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OPERATOR (KAREN): Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Forzani Group Q2, 2007 Conference Call. At this time, all participants are in a listen-only mode. Following the presentation we will conduct the question and answer session. Instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties hearing the conference, please press star followed by zero for operator's assistance at anytime. I would like to remind everyone that this conference call is being recorded on Friday September 1, 2006 at 10 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): Thank you. And good morning ladies and gentlemen. Welcome to Forzani Group Ltd. Q2 fiscal 07 conference call. With me here today, we have Bill Gregson, our President, Chief Operating Officer who is going to about our corporate business and Richard Burnet, our Chief Financial Officer will provide the financial review for the quarter. Joining us on the line from Montreal is Tom Quinn, the President of our franchise division. Tom is going to provide an overview of that business.

Before we start talking numbers, I will ask Rich Burnet, our CFO to provide a preamble.

RICHARD BURNET, (VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER): Thanks Bob. As we conduct this conference call, the remarks that we will make about future expectations, plans and prospects, which will constitute forward-looking information. The Corporation's actual results could

differ materially from a conclusion, forecast or projection on which such forward-looking information is based. Certain material factors or assumptions were applied in drawing the conclusions or making the forecast, or projections reflected in such forward-looking information. Additional information about these material factors that could cause actual results to differ materially from the conclusion forecast, or projection and the material factors or assumptions that were applied in drawing the conclusions or making the forecast or projections in question is contained in our annual – and from MD&A, which is available on SEDAR.

BOB SARTOR (CHIEF EXECUTIVE OFFICER): Great. Well folks we were quite satisfied with our performance this quarter. All of our business has performed well and we really had no operational areas of difficulty. All corporate and all franchise banners generated really good contributions and our franchise business build upon and already solid revenue in profit phase.

Our private label business Intersport, North America made its targets as the FGL wholesale which as most of you probably know, operation under the name Gen-X. We generated a solid top-line for the quarter with revenues of \$284 million up almost 17% versus the prior year and delivered a profit of \$2 million versus a loss of \$2.3 million a year earlier.

Earnings per share was \$0.07 prior to one-time tax charge of a penny which Richard Burnet will discuss shortly, versus a loss of \$0.07 a year earlier. During the quarter we also implemented two major systems changes, our new

product allocation system was implemented as was the new warehouse management system.

These changes which will really benefit our company in the years to come went in very smoothly with absolutely no negative impact on our business. I will now turn it over to Richard to provide you with a more detailed financial overview.

RICHARD BURNET, (VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER): Thanks Bob. Ladies and gentlemen, the press release contained a reasonable amount of detail and I'll limit my comments to the highlights. For the second quarter, retail system sales were \$337.9 million against last year's \$305.1, 10.8% increase. The current year's figures included approximately \$3.7 million of sales from Fitness Source which was acquired on January 31, in the -at the start of the current fiscal year.

Corporate same store sales were up 5.4% and franchise up 6.9% or an overall comp-store sales increase of 6%. Total revenues were \$284 million versus last year's \$243.6, 16.6% increase. And breaking out revenues, corporate store, revenues of \$208.2 million were up 8.8% and wholesale sales of \$75.8 million were roughly 45% at last year's second quarter.

Consolidated margins for the quarter with 34%, 10 basis points under last year and due – essentially to the change in the mix of revenue between retail and wholesale, retail runs at a considerably higher margin than the wholesale business and in fact retail gross markets were ahead last year while wholesale we are on par over the prior year.

Corporate store operating expenses as a percent of retail revenues were 27.4%, a decrease of 140 basis points over the prior year and on a comp store basis expenses were 26.2% versus 27.1% last year. Our G&A expenses of \$23.6 million were 8.3% of consolidated revenues versus the prior year's 8%. And as we had indicated in the Fiscal '06 Yearend Call and our Q1 Call, the run rate for G&A expenses has returned to historical levels, and the absolute dollar increases are a combination of normal course year-over-year increases. The additional the Fitness Source infrastructure and performance based compensation accruals offset by savings now being realized on the completion of the National Sports back-office integration.

Second quarter EBITDA was \$16.1 million against \$8.6 million in fiscal 2006 and net earnings for the quarter were approximately \$2 million versus a loss of \$2.3 last year. And diluted EPS was \$0.06 in the quarter against the loss of \$0.07 in the prior year and as Bob mentioned that was inclusive of the \$0.01 cent, a one-time charge related to recently inactive tax rate changes as we noted in the press release.

Cash flow from operations was \$11.8 million, a two-fold increase over the prior year. For the year-to-date, retail system sales were \$637 million versus last year's \$564.9 million, 12.8% increase. Corporate same stores sales were up 8.5%, franchise were up 6.5% for an overall same store sales increase of 7.8% year-to-date.

