALGOPAL: Any new brands that you've been able to get, like Billabong or anything like that?

BILL GREGSON: No new brands that I would say have made a major difference. The one that we have had, that's certainly doing well for us, is Under Armour on the athletic side. And when you go into the

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outdoor, they're not necessarily new brands but we're doing a lot more business with people like Columbia, with people like The Northface, with people like Merrill. And that's something where our franchise side, Tom's business, has long done very well with those brands in Quebec, and we're doing very well on the corporate stores now with those brands as well.

RYAN BALGOPAL: OK. Just final question. I was in Europe recently, and a lot of the shoes there, you go into sporting goods stores, huge amount of sort of the low-profile shoes I think...

BILL GREGSON: Yes.

RYAN BALGOPAL: ...they're referred to. Are we seeing that trend? I mean, I haven't... doesn't seem to be as strong in North America yet, but is that (inaudible)?

BILL GREGSON: It's not as strong, but it is strong. What we call our trend category for footwear is doing very well, is up substantially. Our footwear is very broad based. It covers outdoor, it covers athletic, it covers cleated, and it also covers fashion or trend business. And that low-profile fits in the trend, and that is one of our fastest-growing footwear categories, is the trend.

So you obviously have a good eye, Ryan.

RYAN BALGOPAL: OK. Very good. Thanks, guys.

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OPERATOR: Your next question comes from Bob Gibson, of Octagon Capital. Please go ahead.

BOB GIBSON: Good morning, guys.

BOB SARTOR: Good morning.

UNIDENTIFIED: Good morning.

BOB GIBSON: Can we talk about Nevada Bob's just for a minute? And are they all franchised now, or what's happening with that?

UNIDENTIFIED: Morning, Bob. At the moment the Nevada Bob stores, we have increased the franchise component of the stores and when we acquired the business a year ago, there was a two-year window before converting all the existing licensees to the franchise business. We're in the process of doing that this year.

BOB GIBSON: OK. And with the recent acquisition, there were franchisees as part of that?

UNIDENTIFIED: Yes. No, the deMarco business was not an acquisition. It was a business that was independent joining our group as franchisees. Everything we've been doing this year has been as franchisees, not licensees.

BOB GIBSON: Yes, but the deMarco group had franchisees of their own or something like that.

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UNIDENTIFIED: Yes, but that group converted into our franchise business.

BOB GIBSON: OK, so they've all moved in?

UNIDENTIFIED: Yes.

BOB GIBSON: OK. Secondly, can we talk about the World Cup and what you're doing with soccer?

UNIDENTIFIED: World Cup starts tomorrow. We've partnered up with Adidas, just like we have for many different ventures over the last two years or more, big ventures with big international brands, the selected Forzani Group.

World Cup has been tremendous. We'll probably be sold out of product before the end of the World Cup, which is not... if you're going to have an issue, that's probably the best type of an issue to have, rather than have tonnes of it leftover at the end of the World Cup.

Adidas has done a great job presenting the World Cup in all our stores, beginning the marketing. We've had flag bearer programs where we've actually, we're sending some kids over to Germany to be the flag bearers before a World Cup game. So it's been a tremendous success, I'd have to say.

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And next year they're having the under-20 World Cup in Canada in the spring, and we actually have a team in that one. So we're looking forward to the next spring as well, to continue the soccer momentum.

BOB GIBSON: Great. And any insight, now that you've got the fitness store under your belt, and maybe any cross-over benefits to your other banners?

UNIDENTIFIED: I think at the moment with Fitness Source what we're doing currently is we're doing the analysis of their sourcing and the product assortments they have. We're in the process of just developing a go-forward model with that business to launch this fall and have the existing stores converted into a franchise business.

There will be strong benefits in terms of the product categories that we can access that we hadn't had capabilities with in the past.

BOB GIBSON: Great. Thank you very much.

OPERATOR: Your next question comes from the line of Benoît Caron of, Canaccord Adams. Please go ahead.

BENOÎT CARON: Thank you. Good morning, gentlemen. A couple of things I wanted to go over this morning there. It's been four quarters in a row now that sales are outpacing inventory growth and that we're seeing better inventory returns. Should we expect this trend to stabilize now, or is

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there any further improvement in inventory management that we could see throughout 2006?

