

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

TIME: 7:30 MT

REFERENCE: 21244870

LENGTH: APPROXIMATELY 53 MINUTES

DATE: SEPTEMBER 5, 2007

OPERATOR: Good morning ladies and gentlemen. Thank you for standing by. Welcome to The Forzani Group Limited Second 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 anyone has 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 Wednesday, September 05, 2007, at 7:30 a.m. Mountain Time. I will now turn the conference over to Bob Sartor, Chief Executive Officer. Please go ahead sir.

BOB SARTOR (CHIEF EXECUTIVE OFFICER): Thank you very much. Good morning ladies and gentlemen and welcome to our second quarter conference call. With me today and in the order which they are going to be speaking are Richard Burnet, our Chief Financial Officer, Bill Gregson, our President and Chief Operating Officer and Tom Quinn, our President and Chief Operating Officer of the Franchise Business. Before I make any comments on the quarter, I going to ask Richard Burnet, our CFO will move to read a forward-looking 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 SARTOR (CHIEF EXECUTIVE OFFICER): Thank you Richard. Well, it certainly was in our view a great quarter we had a record revenues, record EBITDA margins and record earnings per share. We also had very strong overall margins for the company at the gross margin lines we are very pleased with that. Our businesses are performing well, corporate performs well, franchise performs well, our small wholesale business is having phenomenal performances. So, things are going quite well, we think we did a great job this quarter as well managing the expense

line, certainly on the G&A side and at store level given all the initiatives we got going.

Also and of note yesterday's board meeting our Board of Directors approved the initiation of an annual dividend of \$0.30 per share payable quarterly, that will commence in the fourth quarter. I just want to stress the fact that given the size of the yield which is reasonably modest that we should not have any concerns about the company's ability to invest in its stores, in its franchise business and in any other acquisition opportunities that come along. In fact, we think the dividend is positioned so that it can grow in the future without restricting our ability to reinvest in our business. I am going to ask Richard to go into the numbers with that further review and then you will hear from the other fellows.

RICHARD BURNET (CHIEF FINANCIAL OFFICER): Thanks Bob. For the second quarter retail systems were \$ 351.3 million against last year's \$337.9 million, a 4% increase. Corporate comp store sales were up 24% and franchise were up 6.1% against last year's second quarter increases of 5.4% and 6.9% respectively.

Total revenues were \$292.4 million versus last year's \$284 million, a 3% increase. And breaking out revenues, corporate store revenues of \$212.1 million were up 1.9%, a combination of the comps mentioned earlier and new stores opened during the quarter. Wholesale sales of

\$80.3 million were 5.9% ahead of last year's second quarter, primarily on the strength of increases in FGL wholesale business.

Consolidated margins for the quarter were 34.9%, 90 basis points above last year, and the strength continued margin expansion in the corporate and franchise businesses. Corporate store operating expenses as a percent of retail revenues were 27.8%, against the prior year's 27.4% and on the same store basis expenses were 26.5% against 26.2% last year.

G&A expenses of \$22.2 million or 7.6% of consolidated revenues. The difference over the prior year excluding normal year-over-year increases was due to reduced accruals for year in performance-based compensation, and slightly reduced advertising expenses related to the timing in the ad calendar.

Second quarter EBITDA was \$20.9 million, a 30.3% increase over last year. Net earnings for the quarter were \$5.4 million versus \$1.9 million last year, you recall that in the prior year's second quarter, there was a non-cash charge to the future income tax expense related to income tax rate changes enacted during that quarter, the impact last year was \$0.01 a share.

Diluted earnings per share were \$0.16 in the quarter versus \$0.06 last year. For the year-to-date retail system sales were \$659.7 million versus last year's \$637 million, a 3.6% increase. Corporate same store

sales were up 0.5%, and franchise were up 7.7% for an overall all comp store sales increase of 3.1% in the year.

Total revenues were \$586.9 million against last year's \$564.4, a 4% increase, and corporate store revenues were \$406.3 million, up 0.6% with wholesale sales up 12.6% at a \$180.6 million.

Consolidated margins for the year-to-date were 34.1%, up 100 basis points over the prior year. Again, on the strength of retail margins at retail and overall wholesale margins. Store operating expenses as a percent of retail revenues were 28.7% versus 28.4% in fiscal 2007. The G&A run rate for the first two quarters was 8.2% of consolidated revenues versus 7.7% in the prior year. The difference is combination of the compensation accruals in Q1, offset by the reduced expenses you saw in Q2.

EBITDA was \$35.4 million against last year's \$28.9, and net earnings for the period were \$6.2 million verses \$2.2 million last year. Earnings per share were \$0.18 versus \$0.07 in fiscal 2007. And the company does continue to maintain a strong balance sheet as all meaningful ratios showed improvement and notably working capital which was up 12%. 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. Obviously we are very pleased with the

quarter, great quarter, whether it be franchise or the corporate side. On the sales side – on the corporate, I'll talk to – I will give some flavor to corporate results. On the sales side as reported up 0.4 comp we would like to see that higher, it is an area we will continue to focus on, but it is one of many areas that we are focusing on which I will talk to in a second.