Total revenues were \$564.4 million against last year's \$481.8, 17.1% increase and corporate store revenues were \$404 million up 12.8% with

wholesale sales up 29.7% at \$160.4 million. Consolidated margins for the year were 33.1%, 150 point –150 basis point increase over the prior year in spite of the change in mix between retail and wholesale.

So operating expenses as a percent of retail revenues were 28.4% versus 29.8% in fiscal 2006 and the G&A run rate for the year is at 7.7% of consolidated revenues, roughly flat with the prior year.

Year-to-date EBITDA was \$28.9 million against last year's \$8.6 and net earnings year-to-date were \$2.2 million versus \$9.7 million loss last year with diluted EPS of \$0.07 versus a loss of \$0.30 in fiscal '06.

In terms of our balance sheet at July 30, the Company had working capital of \$113.9 million, \$106.9 million in '06. Working capital ratio of 1.39 versus 1.37 in '06. Accounts receivable days outstanding were down at the quarter end and our inventory investment in the same store basis has been reduced by approximately 2% over the prior year. I will now turn it over to Bill for his comments on the business.

**BILL GREGSON (PRESIDENT AND CHIEF OPERATING OFFICER):**  
Thanks Richard. Fairly briefly sales from the corporate side were strong, and we happy with the sales results. The West was stronger than the East, but both were positive. On a category basis, all footwear, apparel and hard goods were positive. Footwear was the strongest, margin significantly higher as Richard alluded to.

On the corporate side we are happy with that, and that's combined with complimentary being down. As Richard mentioned expenses are also down on a

comp rate on the at a sales – as a percentage of sales on a comp basis and going forward we look to continue this positive trend of increased sales, marginal rate increasing more than sales and lower expense base and lower inventories.

Now I will turn over to Tom Quinn for few comments on the Franchise side.

TOM QUINN (PRESIDENT, FRANCHISE DIVISION): Thanks Bill. Good morning ladies and gentlemen. Our franchise business continues to evolve steadily. Once again our comp sales were positive in the quarter and we are particularly pleased with our new specialty banner progress. Hockey Experts, Atmosphere and Nevada Bob's Golf and Fitness Source continue to be on plan and as scheduled.

A particular note, we now have 27 franchised Nevada Bob's Golf locations in Canada and we anticipate being between 40 and 45 franchise stores by the spring of 2007. We are holding our Second Annual Buying Show for Nevada Bob's Golf franchisees at the end of September with all selective suppliers that we currently do have agreements with including Taylor Made, Callaway, Wilson, Adams, Cleveland, Cobra, Nike, Collar Bill (Ph) (indiscernible) and others will be being presented at the show.

This year for the first time we did have access to some of the products from a major brand for our general sporting goods banner and we already placing orders with these brands for products in over 240 stores for next spring. FGL's volume leverage with the trade will continue to ensure competitive terms in products for franchisees.

We have now completed the conversion of over 200 stores to our new point of sale systems. And we can already see improvement in markdown and inventory management. This will continue to be a critical driver in the performance improvement in every franchise location.

After working with our Fitness Source banner for few months we see a significant opportunity for growth and plan to have our existing stores franchised in the fourth quarter of this year. We will launch our new Fitness retail concept also in the fourth quarter and then start rolling out this banner across the country starting in the fall of '07.

Our back-to-school period has started off positively and look forward to reporting a positive third quarter. With that I would like to pass you back to Bob.

BOB SARTOR, (CHIEF EXECUTIVE OFFICER): Thank you, Tom. Ladies and gentlemen as pointed in our press release, our trailing 12-month EBITDA is at the \$90 million level, and I can say today that we expect to grow that trailing 12-month EBITDA number by yearend. We relate because our corporate business will continue to grow with comparable store sales based in the back half. Our margins will continue to expand driven by a broader brand aids and we are focused pricing strategy and in my view linear and fresher inventory, which really driving our businesses well and are slightly less promotional stand from last year.

Our franchise business is poised to again build on last year's back half record performance in our private label and wholesale businesses are all quite strong at this moment. In addition, this year we will not be burdened with the extra marketing cost for the Sport Chek relaunch, which really drove our G&A cost of last year, you will recall during Q3 and Q4. So we're expecting good things in the back half.

Turning specifically to the Q3 for the moment cost of 1.1% for the corporate stores and 1.9% for the franchise stores are lower than what we delivered so far this year. But there are no real costs are concerned from our point of view. The back-to-school period, which used to be the last two weeks of July through to the last week of August, six or seven years ago, is continuing its shift for all retailers.

Now we really don't typically see the consumer shopping for back-to-school until the second week of August. But that period goes well in September as it had in the past three years, in fact I was in a couple of malls yesterday and frankly the amount of traffic in the malls and our stores excitedly are higher than it had been the previous few weeks.

Margins have continued their expansion this quarter, we are very happy to say and we expect the sales to continue to build as the quarter progresses as they did last year. I will now ask our moderator Karen to open up the call to questions.

