

EVENT: THE FORZANI GROUP LIMITED FIRST
QUARTER FISCAL 2008 CONFERENCE CALL

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OPERATOR: Good morning ladies and gentlemen, and thank you for standing by. Welcome to The Forzani Group Limited First Quarter Fiscal 2008 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 you have any difficulties hearing the conference, please press star followed by zero for operator assistance at any time. I would like to remind everyone that this conference call is being recorded on Tuesday, June 5, 2007 at 9:30 a.m., Eastern Time. I will now turn the conference over to Bob Sartor, Chief Executive Officer. Please go ahead.

BOB SARTOR, (CHIEF EXECUTIVE OFFICER): Thank you very much and good morning everyone. Welcome to The FGL Q1 conference call. With me today are Bill Gregson, our President and Chief Operating Officer; he will talk about our corporate store results, Tom Quinn, President of our Franchise Business; who will talk about the performance of our various franchise banners and Richard Burnet, our CFO will provide some additional color on the results for the quarter. Prior to commencing our comments, I'll ask Richard Burnet to read a brief Safe Harbor statement.

RICHARD BURNET, (CHIEF FINANCIAL OFFICER): Thanks Bob. As we conduct this conference call, there are remarks that we will make

about future expectations, plans and prospects for the company, which will constitute forward-looking statements. These statements reflect current expectations. They are subject to a number of risks and uncertainties including, but not limited to changes in general market conditions. You should understand that FGL cannot offer assurance that the current expectations reflected in any forward-looking statements will be met. Additional information about the material factors that could cause actual results to differ materially and certain expectations is contained in our Company's public record including our annual and interim MD&A, which is available on SEDAR. Bob.

BOB SARTOR (CHIEF EXECUTIVE OFFICER): Thank you Richard. Well, it was a cool and damp start to the springs, weather was not to the best, particularly in the west where we have a lot of snow right up until a week and half ago in Calgary, but we had a good quarter nonetheless. The way I see things, we generated earnings of \$0.07 per share versus the prior year number of \$0.01. Taking into account a loss of \$0.02 per share on the sale of licensing investment in the quarter and the expensing of stock-based compensation of \$0.03 versus nil last year, we therefore reported full diluted EPS of \$0.02 versus \$0.01 last year.

It's important to note two things here; first, we may have disposed that the investment in the licensing company, but we still hold the licenses

for Canada and in many cases the U.S., and order in Europe as well. So our wholesale division will continue to make and sell them.

On a stock-based compensation side, we are expecting to hit our budget numbers this year, so we have an expense part of the cost for Q1, there was no such expense last year. It's important to note that this is merely shipping over cost from Q2 through Q4 to Q1. For the balance of the year the stock-based compensation will be in fact considerably less than last year as reported by our CFO last quarter. So we really see no issues here.

All businesses performed well, franchise, wholesale and corporate retail were all up, with Sport Chek driving the overall corporate results and margins were again up. I will now ask Richard to provide some additional financial comments.

RICHARD BURNET, (CHIEF FINANCIAL OFFICER): Thanks Bob. Ladies and gentlemen, I'll briefly cover the financial highlights. For the quarter, retail system sales were \$308.4 million against last year's \$299.1 million a 3.1% increase. Corporate same store sales were up 0.4% and franchise up 9.6% against last year's first quarter increases of 12.2% and 6% respectively.

Total revenues were \$294.6 million versus last year's \$280.4, a 5.1% increase and breaking out revenues, corporate store revenues of

\$194.2 million were flat. A combination of comps mentioned earlier and during the quarter we franchised nine Fitness Source stores and those sales moved out of corporate and wholesales sales of \$104 million were 18.7% ahead of last year's first quarter. A reflection of continued strong franchise stores sales and high single-digit increases in the FGL wholesales business.

Consolidated margins for the quarter were 33.3%, 120 basis points above last year. Largely on the strength of continued margin expansion in the corporate business and improved franchise in FGL wholesale margins. Corporate store operating expenses as a percent of retail revenues was 29.6%, against the prior year's 29.5% and on a same store basis expenses were down at 27.9% versus 28.1% last year.

As Bob mentioned, G&A expenses \$26 million or 8.8% of consolidated revenues. The difference over the prior year excluding normal year-over-year increases was related to accruals for yearend performance-based compensation. Recall that in the fiscal 2007 first quarter there were minimal accruals for performance-based compensation. However, management have the opinion that performance targets in fiscal '08 will be met and as a result to accrue accordingly.

As we mentioned in the fiscal '07 yearend call, year-over-year performance-based compensation is expected to be approximately \$10

million less in the current year versus last year. The impact of this reduction will be most evident in Q3 and Q4.

First quarter EBITDA was \$14.5 million, a 13.3% increase over last year. And net earnings for the quarter were \$0.7 million versus \$0.3 million last year, including the impact of the loss from the sale of the investment. Investment had been held in a trade mark licensing company and as we indicated in our press release our investment in the company and resolving acquisition of licenses has proved and will continue to prove it would be very profitable for the company, now withstanding the loss on disposal.

Diluted earnings per share exclusive of the loss were \$0.04 in the quarter versus \$0.01 last year, and as Bob mentioned it should be noted that operationally the business generated roughly \$0.07 a share exclusive of the increase in performance-based comp.

Company continues to maintain a strong balance sheet as our meaningful ratios showed improvement including working capital up 48.5%, and days outstanding and receivables down over the prior year and they – the coverage of inventory on receivables which increased over last year. I will now turn it over to Bill Gregson for his comments on the business. Bill.