In terms of – a little of flavor Sport Chek lead the way in terms of our corporate banners, in terms of the comps the best provinces, number one provinces was Saskatchewan, and second province in terms of comps was British Columbia. In terms of category, footwear was our strongest category in terms of comp stores sales increases and apparel was our weakest.

Margins, a great story here for the quarter, significant increases in margins at the corporate – on the corporate side and as you saw the blended rate between corporate and franchise ended up almost a 100 basis points for the quarter.

Store expenses as a percent of sales were actually up on a comp basis 0.3% compared to a year ago, this is due to lower than planned sales, but this increase as a percent of sales was more than offset by the increase in margin and the reduced marketing spend which is reflected in the lower SG&A cost. In terms of marketing for the quarter both the second quarter and to the third quarter a number of programs we had we

are quite happy with and I think really go a long way to boosting our largest banner Sport Chek.

We had a very successful Under-20 World Cup Soccer program Adidas that launched in the second quarter. Soccer is becoming – and soccer apparels becoming a big business in this country. And near the end of the second quarter and we had a very successful Nike hockey training featuring the World Juniors and at beginning of the third quarter you may have seen the New Balance commercials that were running on TV and also very high profile campaign we had going with Rbk featuring Sidney Crosby and the -- that program is working very well for us.

Inventories at the end of the second quarter on the corporate side were up 3%, now this is due with earlier fall deliveries. Last year as you may recall that in June we closed our warehouse as we put in a new system and then we caught up in deliveries in July and August. This year we did not have that closure, so June and July were very busy months for back-to-school. We will continue to focus on our inventory levels and we are very confident that those levels will be lower than last year as we exist this fiscal year.

Going forward then, we continue with four basic premises we are looking to drive – continue to drive our margins up, to drive our inventories down, to maintain or decrease our marketing spend, and to do all these things well and continuing to increase our sales put those four things

together and you get the type of quarter that we had in the second quarter which was \$0.16 versus \$0.06.

Now, last point I have before I turn it over to the esteemed, Mr. Quinn, is we also launched a new corporate banner in – near the end of Q2 Hockey Experts, we launched two stores in Ontario, we have had Hockey Experts franchise stores in Quebec, we will be corporate stores outside Quebec, and it was a very successful launch and is continued on to be very successful in August and the first week of September and we will be adding a third store in the Toronto area in November and are looking for more additional Hockey Experts corporate locations in Ontario and in Alberta. With that I would like to turn it over to Tom Quinn.

THOMAS QUINN (PRESIDENT, FRANCHISE DIVISION): Thank you Mr. Gregson. Good morning ladies and gentlemen. As you note, the franchise business had a reasonable quarter, our specialty banner business continues to grasp well. Fitness, golf, and outdoor banners have shown strong comp sales in this past quarter. We will be accelerating our strategies in golf and fitness categories over the next six months and launching a more aggressive expense we planned in these areas in 2008.

Our general sporting goods banners continue to exceed their previous year's performance and we can clearly see the impact that are investments in technology over the past few years have made on each

franchisee's ability to impact their own business. Key category performances in the quarter included our footwear, bike, racket, sports golf, skate, exercise and athletic clothing areas, all with strong comp sales and growth performances.

Our footwear business continues to lead our comp sales charts with significant increases in the running outdoor junior women, women's and casual categories. The multi-banner concept that we spoke of before that we launched few years ago continues to exceed our benchmarks and will be a fundamental strategy to the future development in FGL's franchise business.

We are looking forward to launching a new fitness store concept in the fourth quarter of this year, and so far are very pleased with their specialty fitness banners performance to date. We anticipate this being a key growth driver in the franchise business for several years. Consistent year-to-date performance in the third quarter off to a good start, we are looking forward again to another strong year in FGL's franchise business. And now, back to Bob.

BOB SARTOR (CHIEF EXECUTIVE OFFICER): Thanks Tom. Well, we are certainly while we've had a rollout quarter and we are very pleased to be able to signal to our shareholders that we have such confidence in our business that we're comfortable initiating a dividend, you

know, but we are not without our concerns obviously we look south to the US and the footwear malaise that's taking place there. I think one of the notable difference is those of you who follow this sector would have seen in the recent release of mix results, is our footwear mix is predominantly focused on performance, outdoor and some casual.

There is a little bit of trend, and we're at – with some of the major US retailers trend was the largest portion of their mix and that's really what's been in difficulty. So we are looking at it, we are obviously always concerned about trends in the US and how they may impact us, but today we can say that our mix is relatively unscaled (Ph). We are pleased at our start of the third quarter, obviously we are continuing to have the margin momentum and with each passing day our momentum versus prior year continues to improve, this is that back-to-school comes later and later over year. It's certainly a recurring theme and it has been for several years.