BILL GREGSON: Well, the inventory that we carry, Benoît, is primarily on the corporate side, and then obviously some on the wholesale side too. But franchise inventory obviously doesn't hit our books, as the franchisees carry that. So by far the bulk is on the corporate retail side. And yes, we expect to continue. We don't think we're at the end yet. As we said, the allocation system just goes in this week.

We continue to get better on the basic stock replenishment, on the planning side. We would expect a continuation of improvement on the stock turn side.

BENOÎT CARON: OK. And what product categories do you expect more improvements to come to? Is it going to be in footwear, or soft goods, hard goods? Where do you see most of the improvement coming so far?

BILL GREGSON: In terms of relatively, I mean, we expect to see improvements in all, but relatively I think the biggest opportunities are in our soft goods and our hard goods. Our footwear would have the smallest opportunity for improvement in stock turns.

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BENOÎT CARON: OK. And regarding the return of the NHL back on TV, and actually just playing, do you see any pick-up in second quarter sales so far of NHL licensed goods?

BILL GREGSON: Oh, yes. I mean, having a Canadian team in the finals, and I'm going on record to say they're going to win, Edmonton's going to win the next four games in a row to take the cup. But having a Canadian team in the finals, again, it's somewhat localized in the province of Alberta, similar to how it was with the Flames two years ago. But definitely it is a positive when it comes to our licensed sales.

BENOÎT CARON: OK. Now, actually regarding Ontario there, do you plan to close more Sport Mart stores, or are you done with that?

BILL GREGSON: I don't think you'll see anymore closures. We closed, as you can tell, we closed some last year and we closed some in Q1 of this year. But I think we're done. We pretty much have rationalized what we needed to be, where we need to be from now on. And really it's same with Sport Chek, Coast, Sport Chek, Sport Mart. As leases come up, as you take a look and you decide you want to move, do you close that. So I think it's more or less business as usually going forward.

BENOÎT CARON: OK. And still with the Ontario situation there, last spring there was some liquidation sales by two of your competitors that

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were either going out of business or downsizing tremendously. How much of the gross margin improvement this year is coming from that not recurring again this current spring?

BILL GREGSON: I think the Ontario market, obviously that's part of what we wanted to happen long term. But our inventory situation last spring was across the board. It was in all provinces, it was in all banners. We needed to take some action, and take some action quickly, as we talked to last year, that we would in the first half. So the margins improvement we're seeing is across all provinces and is across all categories.

BENOÎT CARON: OK. So there's no... like, in the rebound that we're seeing this year, it's not skewed toward Ontario? It's pretty much across the board then?

BILL GREGSON: Yes. I mean, Ontario, I think part of the factor, I mean, obviously in Ontario we've got pick-ups from, especially in the stores where there used to be a Joggers close by and that. But overall, when you look at the total numbers, as I said earlier, the opening comments, in fact in Q1 the west was stronger than the east overall. The east was strong, but Alberta right now obviously is undergoing a huge economic boom, and it's reflected in our sales as well.

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BENOÎT CARON: OK. Well, thanks a lot. That's all I had.

BILL GREGSON: Thank you.

OPERATOR: Your next question comes from the line of Andrea Beckingham, of TD Securities. Please go ahead.

ANDREA BECKINGHAM: Good morning, guys.

BILL GREGSON: Good morning.

UNIDENTIFIED: Good morning.

ANDREA BECKINGHAM: You obviously had some great improvements in sales and EBITDA, and I'm just wondering what kind of marketing spend you're experiencing. I know in the last couple of quarters you sort of increased the spending to get customers in the stores, and what you're seeing going forward?

BILL GREGSON: Yes, Andrea, you're absolutely right. Last year in the back half we greatly increased our spending over traditional rates in order to drive customers to what we thought was a new-looking store and a new assortment.

Our marketing spend in Q1 and for the rest of the year has returned to historical rates. So in other words, we haven't continued and don't plan on continuing that six-month additional marketing spend we had last fall.

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ANDREA BECKINGHAM: OK, great. And did I hear you correctly? Did you say you'd finished all your synergies in the back office with national?

BILL GREGSON: Yes.

ANDREA BECKINGHAM: OK.

BILL GREGSON: And we're reaping some of the benefit of that now, this year.