BILL GREGSON, (PRESIDENT AND CHIEF OPERATING OFFICER): Thanks Richard. Turning to sales on the corporate side as mentioned earlier they were up 0.4 for the quarter and 4.5% for the first-four week on a same store basis. Most regions for Q1 were right around the 0.4, there wasn't really any significant differences region-to-region, for Q2 so for Ontario and British Colombia have been leading the charge.

Q1 is transitional quarter for FGL and we are waiting for spring and getting out of winter and as Bob mentioned that's the timing that can change right up till May sometimes in last year.

For the quarter on a category basis then outerwear was very strong and athletic and spring apparel were on the softer side, footwear was up, hard goods was mixed, hockey was up, ski and snowboard was down slightly as we had a big (indiscernible) prior year, and inline and golf were down significantly and bikes were actually up, which quite surprises because of the weather.

As we move into the June with four weeks behind us for Q2, there are no issues in the summer category though, all are performing well on a sales basis and if we had to take out the number one category in terms of pleasant surprise, in terms of growth for the bikes so far in Q2 it's having a phenomenal price season. As Richard pointed out, their margins and our opinion on the corporate side were outstanding for Q1 and it remains so for

Q2 and expense control remains very strong, and as a result our contribution at corporate level was up nicely.

On the inventory side we left winter behind with less ski and snowboard inventory on a comp basis than a year ago. We have more outerwear but there's no significance to affect our upcoming fall's results. And we see on the summer side based on the inventory that we have and what's still to come in, based on the further sales are going, that we will end July-August in great shape from the summer inventory point of view.

In terms of new store growth we opened up one Sport Chek in Q1 in (indiscernible), we will open up two Sport Cheks in the second quarter; one here in Calgary and the other one that's opened already in (indiscernible). We will also open two more in the second half and Sport Chek as well, and in the second half we will expand two Sport Cheks from 20,000 feet to 40,000 feet. We will open up – well, we have opened up one Coast Mountain already in Q2, one new one and we will open up the second Coast Mountain in Q2. And in early Q2 or early Q3 we will open up the first new Sport Mart in about three years in Victoria, totally new design.

And also in the summer months, we haven't picked the day yet, we will be opening up corporate Hockey Experts; currently Tom has its franchise Hockey Experts in the province of Quebec, it's going to be very successful and we will be taking that concept and opening up corporate Hockey Experts outside Quebec and that will start this summer in the GTA

area. With that I'd like to turn it over to Tom Quinn to talk to the franchise operations.

THOMAS QUINN (PRESIDENT, FRANCHISE DIVISION): Thanks Bill. Good morning, ladies and gentlemen. As reported, FGL's franchise business had a strong first quarter, it was in all banners. Our traditional general sporting goods banners continue to raise the bar and we are being constantly (Ph) surprised with the consistent performance of our new specialty banners that continue to exceed the expectations. We now have 40 locations in our Nevada Bob's Golf specialty banner and they are following the same positive trends as well they respond (Ph) to specialty banners including Atmosphere, Hockey Experts, Pegasus and our latest addition Fitness Source.

We've now franchised this business and later this morning at our AGM we will be unveiling our new generation of specialty fitness retailing and we will open our prototype store in the third quarter of this year. We are very optimistic and excited about our opportunities in this category.

Our footwear, athletic and sportswear categories continue to show a solid growth and our rapid bike camping in team sports categories continue to experience positive numbers. It was a very busy first quarter opening five new stores, two conversions and franchising our nine corporately owned Fitness Source and one Nevada Bob's store.

Our second and third quarters were just – will be just as (indiscernible) and with our first four weeks with the second quarter starting off with a positive 14.6% comp, we are feeling very confident for this fiscal year and potential for growth in existing locations and our new banner developments. And now I'll turn it back to Bob.

BOB SARTOR (CHIEF EXECUTIVE OFFICER): Well, certainly it's going to be a busy year at FGL and that we believe another very good year at FGL. Second quarter, as you heard, is off to a great start with even better comparable store sales on both the corporate and franchise side and margins up yet again. Prior to closing I want to comment briefly on the past week. The past week has been somewhat distracting for management with all of the media attention we received, but now that we have made it very clear and clarified that we are not in discussions or negotiations with anyone, our team can remain focused in meeting our fiscal '08 targets. As you can imagine, these kinds of newspaper articles and rumors are quite distracting for our staff.

Our Q&A session will be limited this morning as we have to proceed to our AGM rehearsals (Ph) which will begin shortly. The AGM will be webcast and we will, as Tom said, unveil the new look fitness concept which is quite different than anything I've seen before in North America. We'll also provide some color at the AGM on our cash-free deployment

approach going forward. If you don't have details for the AGM webcast, please go to our corporate website at www.forzanigroup.com. I will now ask our moderator Karen to open it up to questions.

QUESTION AND ANSWER SESSION:

OPERATOR: 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. The questions will be polled in the order they are received. Please ensure you lift the handset if you're using a speakerphone before pressing the keys. One moment please, for your first question. Mr. Sartor, there are no further questions at this time. Please continue.

BOB SARTOR (CHIEF EXECUTIVE OFFICER): Very well. I think it's for the first time we have been so clear in our conference call. Ladies and gentlemen, thank you very much for listening in. If there are any follow-up questions that come to mind afterwards, we will be at our AGM this morning, but you will be able to reach our CFO Richard Burnet or myself at the office this afternoon. Thank you very much and good day.

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