As we said in our press release we announced back-to-school sales result the last week of September. I'm sure you have some questions. So I'll now turn it over to our moderator, Joanne (Ph), to open it up to questions, and unlike last quarter if there are no questions we will – we won't hang up, we'll assume that there is a technical difficulty so was last quarter. Please, Joanne, go ahead.

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. Your questions will be polled in the order they are received. Please ensure you lift the handset if you are using a speakerphone before pressing any keys. One moment please, for your first question. First question comes from Benoir Caron from Canaccord Adams. Please go ahead.

BENOIR CARON: Yes, thank you. Good morning gentlemen.

BOB SARTOR: Good morning.

BENOIR CARON: Just one clarification, there's – going back to the press release, you mentioned Golf Experts; was that a type of our Hockey Expert, is that a new banner you are dealing with?

BOB SARTOR: No, actually we have a Golf Experts banner we have been testing in some different formats. In the Golf Experts banner we opened an 18,000 square foot one in Vancouver this past spring. Just to look at that format relative to our Nevada Bob's new format that we launched, and we will use that strategically in different marketplaces.

BENOIR CARON: Okay. And one thing that I've noticed as well as that you seem to be teaming the Nevada Bob's or maybe in this case the

Golf Experts with the Hockey Experts banner, I mean there seems to be a good complimentary, are you seeing a better performance of these banners when they're side by side or when they're independently with them one and another?

BOB SARTOR: I think strategically what we're going to try and do with our banners is marry a golf banner that tends to be a six to eight month business in this country to a complimentary banner, whether it be the fitness business or the hockey business that allows just reduces the overheads for the owner of the franchisee in place, so there's definitely a positive impact when we couple them together.

BENOIR CARON: Okay. And maybe this one for Bill; in the corporate same store sales, numbers for the summer quarter, yeah, they were a bit weak but the margin was great. So I was wondering, did you pull back – did you really hope to pull back the margin, and so would you expect the margin to come down as you liquidate some of the inventory in the coming quarter?

BILL GREGSON: No. In fact, Benoir, we probably – we expect to continue to have our positive margin improvement and it stems from our inventory levels, and I mean it's been well documented over the last few years, few years ago we ran into some inventory issues, we've cleaned those up, our inventory is cleaner now than it's ever been, and with our – where our planning has taken us and to where we expect to end the year,

we have very little of any inventory issues. So what that enables us to do is it enables us definitely to go after them, after the margin, and we're focus – our number one focus is margin dollar generation and then our strong 180 (Ph) would be sales generation, but we will take the margin dollars first ahead of the sales and our inventory position allow us to do that.

BENOIR CARON: Okay. Well, that's all I had, gentlemen. Awesome quarter, keep up the good work. Thanks.

BILL GREGSON: Thanks Benoir.

BOB SARTOR: Thank you.

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

JIM DURRAN: Good morning. I'm just wondering if you can talk a bit about comp store sales number in the second quarter, what would have what kept the 0.4% in line with Q1, I mean I know in Q1 that it was partially weather driven, was there any weather dynamics that would have kept it at that low level?

BILL GREGSON: No. Jim, it's Bill here. There was no weather dynamic, Q2 is a period probably where there is the least weather dynamic actually in course of the year, obviously Q4 would be a huge weather dynamic, whether you get winter or not, and so you can all relate to last

year in Ontario, so what happened I would say is, one is our – again it's – we're focused on four things; we are focused on a controlled marketing spend, we have been focused on driving our inventories down, we are focused on increasing our margins, and we are in focused on increasing our comps.

The balance of those four you may argue that driving your margins up, your inventories down and you – entailing (Ph) your marketing spend might be counter-productive to driving sales, we think we cannot – we can do all four but we're going to try and do a balance of them, focus very much on the bottom-line, we are very successful with the bottom line for Q2, obviously not as successful as we would have liked to have been on the sales side. What happened overall was we had some softness in our – a little bit in our apparel as I said, we saw our sandal business.

We've had a – well, actually we had a huge sandal business, we saw that down a little bit and, you know, I think they're going forward for the back half, what I – when I look at it is that I believe our footwear business still would be strong, and I think we have a massive outerwear opportunity in the back half because we had such a poor Q4 last year in outerwear sales, and outerwear is a big business for us and it's a large ticket.

JIM DURRAN: Okay. Just on the footwear issue that Bob raised earlier, there have been some metrics about (indiscernible) and also, I

think, it was Foot Locker that had flat sales in Canada, I know your mix is different, are you seeing a slowing of growth in footwear as we progressed over the last three four quarters?

BILL GREGSON: Compared to where it had been in the prior two years, yes, in terms on a – on the corporate side for footwear on the franchise side it's pretty aggressive right now in terms of their comps, but that was really in Q2, but Q2 again footwear was positive comps for footwear. What we are seeing is we have seen definitely the trend business, the most impacted as same as Bob mentioned in the US, what we are seeing now is continued very strong costs, very strong running business and very strong cleat (Ph) of business and those are three huge categories for us.

