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CONFERENCE CALL

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OPERATOR: Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Forzani Group Ltd. First Quarter Fiscal 2009 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, June 11, 2008 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 Q1 fiscal '09 conference call. With me here today are Tom Quinn, our President and Chief Operating Officer; and Richard Burnet, our Chief Financial Officer. Prior to beginning our comments, I will ask our CFO to remind participants for this call about the forward-looking nature of some of the comments we will be making and their content.

RICHARD BURNET (Chief Financial Officer, Forzani Group Ltd): Thanks Bob. As we conduct this conference call, there are remarks that

we'll make about future expectations, plans and prospects for the Company, which will constitute forward-looking statements. These statements reflect current expectations and 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 the Company's public record including our Annual and Interim MD&A, which is available on SEDAR.

BOB SARTOR (Chief Executive Officer): Thanks Richard. Well, what a difference a quarter makes. Later this morning, we will at our Annual General and Special Meeting of Shareholders talk to a record Q4 and a year and a much tougher Q1. In reality, Q1 was an extension of Q4 from the weather point of view. Winter overstayed its welcome as we commented in our year-end press release in early April and spring arrived quite late and cool and wet at that. As a result and not surprisingly, most retailers with a notable exception of a couple big job box mass merchants supply to trade in Canada reported negative costs and weaker results.

Our Q1 was really two different stories. For the first half of the quarter as previously reported, we had negative comps in our corporate

stores of 6.6%. Back half of the quarter comps were in fact up 4% in those same corporate stores with strong margins. The damage was done in February and March as winter remained longer than usual across Canada. On another front, during the quarter we completed the previously announced closures to 67 Athletes World stores and on June 6, 2008, we received approval from the court to exit CCAA with that banner. Going forward that core digit (phon) stores will be profitable and as we amalgamate this business with Sport Chek we will access a large pool of tax loss carry forward, which will have a major positive impact on our cash flows for our Company.

I will now ask Richard to go through the financial results in more detail.

RICHARD BURNET, (CHIEF FINANCIAL OFFICER): Thanks Bob. Ladies and gentlemen, I will briefly cover the highlights for the first quarter. The retail system sales for the quarter were \$334 million against last year's \$308.4, an 8.3% increase primarily on the strength of sales from the Athletes World chain acquired in November '07. Corporate same store sales were down by 5.2% and franchise were up 3.1% against last year's first quarter increases of 0.4% and 9.6% respectively.

Total revenues were \$307.5 million versus last year's \$294.6, a 4.4% increase, and breaking out revenues; corporate store revenues grew

about \$210.3 million or up 8.3% again on the strength of the Athletes World sales. Wholesale sales of \$97.2 million were below the prior year of \$100.4 million due solely to the timing of receipts of inventory in the franchise division, the timing right at itself from the second quarter.

Consolidated margins for the quarter were 34.3% versus 33.3% in last year's first quarter, due to relating of retail versus wholesale revenues in the quarter as divisional margins were up slightly and in spite of the absence of the ski and snowboard sales that it was typically above (phon) in February and March had it not been through the tremendous sell through of that product in December-January.

Margin gains were then offset by the liquidation activity in the Athletes World stores that Bob referred to as we closed the 60 Athletes World stores during the quarter.

Corporate same store operating expenses as a percent of retail revenues were at 30.4% against the prior year's 28.1%, a function of the lower revenues. Overall our store expenses ran 33.5% versus 29.6% with the addition of the Athletes World stores particularly while liquidating and closing stores during the quarter.

G&A expenses at \$27.3 million or 8.9% of consolidated revenues versus 8.8% in the prior year, the increase, a combination of the Athletes World infrastructure and year-over-year increases plus lower stock-based compensation expenses in the current year. First quarter earnings before

interest taxes and amortization were \$7.7 million against the prior year's \$14.5. Net loss in the quarter was \$2.9 million or \$0.09% per share versus the prior year's earnings of \$739,000 or \$0.02 per share due to the impact of the Athletes World liquidation the loss in the quarter was \$0.05 a share. Now, I'll turn it over to Tom Quinn for his comments on the business. Tom.

TOM QUINN (President, Corporate and Franchise Retail): Thanks Richard. Good morning, ladies and gentlemen. As you have now read, we did have a negative comp in the first quarter of the year after an outstanding fourth quarter from the previous year. Of particular note was the fact that over 96% of the sales decline was directly attributable to our winter sports equipment categories and winter clothing. That coupled with the aggressive liquidation strategy that was in place in the prior year over the same period to boost our inventory position.