## QUESTION AND ANSWER SESSION

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

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

JIM DURRAN: Good morning. Looking at, first of all, the franchise business, would it be fair to say that Gen-X represented the difference between the system sales growth and the actual wholesale revenue growth?

BOB SARTOR: Well, actually both Gen-X and the franchise business performed very well this quarter. On a relative basis, Gen-X had a significantly higher top-line increase versus its base last year, but a good chunk of the increase was also simply increased wholesale sales to franchisees.

JIM DURRAN: Okay. Can you give us some color on how the corporate gross margins performed in the quarter into the magnitude versus the first quarter?

BOB SARTOR: I mean, the only comment we'll make without providing really specifics, Jim, is that the margins on a corporate side in general versus prior year for the second quarter were very, very strong and on relative to first quarter year-over-year, probably stronger. So we're seeing a further expansion of margins, but that's as far as we go in terms of detail.

JIM DURRAN: And in the franchise business, I think Richard said that the margins were sort of in line with last year; would the whole franchise business like excluding Gen-X, how would the growth margin have performed there?

BOB SARTOR: That's actually what my reference was, Jim, on the franchise – wholesale sales to franchisees, those margins were on par with last year.

JIM DURRAN: So when you throughout Gen-X in, was the franchise margin then up, year-over-year?

BOB SARTOR: Gen-X, frankly there is a proportion of the franchise business, doesn't tip the scale one-way or the other.

JIM DURRAN: Okay. Fair enough. Just in terms of your outlook on square footage growth for the year, has there been any changes there in terms of your plans for new store openings franchise versus corporate?

BOB SARTOR: No, Jim, I mean still there is a couple of stores still open this fall. On the corporate side so there would be limited growth, but

that growth would be in the 70 – 80,000 square foot range for the rest of the year on the corporate side. Franchise, like Tom spoke about with obviously with Nevada Bob's going on between next spring there's standard in growth in square footage.

THOMAS QUINN: Yeah, as we said at the start of the year, Jim, we planned on adding roughly about 26 stores to the franchise business this year, and we will probably exceed that.

JIM DURRAN: Okay. Last question, just on the advertising spend that was done on Sport Chek last year, if I recall correctly, it was about \$5 million, I think in the third quarter, what's the – what was the number that was spend in the fourth quarter and where are those dollars, have you reallocated them or get back to them to fall through to EBITDA?

BOB SARTOR: The – that's probably – that \$5 million number, Jim, is probably a good back – total back half number.

JIM DURRAN: Okay.

BOB SARTOR: To use as approximate. And we would look to not spend that this year, and to have a fall down to – into the bottom-line.

JIM DURRAN: Okay. And like with respect to the G&A rate this quarter, I mean it was high, but it's not the biggest volume quarter. I think broad stocks you were telling about sort of being in the 7% of sales range for the total year; is that still the target?

BILL GREGSON: That is still the target.

JIM DURRAN: Okay. Great. Thanks a lot.

OPERATOR (KAREN): Your next question comes from Ryan Balgopal with Scotia Capital. Please go ahead with your question.

RYAN BALGOPAL: Thanks. Good morning. Jim, actually most of – a lot of my questions – I did want to ask a bit about G&A. It was up, you know, still quite significantly about 21% year-over-year, I am just looking at you indicated that bonus accruals and stock comp were up. So when I look on the cash flow statement, stock comp was actually down year-over-year. So I am just trying to reconcile those two things.

BOB SARTOR: Well, the bonuses obviously you would see or you wouldn't see broken out, and part of the stock based compensation is made up of both option compensation and stock units. The stock units themselves are on a cash basis. So what you are seeing is the non-cash stock based compensation.

RYAN BALGOPAL: Okay. And then other than that there wasn't really anything out strange about G&A, 21% seemed quite high, and actually when I look at – you said the margin or the rate was similar to historical level. When I look back sort of five years is actually lower than that. It was, you know, more like 7.7% of revenues. I am just wondering if there's anything else going on within that or did any...

BOB SARTOR: Well, I make this – Ryan...

RYAN BALGOPAL: Any thoughts for systems or anything like that?

RICHARD BURNET: Well, no, no. I mean, the reality line is two things number one; five years ago as everyone knows stock based compensation did not have P&L hit. And now there's a significant P&L hit for all companies in the universe that you would cover, and we're no different. The second piece is an absolute dollar terms we are much bigger company than we were five years ago. And yeah, the absolute G&A dollar is up, but on a rate basis, once Quebec back at a stock based compensation. And some investments we've absolutely made, which we talked about last year. You know, we basically put in a Precision Retailing team last year, that's all new. And that's designed to take our company to the \$2 billion revenue mark. We couldn't do it with basically what I call a shoestring budget. We had no visual merchandising, I think everybody who goes in our stores would see that we've done the job, and I don't think we would have gotten the comps with that a whole bunch of changes to core business, one of which was visual merchandising. So I think if we're held back to focus on five years ago G&A, then that's not going to happen.