So, in terms of footwear, I think probably the best time to discuss it will be in a few weeks and Jim at back-to-school obviously it's Christmas time right now for footwear back-to-school is the biggest time of the year for footwear sales, we are right in the middle of it and we will be able I think will shed a lot more light on the trend about three four weeks from now.

JIM DURRAN: Okay. And the last question, I will let somebody else take over. Corporate gross margin in the quarter was it up as much as it was in Q1 or how does that compare?

BILL GREGSON: I don't have the Q1 number in front of me Jim, well I'll get back to you. Now what I can tell you there is a corporate margins

were up higher than with the blended margin was that we reported. So we reported, I think 94 basis points increase in our blended margins and our corporate margin were up beyond that.

JIM DURRAN: Okay. That's great. Thanks Bill

OPERATOR: And your next question comes from Ryan Balgopal from Scotia Capital. Please go ahead

RYAN BALGOPAL: Well thanks. Bill, you continue to get some pretty healthy margin gains and it sounds like you are expecting even more in the third quarter into the fourth quarter. Could you maybe just update us as to where you are on the path? How much you have got to-date and how much more you think there is left?

BILL GREGSON: I think, I don't give you the numbers around, I will just give you our plan though what I kind of see happening is and margin again is related very much to our inventory levels and what I would see is that I would see by the end of this fiscal year and this is, you know, give a few months here or there I would see by the end of this fiscal year our inventory levels will be, let's say close to optimum. In other words there will be a very little initiative on our part to for further improvement.

So, what that means basically is as we go into next year we will see probably more of a level – I would expect we would see some margin

increases next year, but there will be more moderate than what they will this year. However, what will happen next year is that as we basically optimized our inventory and we enter into next year with an optimum inventory level much lower than it was a year ago what that does is offer the opportunity for us to increase or open to buy and to have a much higher percent of fresh merchandise. And what we see next year is we see that being a sales trigger or sales enabling us to grab some more sales momentum next year and obviously with more fresh that's where we will get the additional margin rate increase next year.

So, I would say still more opportunities as back half, next year there is opportunity. It will be smaller than this year, but with a much with an ability to have to buy much more fresh merchandise next year, I would see that being, if it is for categorized sales as well for the following year.

BOB SARTOR: Ryan, it's Bob Sartor. It is important that no body gets the impression that margins are – I think we can dial up and dial down, it will. Bill talked about the dynamics of inventory levels and open the buy and so on. There is no doubt in our minds that there is still a lot of room for Sport Chek margins to grow, we only have to look at what we are achieving on franchise side to see that, the reality as well is we are in the process of converting our merchandising systems for National and Sport Mart and they will then have all other requisite tools at Sport Chek and

Coast have had for the past year and a half and we expect to see their margins up tick nicely as well next year.

RYAN BALGOPAL: Okay. Maybe you could just talk about sort of apparel and it was weak in the quarter. You have done a lot of work in terms of improving the quality of the goods, the branding that sort of thing you have done some work on upgrading the stores. Is there more that you need to do, what can you do to get at the levels where the franchise business is operating, because it look like in the quarter that their apparel was quite strong.

BILL GREGSON: Yeah, I think that's a valid comment, I would say that for on the Sport Chek side and the corporate side, we are using Sport Chek as an example since it is the biggest banner, is we are very happy with the state of – in the level of sales that we have in hard goods and we're very happy in the static where we're at and in footwear and we're not happy with where we're at in apparel and I think the franchise, as you mentioned, is a good benchmark to use for a comparison.

So, we are very happy with the brands, we are very happy with our ship that's happened over the last few years to tentacle apparel. We are very happy with our inventory management, so something needs to happen now to just for on sales and one thing that we've definitely being considering is with its – the total presentation of it in the store, and so we will be launching this fall a totally different Sport Check, and the biggest

difference we're going to have will be the apparel and the difference is – will be it's how we present and what goes on the lease line.

And so, for instance, our apparel beginning in Oct -- historically in our existing stores historically from the beginning of October to the end of March, our lease line is all outerwear. Now we all know that December is the single biggest month for apparel, we don't even have apparel on the lease line during that month we have outerwear. And so, well, that's not that we are going to take outerwear off the lease line during that time period but it's going to be that were in these tech (Ph) stores, we're going to add apparel to the lease line.

Also so (indiscernible) positioning of apparel within the store, also what we will look at is a much more of a brand Polo and externally a majority of our apparel merchandizing is done by commodity, and in these four test stores that we're going to have, we will switch to a brand story, and then the last thing is the presentation, and is going to be a dramatic – it has been a dramatic rethink on how we present apparel, and so the four stores – four test stores that I am talking about will be launched this fall; one will be in Ottawa, one will be in Newmarket, one will be in Branoli (Ph) and we will have half test kind of going on in Polo Park in Winnipeg.