ANDREA BECKINGHAM: And in terms of your franchise, just for a moment, your Hockey Expert stores, are you going to roll those out to the west?

UNIDENTIFIED: No, they're going to be in the province of Quebec for the foreseeable future.

ANDREA BECKINGHAM: OK. And then just finally, with... what are you seeing in your Nevada Bob's because I know Stats Canada came out with some pretty low numbers for golf equipment sales. Are you seeing good returns there?

UNIDENTIFIED: We're getting fairly solid comp sales increases.

ANDREA BECKINGHAM: OK, great. Thanks.

BILL GREGSON: Thank you.

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

KATHLEEN WONG: Good morning. I wonder if you can comment on the competitive landscape. Recently Footlocker Canada reported pretty strong sales and profit numbers, and the Nike Canada also indicated that they are going to open a couple of the new standalone stores later this year.

BILL GREGSON: OK. Kathleen, it's Bill. I'm going to have to ask you to repeat the one on Footlocker. I did hear the one on Nike. Nike is replacing stores that were already there. What's happened is Nike has a, I don't know what you would call it, a license arrangement I guess, with Athlete's World. And Athlete's World licensed a number of... had a licence from Nike to open up Nike shops that were attached to Athlete's World stores across the country. And I think the number got up into around 25 at one point.

That agreement is winding down and so that number's going down to zero. And what Nike has done is they have different licence arrangements with different operators across the country – one for Ontario, one in the Vancouver area. And they're replacing some of those stores they had with, not necessarily in the same location, but in terms of the

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number of stores, they're replacing some of those stores that they had with Athlete's World under a licence with different licensees.

So ultimately, it looks like it will probably be roughly the same number of stores, Nike shops, that there have been for the last five years, just under different licence.

And Kathleen, I'm sorry, if you could repeat the Footlocker question, I missed that one.

KATHLEEN WONG: Sure. The Footlocker Canada, they recently reported pretty strong sales and profits numbers.

BILL GREGSON: Mm-hmm.

KATHLEEN WONG: I'm just wondering, are you guys seeing Footlocker this year as more, like a stronger competitor comparing to last year?

BILL GREGSON: No. I think Footlocker has always been a great competitor, and always will be a great competitor. I mean, they're the largest, probably the largest athletic footwear retailer in the world. So you know, they're not going anywhere. And I'd say we've also had a very good year in footwear as well, as we mentioned, for the first quarter up double digits on the corporate side in footwear.

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So I'd say Footlocker is pretty much as good as they've always been, which is very good.

KATHLEEN WONG: A question now for Tom on the Nevada Bob. Can you give us an update in terms of your recruiting process with the (inaudible)?

TOM QUINN: What we're currently doing is this spring we have recruited franchisees in Newfoundland that have converted in. We're in the process of negotiating with a franchisee in Halifax, Moncton and Dartmouth locations and we're in the process of talking with additional independents in Toronto and in Vancouver.

KATHLEEN WONG: So how many additional Nevada Bob stores are going to be open by the end of this year?

TOM QUINN: Well, again, that depends on how the negotiation goes with the franchisees. I mean, we're still on target on when we acquired the business a year ago to say within 48 months we would be at 70 locations, and we're on target to be there.

KATHLEEN WONG: Great. Thank you very much.

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

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KEITH HOWLETT: I just wanted to clarify a couple of things that I missed. The corporate store expense rate was 28.2 per cent this quarter. I just missed what it was a year ago.

RICHARD BURNET: It was, corporate stores this quarter, Keith, it was... oh, on a comp-store basis...

KEITH HOWLETT: Comp store, sorry.

RICHARD BURNET: ...was 28.2, and last year 29.6.

KEITH HOWLETT: Twenty-nine six. Great. Thanks. And just on the store closures, there was nothing in the cash flow. So were they just leased that expired, or was there any charge related to those?

UNIDENTIFIED: They were either leases that expired or they were situations where we had an out in the lease. And in certain cases, when there's an out in the lease, there would be a payment involved.

KEITH HOWLETT: Great. And just in terms of your (inaudible) stores, at this point it'll just be... I take it you've exercised all the out clauses that you have open to you that you want to. So now it's just a lease, any that you wish to close as the lease comes up. Is that a way to look at it?