RYAN BALGOPAL: Yeah, okay. Fair enough. Well, when you see – look in the US, some of them are talking about weak women's apparel on the sporting goods side, are you seeing any of that at all?

BILL GREGSON: No. I think like I said for the second quarter, we had comps in footwear and apparel and hard goods, women's was no different than the men's in terms of its performance. In fact was – we feel

positive about the women's apparel and the men's apparel from a tentacle point of view in terms of performance of apparel. So some of the things in the US too that hear is that are – some gets someone to flavor especially depending on what retail you are looking at by the fashion element, and we have that, but we have much more of a bigger sporting element, which is in this prone to trend shifts or cycles as maybe some other US retailers. Not saying we're immune to it. However the sports function piece of our business tends to be very stable business over time.

TOM QUINN: And Ryan, just to add going Bill's comments. The women's category is still seeing significant growth in the network and the franchise business as well.

RYAN BALGOPAL: Okay. That's great. I did just want to ask two quick questions on the golf business; one, what is the brand that you're going to be able to transfer into your big box stores, and then secondly, you lost five Nevada Bob's licensees, just curious about that?

TOM QUINN: Well, two things there; first of all, on brand, you probably saw this year already that we did have Taylor Made product available to our general sporting goods. We'll not – in the point where we're going to turn general sporting goods into specialty golf retailing, but there's certain commodity items and opportunities in the major brands that can leverage some of their products in our general sporting goods network. So this year already, you've seen some Taylor Made brands and some of

the others in that network. And you'll see that continue to develop. In terms of licensees, when we acquired the Nevada Bob's chain a year and a half ago, one of the issues that we put on the table at the time, we made it clear to everyone that we were in a franchise business and not a license business. As we evolved into the process, as some individuals, independents that have been working the same way for 20 some odd years, just didn't necessarily want to work within the disciplines or franchise environment.

RYAN BALGOPAL: Okay.

BILL GREGSON: I think there's one other point on that one. It's very important point to make that the departure of some of these licensees from the group should in no way be interpreted as by anyone as to their quality. These are good retailers and they are independent retailers, and they wish to remain independent retailers. In fact had they wished to become franchisees, we certainly would have welcomed them with open arms. I think it's important to know that this is not people who have been rejected by FGL; these are people who absolutely have been doing their own thing for a long time and said, you know, we don't want to work in a franchise environment. And we respect that but you know what we want to work in a franchise environment, we've demonstrated over the years that it makes a heck of a lot of money for our franchisees and it makes a reasonable amount of money for us.

RYAN BALGOPAL: Okay. Good. Now just refresh my memory on that –you made an acquisition of DiMarco Golf, but I think there was handful of DiMarco Golf franchisees; I am wondering have you picked those up?

THOMAS QUINN: No. What happened, we didn't make an acquisition of DiMarco. DiMarco joined the franchise group.

RYAN BALGOPAL: Okay.

THOMAS QUINN: And all the number of stores this franchisees as well had joined in into the network as well.

RYAN BALGOPAL: Oh, they all do, okay. Okay. That's good. Thanks.

OPERATOR (KAREN): Your next question comes from Adam Clark with BMO Capital Markets. Please go ahead with your question.

ADAM CLARK: Hi, guys.

BILL GREGSON: Hi, there.

BOB SARTOR: Hi.

ADAM CLARK: I was just looking for a little more clarity on the tax rate, and where do you see it going, and if you could just give us a little bit detail about what happened there?

BOB SARTOR: Well, Ryan, I mean, essentially what happened, there were changes to federal and provincial rates and acted during the quarter. And we have a large featuring of tax asset on the balance sheet. The

changes in the rate give rise to a revaluation of that featuring of tax asset, and essentially the feature benefit is reduced because the rates have dropped. So accounting convention would have us take that hit all in the period in which the rate changes are enacted to benefit on our cash taxes to pay in the future will come down the road as we file with those reduced rates. In terms of your modeling, effective rates, I mean that's a tough one because I would have to – I'd be surmising that nothing else changes in the future in provincial or federal tax legislation. On balance, you would anticipate saying a slight decrease overall, although the fact that we operate in all provinces and our rate change federally doesn't necessarily mean it just translates straight to the bottom-line.

ADAM CLARK: So could we use 35%?

BOB SARTOR: I won't give you any number, Adam. That just be – it would be unreasonable for me to just throw out a rate today for future years.

ADAM CLARK: Okay. Okay. Maybe could you guys tell us a little bit about the footwear market and how it's behaving? Are you lapping the track now against strong footwear comp store sales growth rate, and perhaps is that why the rates aren't quite as strong as they've been lately?