So, we simply made lots of strides on the assortment, we think we've got the right brands, we think obviously it's not getting though the consumer and therefore we're going to do better than do an evolution

we're going to do a revolution for these four stores and how we present it to the consumer, and also in terms of how we operate and we need to think it's about things like our – we've – we're changing our change room design, we are thinking about change room attendance, staff and that kind of things.

So, yeah, I think it's totally about the comment and observation on your part and we are addressing it and we're going to have a – what I would call a major test this fall, and depending on how that works out that will determine what happens from there.

BOB SARTOR: And then to answer the next obvious question, it's Bob Sartor. Certainly we have more than sufficient headroom in our African (Ph) plan CapEx budget could be with the changes that we would expect to do over the next couple of years, to check to maximize our sales per square foot in apparel should be test proved positive. I can't tell you that -- obviously we don't want yet, believed on paper, I haven't seen anything like this anywhere, it will be quite a different presentation.

RYAN BALGOPAL: Okay. That's good to know, thank you. And then I guess, just my last question. Is on Q3, like you had a very weak end to Q2, you kind of been a little bit cagey about Q3, can you just talk about the dynamics between tailing off some of your advertising spend pushing it out later, how much impact that's had on the sales results and, you know,

should we see that starting to come back in the later part of back-to-school season?

BOB SARTOR: I think we'll talk about the impact that's had on sales results when we do our back-to-school conference call in a few weeks. But what have done is, I mean, the impact of it is or the thought process in it is we were putting the money out our marketing spend where the dollar – when the people are buying, so we're fishing on the fisher buying I guess you might say, and historically, we are – our major footwear clothing advertises – advertising ended last week and this year have a major ad this week and we have a major ad next week.

And so we switched our calendar really from lower sales periods to higher sales periods and to later sales periods, and is really it's – Labor Day it's kind of the payment (Ph) point, and what's – in other words, what we've done is we've got more after Labor Day and – than we have had previously. Hence whether we are right or wrong and we definitely believe we are right, but like I said we'll show a lot more flavor on it in about two or four weeks.

RYAN BALGOPAL: Okay. That's good. Thank you.

OPERATOR: Your next question comes from Charles Kime from American Century. Please go ahead.

CHARLES KIME: Good morning, that was great quarter.

BOB SARTOR: Thank you.

CHARLES KIME: First question is just on discounting in the quarter relative to last year's second quarter, has there been any significant change there?

BOB SARTOR: No, not at all.

CHARLES KIME: Okay. And the second question is related to merchandising or inventory management. Can you sort of talk about the impact of the 5% depreciation in the Canadian dollar on your merchandising, is that -- you know, I am assuming that a good chunk of your inventories purchased in US dollars, could you may be discuss how much of your inventory has been purchased in US dollars and what the impact did that currency appreciations been on either the margins there or your ability to improve the merchandising that you put on your shelves?

BOB SARTOR: Over 90% of our -- about 90% of our products purchase in Canadian dollars, we do just slightly over 10% of our business is private label the rest is branded. The private label is a mixture of both the US dollars and Canadian dollars but the branded is basically 100% buy in Canadian dollars, we are buying from subsidiaries of internationals or Adidas, Canada we are buying from Nike, Canada. They buy in Canadian dollars and transfer pricing from through their parent companies. So, we

really at the business that we are in is at the, we follow what the pricing is set in Canadian dollars by the Canadian suppliers that we deal with.

RICHARD BURNET: And the other comment I would make is that the – if you are looking at the margin expansion due to fluctuation in currency, that's really at the vendor level and not at the retail level. The other piece is on the private label, we have a policy of specifically hedging every PO we receive from the corporate and franchise businesses. So, to the extent that there is a subsequent gain between the date of the order and the date of fulfillment, we typically already hedged that, so we don't really record a gain because we are trying to hedge against the loss as well obviously. And the strength of the dollars – strengthening dollar usually appears the following season. So, it's not material at all to us.

CHARLES KIME: Okay. Thanks. Just may be another of way of asking it, are Adidas Canada and New Balance Canada, and Nike Canada passing any thing through to you guys?

BILL GREGSON: They are also facing cost increases too. So, even though that the dollars are improving, China, The ORIENT is where a bulk of the product is sourced, there is some fairly major cost increases going on over there, petroleum based obviously, the demand – the laws of supply and demand China's capacity is quickly reaching in some of our category that we deal with is quickly reaching a complete capacity. And so there has been - any increase that they have had in the dollar, a lot of

them or may be all of them have been offset by the cost increases that happened in their sourcing that have been passed on to them.

CHARLES KIME: Okay. Thanks a lot.

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

KEITH HOWLETT: Yes. I was wondering if you could update us on how your Sport Mart revitalization program is progressing?