UNIDENTIFIED: Well, we have. We still have... I mean, a lot of our leases have out clauses and they kick in at various times. So we still have

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lots of leases out there without clauses. It gives it a lot more flexibility. And it's just... I think it's a sound business practice.

So you know, during the normal, as we sit down at the beginning of the year and we look at what leases have expired, which ones have out clauses, and we make day-to-day decisions. We make typical business decisions that we would any other year.

KEITH HOWLETT: Right.

UNIDENTIFIED: Keith, just for greater clarity, by the line of your questions, the sense I'm getting is you're wondering are there a significant number of stores where we don't have a locked clause that we'd like to close and have to ride out the lease.

The answer to that is no. There's a couple of stores where we don't have a locked clause that aren't generating the kinds of returns we'd like, but it's just a couple out of hundreds. So we really don't have any significant, nor should you be concerned about any significant, you know, future closing costs on our part.

KEITH HOWLETT: Great, thanks. And I think that does it for me. I just wanted to also confirm it was double digit in all three categories, is that right? Double digit?

UNIDENTIFIED: In footwear, soft goods, and hard goods, yes.

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KEITH HOWLETT: Great. Thanks very much.

OPERATOR: Your next question comes from the line of Adam Clark, of BMO Capital Markets. Please go ahead.

ADAM CLARK: Hi, guys. Could you give us a sense as to how gross margins performed between wholesale and retail?

UNIDENTIFIED: We typically don't give an individual split, Adam. But suffice to say that our wholesale margins on the franchise side were as expected. No significant increases versus prior year. We weren't planning on any, in any event.

Our margins in FGL wholesale were materially ahead of last year, but we won't give specifics. And really what carried the day obviously was the strong rebound in corporate store margins.

ADAM CLARK: OK. So they were up in both segments?

UNIDENTIFIED: Yes, they were.

ADAM CLARK: OK.

UNIDENTIFIED: Also, could you give us a sense as to how Sport Chek and Sport Mart performed throughout the quarter? Because comp store sales, I think for the first seven weeks, were 17 per cent, and now they're...

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BILL GREGSON: Yes, they were stronger in the first seven weeks than they were in the last six weeks, obviously. And having said that, they were still very strong in the last six weeks. As the quarter went on, last year, near the end of the first quarter is when we launched our renovation sales on the Sport Chek side as we began getting rid of a pile of merchandise and began redoing 50-odd stores. And that ran through all of second quarter as well. So those artificially inflated the sales last year.

I think the good news for both the second half of the quarter and for the first four weeks of Q2 is that the relative margin performance is stronger in the second half of the quarter and in the first four weeks of Q2 than it was in the first part of Q1.

So the sales aren't as high from a comp rate. They're still... we're still ecstatic with them. But the margin performance is in fact relatively is much stronger recently than in the first part of Q1.

UNIDENTIFIED: And Adam, one other point. I think it's important to note that we had expected this level of sales. Actually we expected less than this level of sales. But we had expected that, once we got up against the renovation sales, that what would happen is our sales lift relative to the early part of the quarter would be lower but that our margins would be much stronger.

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And going back to Bill's point, we're seeing phenomenal margin performance now. And the good news is we have leaner, fresher inventory. We've got high margins, we're turning it faster. So you know, I don't see any real concerns on the sales and margin front at this stage.

ADAM CLARK: OK. And is it also fair to assume, you say all categories were up around double digit. Is it fair to assume that footwear was the strongest performing category?

UNIDENTIFIED: No. If we had a 12.2 comp and they were all up double digits, it means they were probably all pretty similar in terms of the performance.

ADAM CLARK: OK. Great. Thanks guys.

UNIDENTIFIED: OK.

OPERATOR: Your next question comes from Dave Pupo, of Orion Securities. Please go ahead.

DAVE PUPO: Hi, guys. On the comp store basis, both in the quarter and the first four weeks of Q2, can we talk a little bit about footsteps and basket size and how they're working versus last year?

UNIDENTIFIED: Footsteps, we have counters in Sport Mart and we don't in Sport Chek. So from Sport Mart, the footsteps are up. And there's been moderate improvement in terms of the basket size.

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DAVE PUPO: So there's been pricing going on?