BOB SARTOR: The – yes in the footwear has been strong for some time, also. We are up against strong comps for sure. I think part of what's going on is always that it does come later. So for instance, on the

franchise corporate side, the franchise is 1.9 to date for back-to-school corporate 1.1. Quebec went back-to-school this week; basically the rest of Canada with the exception of few markets goes back next week. And more and more it seems every year, more is shifted to – a greater portion is shifted to after the Labor Day prior to the Labor Day. So I think that's part of what's going on. We're very happy with our footwear business. We're getting a higher margin on what we thought was close to a mature margin. So we're getting significantly higher margins on our footwear and we are comping our footwear numbers and, yeah, we're up against – footwear is probably the most – has been the highest comping part of our business for over 12 months now. So yes, definitely lapping it, but managing to put comps on top of very strong comps and at a higher margin rate, and we're still very optimistic about what comes up after Labor Day, more sell every year.

ADAM CLARK: Okay. So it's not an issue of increased competitiveness in your environment, it's more or less deflected to bars higher?

BOB SARTOR: Yeah, and again though it's – I think there's probably a little less competitiveness in the marketplace, there's been some square footage close from some competitors over the last 12 months. But I think though that the – I think it would be unwise to drive too much into the first three weeks of the comp numbers of the first three weeks of August.

ADAM CLARK: Quite understandable. Okay. And just one last one. Tom, you mentioned a new fitness concept; is that related to the Fitness Source or is that something new that you're...

THOMAS QUINN: No. What we're going to be doing is we're – we've been looking closely at the Fitness Source and their business in the last two months. And we're actually quite pleased with the potential we see there. What we've been is we are working on a new concept for Fitness Source just to take it to another level somewhere to the merchandising standards we use in some of our other stores.

ADAM CLARK: So would it incorporate more apparel into these stores in sale?

THOMAS QUINN: No, not necessarily. We're looking at that right now, but it also might be a synergy between Fitness Source and sales of exercise equipment, driving customers back to a Sport Chek, Sports Experts and National and Intersport stores.

ADAM CLARK: Okay. Great. Thanks a lot guys.

BOB SARTOR: Thank you.

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

KEITH HOWLETT: Yes. I'm wondering if you could talk about if there's any hot product trends rest in the fall season. And then that you

foresee in the ski, in snowboard and winter sports in terms of products or innovations.

BOB SARTOR: Ski and snowboard, definitely the trend there is more of women's. Women specific products, different graphics, I'm rather just getting a hell number to a model number or in W, it's a well sort of researched, developed specific product that's designed for the differences from a man to a woman in terms of performance and weight and strength, and the graphics are, you know, are different and very exciting and very fashion forward and leading. So that's probably there the biggest thing on the ski, snowboard, and we're really excited about some of our marketing this year on the ski side for corporate. Ski Canada buyer's guide which is hitting the news stands this month features, I think it's a 48 page insert on Sport Chek and Ski Canada guide actually tested all the skis that's Sport Chek will be carrying this year. And really each one had put their best suited for, what kind of skier they are best suited for to make a very easy for skier to match up, what kind of a skier they are with the skis that are on the wall. So a quite a different departure for us: from a marketing point of view, from a testing point of view, from an authenticity point of view. And so we're very excited about that. So I think that combined with the amount of women's product are probably the two biggest differences on the ski snowboard side. And as far as products for back to fall – back-to-school, you know, certainly Crocs has been talked about a lot and we're doing well

with Crocs. Healy's (Ph) we're doing with Healy, that's one that's in there, one-piece hockey stick continues to be a very strong business for us. We're doing well with the Nike, iPod, shoes as well. And so there's – those are some of the, I guess, some of the keys I guess on the apparel side would be the trend continues to, you know, it's a too big trend for us, one is performance apparel, tentacle apparel, moisture management capability, and the other one, you know, it's more on a corporate side, borrowing some success to franchise after a long period of time is just on the outdoor sportswear to different customer, then the back-to-school, typical back-to-school customer, but led by Columbia in the Northeast certainly the outdoor and Marilyn and footwear side, the outdoor apparel is certainly has been exciting results for us.

KEITH HOWLETT: And then on the – as recently, in the Sport Expert in Brockville and it is a huge selection of Billabong, is that specific to that store or is that or you're getting – is that only access on the franchisee side or you're getting some access to store?

BOB SARTOR: It's by of – it's by will and not part of our policy agreements. Keith, we don't have a policy agreement with them. So but they – Billabong will sell individual franchise stores off policy.

KEITH HOWLETT: Alright. And how – just on the couple of the banners – I know you don't want to speak specifically on it, but the how is National Sport, I guess for a quite a long way and how is it done relative to

acquisition plan and sort of where is it now in terms of where you want it to be?