BILL GREGSON: Sure Keith. It's continuing on, we opened up a – we've had a marketing program in Lethbridge that has focused on very much on positioning as apposed to item price and it's been successful, we've had a strong comp there. We have also opened up a new store in the last few weeks in Victoria with a totally different look and it is of to a good start as well, it's little light on the inventory because it kind of opens at the beginning of August, so it didn't have any spring merchandise or summer merchandise but you do sell spring or summer into August and September so and it is after a good start though. So, really what we are – this fall what we will do is sit down and we will look at the elements that we liked from the successful Lethbridge test which is a marketing positioning. We will look at the elements that we like from Victoria which is a store design and we will decide on what we will do, what the next steps will be

going forward in terms of existing stores, existing markets, do we change over one market a couple of stores just with the next step or so. We put -- I guess right now what we have done is, we put a number of initiatives in place, we had had some success and now we need to recap and decide next steps we haven't done that yet.

KEITH HOWLETT: I just wondered if you could talk about some of the product categories you mentioned in your release and your opening remarks, but Under Armour and products like that still performing very strongly and then, I guess secondly on the footwear you mentioned your sandal business had been strong and off a bit, it was -- which is a bit different than what the US fellows are saying. So, I am just wondering if you can speak a bit more broadly on the -- where the sandal business is going?

BILL GREGSON: Yeah, on the apparel side, tentacle apparel can easily be really strong, Under Armour very strong, Nike with their pro - Nike Pro has been very strong, Adidas tentacle remained strong, Reebok with the Crosby shop which is exclusive to FGL. We have launched -- we had in Crosby lifestyle apparel we have launched Crosby tentacle apparel for this fall and it's really done well. So, the tentacle apparel remains -- is where is that right now in athletic much more so than some of the old commodity like the nylon, the tracksuits et cetera, the polyester pants.

In terms of sandals, really where our slowdown was -- is we on the corporate side is we had a massive Crocs business last year. We probably internally we -- Crocs is off a little bit for us. I think part of that is buy, we probably went too heavy on the same styles as prior year and some of the new styles that brought in we bought and we sold out and couldn't get those ones back. So we ended up -- our sandal business was impacted by a negative comp in our Croc business, but I don't know that was so much to the Croc business as it was the fact that we ran out of styles that were most in demand.

KEITH HOWLETT: Great. And then just on the -- were there any share purchases in the quarter under the share buyback program?

RICHARD BURNET: There were, Keith, 100 odd thousand.

KEITH HOWLETT: And just finally, I presume that the Board hasn't actually set a dividend policy in terms of percentage of earnings, is that correct, is it going to be quarter-to-quarter evaluation or is that not correct?

RICHARD BURNET: No, no it's -- we set a yield which we translated into a cents per share and obviously we -- we'll look at that on an annual basis and announce accordingly.

KEITH HOWLETT: So, it's more a back -- it was the yield percentage that you were looking for or sort of a meaningful yield percentage is that the idea?

RICHARD BURNET: It translates into a meaningful yield percentage, yes. That's how we looked at it, but we felt it was more meaningful to announce in a dollar terms or cents per share, because it's easier for people to grasp.

KEITH HOWLETT: Thanks very much.

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

JIM DURRAN: Yeah, I just want to focus on a few expense line items. With respect to your advertising spend for next quarter, are you spending about the same as you did last year for the whole quarter and is it just a shift of dollars?

BOB SARTOR: Yes.

JIM DURRAN: And then looking at your expense performance this quarter, you know, last year you gave some of sort of broad general guidance on what sort of percent of sales you expected for G&A. Can you give us that same kind of indication this year and still this \$10 million obviously swing taking place first half second half, but excluding that what would it sort of look like?

RICHARD BURNET: Well, I guess, I can give it to you on annual, Jim, and get it under back under the 8% annually.

JIM DURRAN: Okay.

RICHARD BURNET: And for the quarter, I have to get back to you.

JIM DURRAN: Okay. And the stock based compensation accrual this quarter was significantly lower than last quarter, can you give us some idea what's your expectations are in the second half of this year?

RICHARD BURNET: I think we had already discussed, the back half would be lower by the amount that you've mentioned.

JIM DURRAN: I think there was a difference between managed (Ph) in bonus accruals and stock-based comps as an option?

RICHARD BURNET: Yeah, I don't have that split in front of me, but the total number is in the tens and we're getting a little granular here on the split between the two.

RYAN BALGOPAL: Okay. No, it's – that's fine. Thanks very much.

OPERATOR: And your next question comes from Ryan Balgopal from Scotia Capital. Please go ahead.

RYAN BALGOPAL: Two quick things; one, just on that advertising front, just to clarify, was that a shift in dollars from Q2 into Q3?

BOB SARTOR: There was – the Q2 year-over-year spend in M&P, in media and production was not materially less, it was a little less, had vehicles, targets you need to do with that. No, it's really a shift within that –

within the quarter itself. So as we said earlier we do not expect our overall media and production spend in Q3 to be significantly higher than last year.