UNIDENTIFIED: No, I wouldn't say that there's pricing that's going on. I think it's... as I said, the traffic is up.

DAVE PUPO: Yes.

UNIDENTIFIED: So I think it's coming more from the traffic side than from the basket side, if you wanted to weight them relatively.

DAVE PUPO: Good indicators. Thanks.

OPERATOR: Your next question comes from the line of Candace Williams, of Raymond James. Please go ahead.

CANDACE WILLIAMS: Good morning. A question on the store operating expenses. They were up \$3 million, the same-store expenses, on a dollar basis. Is that a result of increased labour hours?

UNIDENTIFIED: Well, it's a result of the variable costs, of which labour is one of them. With the sales increase that we're running, labour is pretty much a variable cost. It's not a total variable cost; there's a portion that's fixed. But you also have other things like supplies. You have credit card costs, you have etcetera, that are variable.

So as sales go up, yes, they go up in variable. And we also had an acquisition on Fitness Source, which increased the store base of costs as well.

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CANDACE WILLIAMS: OK, but that wouldn't have been part of that 3 million in same-store costs? Anyway, with the Fitness Source, the nine stores you have, if I understand correctly, the goal with Fitness Source as you grow it out would be to franchise it?

UNIDENTIFIED: Yes, the plan...

CANDACE WILLIAMS: Is that the...?

UNIDENTIFIED: The plan there, Candace, is to take the existing nine locations and have them franchised by this fall, and also develop a new go-forward concept for the model and then start expanding the banner out in the next number of years.

CANDACE WILLIAMS: That's perfect. Thanks. And then to attack Benoît's question perhaps from a different angle, at one point you had sort of discussed the profitability on a geographic basis, and there was 400-odd basis point difference between the profitability in Ontario and the rest of your corporate stores. To what extent has that gap closed?

UNIDENTIFIED: The gap is closing, but I mean, we still have an opportunity on profitability for Ontario. If you look at our comp numbers and we say that the west was actually... the east was strong but the west was even stronger, which would obviously then equate to the gap still being there.

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The good news is Ontario's coming up. The real good news is that the west is still going up. And then the real good news is even better news, is that we still have a huge opportunity in Ontario down the road for profitability, for greater profitability. Ontario's profitable. We just have an opportunity for greater profitability, to bring it to the western levels.

CANDACE WILLIAMS: Fair enough. In terms of your overall corporate square footage, what percentage of it is mall-based at this point?

UNIDENTIFIED: Couldn't tell you, Candace, other than to tell you that virtually none of Sport Mart is in a mall, virtually none of National, a very small per cent of National is in the mall, and in Sport Chek's case it's greater than 50 per cent.

CANDACE WILLIAMS: Greater than 50 per cent. And then in terms of corporate square footage in Alberta specifically, I think it's 44 odd per cent in the west, but if you could help us between B.C., Alberta, etcetera.

UNIDENTIFIED: It's probably one that you can take up with Richard, I'm going to say, afterwards we don't have those numbers in front of us, and Richard can certainly get you that information.

CANDACE WILLIAMS: That's fine. Thanks for your time.

OPERATOR: Ladies and gentlemen, if there are any additional questions at this time, please press the * followed by the 1. As a reminder,

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if you're using a speakerphone, please lift the handset before pressing any keys.

Your next question comes from Jim Durran, of National Bank Financial. Please go ahead.

JIM DURRAN: I just wanted to go back to footwear. I mean, there's been some data points in the U.S. by some of the retailers suggesting some average price pressure and a bit of a slowdown in the footwear demand. Admittedly, Footlocker looks to have picked up some with it, you know, falling back in bed with Nike.

Are you seeing any elements of slowdown that you would see in sort of the outlook period?

BILL GREGSON: Jim, it's Bill. No. I mean, footwear for us has been... footwear, when our comps started becoming positive, it was footwear that had led the charge. This past quarter, soft goods and hard goods certainly caught up to footwear by almost double digits. And so footwear's been strong for quite a while now for us, and we're not seeing any signs of softness.

JIM DURRAN: All right. You know, I think we were... Ryan was talking about the low-profile shoes being a strong growth area. Is that a net

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gain, or is there a switch going on from a bit of a more athletic shoe to a low-profile shoe?