BOB SARTOR: We're static about where National Sports is compared to where we want it to be and compared to where it was when we bought at 18 months ago. Basically it didn't have a management team, it didn't have an organizational structure. And had a lot of inventory that was we didn't think fit within a sporting goods environment. We've integrated back-office so it's seamless now as our back-offices, and so with less or more average add some synergies there. And we've created a purchasing, operations and marketing team that we're very proud of, and who do a very good job. We've cleaned out the inventories, the inventories are clean, we greatly improved the margin rates, sales of the last and – come because we are anniversaring (Ph) some huge clearance sales of product that shouldn't be in sporting goods environment, but we're definitely comping to a huge degree on the comp margin dollars side. And we are basically indeed as Ryan's terms we're getting through the lapping process of lapping, clearance – artificial clearance sales. And so we look forward to strong sales growth combined with the great margin improvements and the expense improvements that has been made. So it's a profitable banner right over the gate for us and it is even more profitable this year than last year.

KEITH HOWLETT: Then just finally on the Sport Chek, how was the transition remerchandising the banner reformatting of those stores going?

BOB SARTOR: Well that was completed last year, so...

KEITH HOWLETT: I am sorry.

BOB SARTOR: Did you say Sport Chek, I thought...

KEITH HOWLETT: Oh, no. I meant Sport Mart if I did say Sport Chek.

BOB SARTOR: Okay. Sport Mart the reformatting it's a different – it's a multi phase process. We have made huge strides on the – on the assortment that is in the stores and the value of assortment and with the prices day to day and on that product. And so our customers reacted very well to it with Sport Mart having very good year from a comp sales point of view and from margin point of view. What we will be testing likely this fall is a different marketing asset, so in one market – in a one store market to a lead to be this fall or early in the new year to let the consumer know that to call out the value proposition of Sport Mart to a greater degree. So, we've – we think we have done a lot of the work in terms of the assortments and in terms of the – in terms of the positioning internally. The part still to be done is a test on the external communication to the consumer.

KEITH HOWLETT: Great. Thanks very much.

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

CANDICE WILLIAMS: Good morning. My question is for Tom. Tom with the troubles of Sports Excellence has had in Quebec, is there any opportunity for you take some of the people from their buying group or some of their franchise banners in any sort of meaningful way?

THOMAS QUINN: Yes. Well, Candice, there is definitely one of the things that you've probably seen over the years we are very particular on the financial qualification of our franchisees to come in to the group. As there is definitely some interest in some of the membership of Sports Excellence and we definitely having some discussions with some of those members.

CANDICE WILLIAMS: But in terms of the – a number or a percentage of the people from the buying group that would be applicable – that would be appropriate?

THOMAS QUINN: It was probably a larger number that would want to join versus the number that we would be prepared to bring in to the group, obviously because of conflicting stores and marketplaces where we have franchisees. And so, we would be very selective in – I don't think it would be a huge number of stores from what we have seen in the operation.

CANDICE WILLIAMS: Okay. Thank you.

BOB SARTOR: I think the bigger issue of that – that is irrespective of the number of stores, which use to come in to a solid well run franchised

program. The big issue is as they work their way through their difficulties, they face the various possibility of having very limited fall/winter shipments in to the stores which would mean – which would really necessarily existing franchisee base obviously from a comp perspective.

CANDICE WILLIAMS: Okay. That makes sense. Thank you. Just one more question relates to cash flow, as you did sort of mentioned the EBITDA is growing on a trailing 12 months basis and is expected to continue to grow coupled out with sort of more moderate CapEx and everyone is talking about the increased cash flow and cash flow is generally going forward, are there would be any further talks on what you might plan to do with that money?

BOB SARTOR: Yes. There have been numerous discussions at the board level. In fact, we had our board meeting this week. I had presented a series of alternative strategies to our board and our board is currently deliberating those. We expect to have further discussions on those strategies at our next board meeting. I believe that while on a trailing in, you know, LTM basis we set the \$90 million mark, I want this fiscal year to be a very good fiscal year and based upon the results we see in Q3 and Q4, we will further elaborate on that strategy later on the year.

CANDICE WILLIAMS: Okay. That's it. Thanks for your time.

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

JIM DURRAN: I think I have got answer right on it, but on Fitness Source, am I right in understanding that the revenues in Q2 were lower than the revenues in Q1 and what would that be attributable to?

BILL GREGSON: Jim, I'll respond to that. Typically – yeah you're right. You're right Q2 is typically a softer quarter for Fitness because obviously Q1 has February and just a winter and in March and in summer months people outside exercise and not inside exercising. The good news for Fitness Source in my view is that it's best season is really the November – especially December and January, we yet to hit those with this business and yes the business on wholesale business makes good profits and has made good profit this year. And on a store-by-store basis it's quite profitable. So, we are, you know, that's why we are – Tom was saying we're very pleased with the growth potential of this business. So, the – what you should to see is modestly highest revenues, all though we won't disclose those, in the third quarter and obviously Q4 has shoots the lights out quarter for that business.

BOB SARTOR: It has a different selling cycles in our traditional sporting goods business.

JIM DURRAN: Okay. On Gen-X just if you can tell us on the recovery that seems to be going on there, how much of it is recovery of the weak license business results from last year versus liquidation close out business that you are doing?