RYAN BALGOPAL: Okay. That's good. Thanks. And second question, just you kind of opened the door to this, Bob, just you mentioned your cash flow and your ability to do an acquisition if needed, obviously there was the golf transaction which I guess there's still a window open, just give us some flavors to the effect something that would still be of interest to you, if there's anything else there that you're still looking at?

BOB SARTOR: You know, we're always looking at opportunities. As I think I've said in the past, I think in terms of sporting goods vehicles, we have all that we need to achieve what we want to achieve in Canada from a market share perspective. So any acquisitions we'd look at would be really more specialized in terms of their product offering, and (indiscernible) compliment what we have were added to what we have, so that's generally our banking strategically.

As far as golf banner is concerned, I think Tom has pointed out that we think we've actually got the golf business more or less we were able to take some time to do so, and it's a very interesting business. And we're counting very nicely on our stores, and we certainly do not lack capital to open stores. So while the golf tab (Ph) business is very attractive that was an extreme big nut to pay for a business like that.

And our view is that, you know, we like the idea of cost rendering (Ph) specialty stores. We like the performance we're getting – we're certainly like the costs we're getting down in that business, and in our specialty businesses. So we think we'll play the games we have in golf, and let's see where it takes us.

RYAN BALGOPAL: Okay. That's great. Thanks very much.

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

KEITH HOWLETT: Hi. It's just a question on your private label business. Is – where would it be in terms of percentage of sales, and are sure happy where it is, obviously it sounds like in the apparel business you want to go more to a meeting brand focus, but view that as an applied outerwear, I guess just any change in thoughts on your private label?

BOB SARTOR: Private label really is continuing to maintain the direction that we had for a number of years. We're around 12% right now of our total sales are – come from private label, we think that can increase, that 12% has been stagnant for the last couple of years, but the good news is that the difference between the margin that we get on our private label versus our branded, has continued to increase.

So the – I wouldn't say that as apparel we're looking to take advantage and focus more on brand, we are looking to shout (Ph) out our brands more within our store to the consumer from a merchandising point of view, from a merchandising mix point of view, and we're now looking to play down our private label. So it's kind of a steady growth, so I don't think 12 is the end number where we can be, we can – it might be 15, it might be 16, it will grow at a pace that based on profitability and we continue to look for some new initiatives on our private label.

BILL GREGSON: And Keith, another important point to make on our private brand is, really the focus has been improving the profitability to our retail outlets (Ph), and also improving quality. And so rather than get big and then say that we've got to improve our quality, improve our profitability, our view was let's make the business we have really good in and let's selectively pick our sponsors to where our private brands makes sense.

We don't believe as a management team that you can private brand everything, there are some categories where the strength of the brands is such that there's no need for a private brand, and there are other categories where we are – we demonstrated already that there definitely was the need (Ph). So we are very selective as to where we choose to do private brand and where we choose to stay away.

KEITH HOWLETT: I just had one question on the weather, I'm always happy when no one has a problem with the weather. But to the

extent that I try to read some of the services that look at the weather, there was – it seems that there was very wet raining in Western Canada, but maybe that was just an Easterner's view of the west, I don't know, but was there no weather – you imagine there was no impact, but was it – was there no headwind at all on the weather?

BOB SARTOR: There I mean – you can use that as an excuse, but I think your stretching (Ph) that you're trying to using, Keith, yeah, we – I mean June was a really wet month here in Calgary, there was floods and all kind of stuff, and then July was absolutely beautiful and, you know, it's – at the end of it I – I'm hard-pressed to say that weather had an impact on our numbers in Q2, it was a typical – you never get perfect weather for all three months of a quarter across the entire country that we're in, at some point, and last year was dramatic in the fourth quarter as I said in the east which was unusual, as the fourth quarter is the single biggest quarter for – I would say that fourth quarter and the first quarters are the two quarters that can impact sales the most, but second is the least, and I think it was a pretty normal mixed weather bag in second quarter.

BILL GREGSON: However, Keith, it's – if you're prepared to give us the weather card (multiple speakers)...

KEITH HOWLETT: Yes, the first retailer ever that hasn't taken it. Great, thanks a lot.

OPERATOR: And your next question comes from Adam Clark from BMO Capital Markets. Please go ahead.

ADAM CLARK: Hi guys, I don't know if this is discussed or not, but account receivables, like they were up quite a bit, could you explain why?

BOB SARTOR: A couple of things. It's just on the basis of the increased franchise business was a portion of it, Genex the wholesale business had a good quarter and they carry sizable receivable on their sales. The business stores banners – the corporate stores were all franchised in the first quarter, so that added to receivables. We completed our tax filing through the year, there was a bit of a receivable that rolls out of the income tax filing, but essentially it's driven by the business itself in terms of days outstanding, for example, they stay pretty much the same as they were last year's same quarter, so the status of the receivable is the same, it's just driven by the business.