BILL GREGSON: I think it's a net gain, Jim. I think that, you know, our athletic, as you take cross training or you take running or you take cleated, those businesses stand on their own and I think are separate and distinct from the trend business. I think that the low-profile, probably a certain portion of the low-profile shoes is being purchased by somebody who might have been wearing a brown shoe or a fashion shoe before. So I think there's a certain amount of net gain there.

JIM DURRAN: And when we look at the back-to-school period, because I think that was sort of the real kick-off of footwear showing some strength in the growth...

BILL GREGSON: Yes.

JIM DURRAN: ...what factors would give you comfort that you could comp against that back (inaudible)?

BILL GREGSON: I think a lot of factors. I think it's the work we've done on the physical look of our store, the work we've done on the visual presentation on our store, the work we've done on our marketing, adding a brand message in as well as just price item, and the strength we have day to day that isn't driven by promotions or driven by flyers.

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So I think we've increased the top-of-mind awareness, or we've increased the amount of return visits that there are. I think that the work we've done on precision retailing and all the inventory, I think all the work that our operations group is doing in store from a staff point of view, we've launched a new compensation system for our staff that they've reacted very well to.

We've increased the individual focus at the store level. We now have people focused on hard goods, separate people focused on footwear, separate people focused on soft goods. So I just think there's a whole pile of issues, the whole foundation of the business that we've been working on that leads me to believe we can continue the momentum.

Certainly from a product assortment point of view, I would say that there's lots of exciting things going on in footwear. And for the back-to-school period as well, which will be different for this year than last year, as we will also have a supply of hee-lies, which is still going.

JIM DURRAN: Yes. Last question, and it's just a refresher. Q4 versus Q1 you took markdowns on your winter goods in Q4 as opposed to Q1 in the previous year, right? So there's been a switch in the timing of markdown activity.

BILL GREGSON: OK.

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JIM DURRAN: If you look at the coming to the end of the summer season, will we notice any change in sort of the, we'll call it the corporate reported numbers of Q2-Q3 in terms of timing of markdowns, or no change?

BILL GREGSON: No, I think what you'll see is for Q2, you should see the continued strong margin improvement. Last year in Q2, we were finishing up the whole rental wave, and as I said, the first four weeks of Q2, while the sales are 7.8 comps, relatively the margins are the strongest they've been for the entire year. I think you'll see that continue through Q2. And I don't think you'll see a negative impact from a markdown strategy on Q3 either.

JIM DURRAN: Great. Thank you.

BILL GREGSON: OK.

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

KEITH HOWLETT: Yes, I just had a question on the store staffing in the corporate stores. I think it was maybe two and a half years ago you divided the people who dealt with the customer from those who dealt with the stock. And I'm wondering, now that you've divided the personnel into

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footwear, soft goods and hard goods, is that just the sales portion, or have you retitled what everybody's doing?

BILL GREGSON: No, we still have people who focus on I guess the back end, on the sales and customer service side. We've beefed up the number of people that we have and then we've divided them into either footwear areas, soft goods areas or hard goods areas.

KEITH HOWLETT: And has their incentive package changed in some way, or not?

BILL GREGSON: Probably too detailed to go into on this call, Keith. But there was a major revision to the compensation package at the store level, designed to attract and retain the best people.

KEITH HOWLETT: Great. Thanks.

BILL GREGSON: Thank you.

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

BOB SARTOR: Thank you very much.

Well, as you can see, we are reasonably satisfied with our quarter. We've got some really good momentum going. I can't underscore enough how happy we are with most importantly the work we've done at trimming

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our inventories, keeping them lean, staying on top of our markdowns, and getting actually the inventories down and turns up.

Obviously we know, as a management team, we have a ways to go in pursuit of best-in-class sporting goods retailers in the U.S. So we're certainly not resting on the laurels of a \$0.01 quarter.

We are looking forward obviously to the next conference call, and I think you will see that the various initiatives we undertook last year, which were painful as heck for our shareholders are really bearing fruit and you will see, I suspect, continued improvement in every facet of our business.

Ladies and gentlemen, thank you very much for listening today. We will be holding our annual general meeting in a little over an hour. It will be webcast, and we will provide some additional colour on operating activities for the current fiscal year during that meeting.

Thank you very much, and good day.

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

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