BOB SARTOR: Well, I won't give that specific sales next breakout, but I can tell you that both businesses have performed very strongly, on a relative basis I would say the opportunity business recently has performed stronger than it did last year obviously, but I can tell you that both businesses are up sharply. And we are just very, very happy with the performance of that team. They really, really go bore down this year and we set the bar very, very high for them and they are delivering in space.

JIM DURRAN: Great. Thanks a lot.

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

KEITH HOWLETT: I realize the Fitness Source is a tiny part of the business. But I just want to get a sense of who of the four stores you have who shops at Fitness Source, is this sort of a serious demography or who is sort of the target audience of the Fitness Source? I ask that because I see fitness equipment sort of sold almost everywhere now, everywhere meaning trophy stores and discount stores.

THOMAS QUINN: Keith I can probably take a start of that. Basically what we've seen, the average retail price that's being sold through Fitness Sources is and the equipment being sold in on an average is just considerably higher than the product that's being offered at Sears or Wal-Mart or some of the other places. With Fitness Source consumer of what we have see today tends to be someone in a sort of the 30 to 55 year

old tends to be willing to pay for premium quality product that he knows he is not going to get have for problems for it.

KEITH HOWLETT: Great.

BOB SARTOR: The other thing, Keith, we have nine Fitness Source stores.

KEITH HOWLETT: Nine. Thanks.

THOMAS QUINN: Yeah.

OPERATOR (KAREN): Your next question comes from Benoit Caron with Cannacord Adams. Please go ahead with your question.

BENOIT CARON: Thank you good morning everyone. Couple of things here, especially regarding comps by banner, I am sorry I missed the early parts of the opening comments. But in previous earnings releases, you would disclose the comps of Sport Chek excluding Sport Mart, did you provide us with that data again?

BOB SARTOR: No, Ben. Well we did – we did at our last year as we are undergoing the Sport Chek revitalization after a couple of years of negative comps on the corporate side we want to give everybody a flavor of that. Now that we have completed that and now that Sport Mart is well under its way as well, we are just back to releasing a combined corporate number.

BENOIT CARON: Okay. So we shouldn't assume that there is any significant discrepancy between the comps and let's say Sport Chek, Sport Mart and National Sport they are pretty much strong and...

BOB SARTOR: Yeah.

BENOIT CARON: Okay.

BOB SARTOR: And in fact that is not a significant discrepancy.

BENOIT CARON: Okay. The other part of the question is, I am a bit – I am a bit surprised that franchisee stores have actually comps at 6.9 versus 5.4 where the corporate stores were facing more difficult comps at 4.6 versus 4.2 for the corporate stores. What do you attribute that to as, are there any like specific product categories that are doing so much better in the franchisee store is that due to some merchandise moving into a higher price point, what cause that? It's a bit mind-boggling.

THOMAS QUINN: Well, Ben, what we've seen happening has been fairly consistent in the comp store growth and as we position the banners into a better quality product we do get lift in the average price points. So, that's part of it as well as, as you have heard earlier there has been significant pressure in some of the competitors in the marketplace at Sport Excellence but definitely we've got a better product variety to offer to consumer.

BOB SARTOR: As same – on a corporate size. Corporate is not working just on comp store sales increases. Corporate this year is working

on comp store sales increases at a significantly higher margin with a reduced marketing spend. So, sport – corporate side Sport Chek, Sport Mart, National are, it's a balanced plan of profitability as apposed to just trying to shoot the lights out on a comp store sales basis.

BENOIT CARON: Okay. Well, that's all I had. Thank you.

BOB SARTOR: Thank you.

OPERATOR (KAREN): Your next question comes from Adam Clark with BMO Capital Markets. Please go ahead with your question.

ADAM CLARK: I am just wondering if you could us some sort of idea how the average ticket – average transaction trends have been behaving like over the last six quarters or so?

BOB SARTOR: Nothing significant to talk to that, I am really just...

BILL GREGSON: You mean in terms of average order size, units per transaction that kind of stuff?

ADAM CLARK: Yeah, is it pricing in general, is it on average is it down, is it opposite flat?

BILL GREGSON: It's slightly up. And that's – that would be just say higher – it would be some – like what's going on is we are looking to increase all of our aspects of our business. So I mean corporate will carry – for instance will carry a wide range of price points and we are doing, definitely doing a lot more higher price business. But at the same time we are doing some more - we are doing more value priced business as well.

So the increase in the business is being driven at all price points and so the end result has been a slightly higher increase in average ticket.

ADAM CLARK: Okay. It is also a function of mixed shift too as well footwear should have a higher average ticket pricing apparel wouldn't it not?

BOB SARTOR: Footwear does, yes. But not as high as depending on hard goods category, at the same time our hard goods categories part of it we have done is a sporting goods stores and we said we need to be in stock every in this part of our Precision Retailing Group. We need to be in stock everyday, every store on some of the key accessory items for do – that you use for sporting goods. They tend to be a very low price but high consumer service value to the customer. And so we are doing a lot more accessory business by being in stock on low priced items that you need to play hockey or ski or what have you.