ADAM CLARK: Okay. The bulk of the increase would have come from which two components?

BOB SARTOR: Franchise and Genex primarily.

ADAM CLARK: Okay. And also it looks that you're going to be paying off some debt quite soon here, will you be replacing that?

BOB SARTOR: Yes. That was strictly because our credit agreement is within the year of maturity and that's just disclosure

requirements would have made label that is current, but that agreement would be renewed.

ADAM CLARK: Okay. Given the amount of cash that you're generating, would you be reducing that amount by any chance?

BOB SARTOR: Our overall debt levels?

ADAM CLARK: Yeah.

BOB SARTOR: Or you mean the term portion?

ADAM CLARK: Right.

BOB SARTOR: Conceivably. The term portion was quite small and the overall scheme of things in any event that was just matching up some long-term assets with that debt when it was first done three years ago.

ADAM CLARK: Okay. Okay, great. That's it from me. Thanks guys.

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

JIM DURRAN: Yeah, I just wanted to get a sense of dividend versus share buyback. There wasn't much activity on the share buyback this quarter, is your intent to remain very active on the share buyback in addition to the announcement of the dividend for Q4 or is there a trade off there?

BOB SARTOR: Well, the two as you know are mutually exclusive Jim. And our plan is to remain active on the share buyback as it call for, that's why we put it in place. So you should not assume that the initiation of the dividend means the share buyback.

JIM DURRAN: Okay. And on precision retailing, can you give us some sense as to, you know, how integrated that is into the business now, what kind of impact you feel it's having?

BOB SARTOR: I think Jim, it's the biggest impact is about to happen this fall and there is – there's three components under what we classify precision retailing is planning, so it is the planning in open to buy side and that's had a great impact already and greatly increased our disciplines and it's been a major factor in enabling us to – as I said I think by the end of the year come close to gain the optimum level amount of inventory.

The other two are basic stock and then allocations and when you buy product, it's either basic stock item or non-basic and on the non basics there is allocation process and there is an end season allocation for your to back up stock just to get a little technical for two seconds but you are an old retailer, so I know you know what I am talking about in emphasis on over those, but...

JIM DURRAN: I was an (multiple speakers) on retail banking.

BOB SARTOR: And so our basic stock business is around 10%, which means 9% is non basic or to be allocated and season allocated and so for the first time our precision retailing team lead the system change and really though what for the first time this fall is we have a integrated buy allocation system and really what it does is quite simply in the past we never had visibility as to the dollar amount each greater store need and we break our stores into seven grades and we were kind of a little bit blind as to how much they needed and how much we bought and allocated to each grade.

And so for the first time this fall is we have the ability to buy to a grade, get visibility and how much we need and how much we are allocating so that, I mean, for the layman what it will do is in the past we have, I think, fairly dramatically over stocked our small volume stores and under stocked our higher volume stores that leads to lot of sales and it leads to increased markdowns and reduce margins. And this is the first -- this fall is the first season we had that integrated buy allocation.

So, it – there's a lot of ground work to get there and that's what the precision retailing team has been leading and working on and it's just coming into effect now. So, I am very excited about of the accomplishment of our precision retailing team minimal. So we are exciting about the opportunities that lie ahead of us both this season and next season.

JIM DURRAN: Great. Thanks.

BOB SARTOR: From sales and margin point of view.

JIM DURRAN: Thanks a lot.

OPERATOR: Ladies and gentlemen, if there are any additional questions at this time, please press the star followed by the one. As a reminder if you are using a speakerphone, please lift the handset before pressing the key. Mr. Sartor, there are no further questions at this time please continue.

BOB SARTOR (CHIEF EXECUTIVE OFFICER): Thank you, my name is changed. Obviously we are very pleased with the management team with the quarter. We are very encouraged by what we are seeing in back-to-school.

As I said earlier in my opening comments, with each passing day we are getting more and more momentum against prior year. We have the luxury as an organization because we have extremely clean inventories and relatively lean inventory, I will be waiting to fish as Bill said when the fish are biting. So I think we are going to have pretty good Q3 but more importantly, hope we get a sense in some of the things we talk about whether it was, you know, Sport Mart and National conversions to the same systems that Chek and Coast are using what Bill just said about the fact that we really truly have a fully first integrated buy happening this fall

season and the new Sport Chek work that we are testing, as I said before, I am very excited by that, it's incredibly interesting look for apparel and since a lot of our stores are malls, I do think that will be home run.

There is a whole bunch of things going on all at once in this organization and that's one of the challenges managing this business is we have a lot of falls in the year (Ph) in a lot of different businesses, but when we do come together, it's a pretty powerful formula for success, and we are having that success right now. As we said a little early on, we will be releasing our back-to-school results at the end of the month of September and we look forward to that as well. Thanks very much for your attention today and have a great day.

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