ADAM CLARK: Okay. Can you give us some sort of sense in the magnitude of say this quarter or the first half of this year what the average ticket or average price would be up by?

BOB SARTOR: Again slightly. It's probably not worth a long conversation on it.

ADAM CLARK: Okay, it's mostly volume driven, okay.

BOB SARTOR: It is volume, yeah, I'll make a comment that we are getting our comps and haven't got our comps this year principally through increased traffic.

ADAM CLARK: Okay. And just one last one. Could you refresh me on your store opening plans and any CapEx in the second half of this year and for the year?

BOB SARTOR: Yeah the Sport Chek side there is couple of stores opening. There is an expansion it's probably around the 270,000 square feet. Tom – I don't know where your – for back half...

THOMAS QUINN: Yeah.

BOB SARTOR: And do we have your numbers there, I don't know if you do or not.

THOMAS QUINN: Our – we'll be opening additional Hockey Experts Nevada Bob's, what experts in the back half of the year, but inline with our – I think it between 26 and 30 stores annually for the year.

ADAM CLARK: Okay. And then on the CapEx plans. Actually you run about two-thirds the rate you were last year and first half of last year is that a fair assumption for this year for the full year?

BOB SARTOR: Yeah, it would be probably a fair assumption, yeah.

ADAM CLARK: Okay. Great, thanks a lot guys.

OPERATOR (KAREN): Your next question comes from Christian Cyr with Natcan. Please go ahead with your question.

CHRISTIAN CYR: Yeah, hi guys. It's Christian from Natcan. Great results. We are one of your largest shoulders, so we are quite happy with your improvement. It seems pretty upbeat going forward both on sales and margins. But actually your market doesn't seem to be too quite happy with those results. Analysts are calling us maybe to make a switch on other stocks saying that most of the growing the company has been done that you're not the ghost story anymore and to switch into other store. You are saying that the board is going to look at things maybe to create some value for the shareholders. We are looking at some of your peers on the retail side, Canadian, mostly in the US also. So actually what the board looking at to create some value for shareholder, you are trading at 5 or 6 time maybe in the hour of next year. That's pretty dim when you are looking at some of the retailers outside of Canada and even in Canada. Most of the Canadian retailers have a dividend policy; you don't have one, some are looking at some trusts. Never heard about that one also. So, less outdoor is looking at strategic alternative to maybe sell the company. If it's – if the company is worth more for somebody else than to actual management or the board, maybe it should be time to look at one of these prospect. So, I would like an opinion on that, please.

BILL GREGSON: Sure. Christian I will not be drawn into a debate on this company in a public form, from a shareholder, from an analyst or from anyone else. Our board is well aware of the alternatives available to

them. Our agenda is one that is really going to drive the sales and profitability of this company. I believe the current evaluation of the company is a function of where it's been in the past two years. I believe some people use term doghouse in fact in a conversation with people [technical difficulty] we felt that felt that gee, maybe the stock had gotten ahead of itself. So we have conflicting opinions there because we have, I believe conflicting objectives out there and I said earlier that in response to Candice's question that we are looking at these alternatives and at the appropriate time. And we will be the judge of when that time is appropriate. We will act or not act upon some of these alternatives. That's all I am prepared to discuss in a public form.

CHRISTIAN CYR: What's the [technical difficulty] that – so do you think that actual level six times enterprise value to be – we have next year, are you undervalued? And maybe subject to some kind of corporate rate or going into the company?

BOB SARTOR: Well, I think Christian, every while we held public company is subject to that risk, obviously the larger the company and higher the relative evaluation to its peers, the less at risk it is. We'll acknowledge that. I don't spend a lot of time worrying about it and I will tell you why. They really are – and it's really my last comment on this. There really are two kinds of bidders out there. They are the financial and the strategic. The financial need a partner to dance and we are not dancing.

We are busy running out business, I trust everybody understands that. The strategic partner would likely also need some players' onsite to do that as well. And even if they didn't frankly, just have a look at who is out there from a strategic perspective. And I don't think anybody is frankly in an acquisitive mood right now. And I also believe a lot of folks are going to – are going to wait to see where the EBITDA levels end up the year and how next year plans out. So I don't worry about it, I have spent very little time worrying about it and frankly I don't intend to worry about it after this call either.

CHRISTIAN CYR: Okay. Thanks.

BOB SARTOR: Thank you.

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

BOB SARTOR (CHIEF EXECUTIVE OFFICER): Very well. Thank you very much ladies and gentleman for your interest in the company and its prospects and for attending this conference call. As I said in my wrap up earlier our view as a management team is getting the LTM \$90 million level is simply the beginning. And we have a lot of work to do to as Mr. Cyr actively pointed out to get the evaluation of this company up. And we will continue to diligently work on that. And once again thank you very

much and a good day. We look forward to talking to you after our third quarter.

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

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