Today, this year, our inventories have never been in better shape. For the quarter, our franchise business reported a positive 3.1% comp, which was on a positive 9% comp in the previous year, which definitely outpaced our industry. Our corporate business reported a negative 5.2% comp in the same period.

Now, let's look at our Q1 category performance in the seasonal products and what contributed to the 2.1% overall negative comp. We have had positive comp sales increases in our total footwear business with

particularly strong results in our running, skateboard shoes, soccer and athletics sports specific categories. Categories such as sandals, golf shoes, Crocs, hiking and walking categories have been down as a direct result of weather patterns.

Our equipment business with negative comps overall, the bulk of which was in snow-related categories. Our team sport, bike, racquets, fitness, camping, travel and action sport categories all reported positive comps. In our sport fashion business, athletic clothing, casual clothing, licensed clothing and clothing accessories all have positive comps. Our ski wear, outerwear and winter clothing accessories all had double digit decreases in the quarter. As I have previously mentioned, over 96% of the negative comps were attributed to weaker ski, snowboard, outerwear, and winter accessory performance versus the prior year.

Over the past 21 weeks, I have the opportunity to take a very close look at all FGL businesses and the most significant opportunity I can see in our corporate stores to increase is the volume of sales that we do in our sport fashion business. Footwear, outerwear and sports equipment businesses are comparable throughout our network in both corporate and franchise environments, but where our franchise business significantly outperforms our corporate business within our sport, fashion and leisure apparel business.

During the past several weeks, we have been testing a number of brands and brand shops in selected locations. These shops within the shops such as the North Face, Nike and a few others have demonstrated significant performance over our standard product presentation wins. Based on the positive results of this test, we will be aggressively release concept shops throughout our Sport Chek and Coast Mountain network over the next 18 months.

The other area of the clothing business that there is a significant difference between franchise and corporate businesses is in the area leisure and fashion clothing. I'm not speaking to the youth demographic brands or casual brands such as Point Zero that had been unsuccessfully tested in prior years. It's more looking at a better swimwear collection, expanded golf wear collections, improved and expanded ladies sport fashion offerings.

An upgraded casual and fashion wear assortment from brands such as Woolrich, Puma, Next Sport, Roland, H2O, as well as broader selection of North Face, Columbia Sportswear, Helly Hansen, Salomon, IZOD, Varney, Grassroot to compliment our already strong performing athletic brand such as Adidas, Under Armour and Nike. The new fixture test that have been conducted in a number of our stores last year will be rolled out to an additional 14 locations that and will be doing some additional major

renovations to our Yorkdale store in Toronto that will be followed with approval with significant renovations to our (indiscernible) store in Calgary.

This year we are also testing – this month six Nevada Bob's stores within selected Sport Chek sites to evaluate the consumer reaction to do a better golf assortment of clothing, equipment and footwear product in a true golf specialty environment within a large general sporting goods banner. This has already been pioneered fairly effectively with Dick's Sporting Goods in the US market. With the reduced golf season over Canadian marketplace, this solution will makes an enormous amount of strategic and financial sense and assuming successful pilots will lead to significant number of additional specialty shops for next spring in both our corporate and franchise businesses. Our specialty banners continued to perform very well and we will this year be testing a new Fitness Source concept as a result of strong performance of this business over the last two years. We now understand this industry a lot better and believe we have a strong opportunity to expand our reach with this product.

Our test store will be a 25,000 square foot box complete with nutrition center, home studio options, institutional sales, optimum showroom, and an education and seminar center. We're also changing our approach and look at marketing at our Sport Chek and Coast Mountain businesses. Following the lead of our successful Fusion magazine on franchise side of the business to position our sport fashion, we will be

launching a new Sport Chek fashion magazine that will clearly reposition sport fashion perception to our consumers. Coupled with the renovations and new fixturing in our stores, we anticipate significant upside in our sport fashion business as we move into the third and fourth quarter of this year and into next spring.

For the first time in over a decade, we actually had an FGL strategic buy and brand finding session with three of our secret – senior executives instead of our normal core group. We've brought together our marketing operations, purchasing and logistics areas of the business to determine the strategic direction for FGL for spring '09 in every area of our business from brand selection, advertising initiatives, category priority, and our private label direction. Included in this meeting was a discussion and finding session for '09 on how we will be expanding our precision retailing initiatives, which continue to drive marked improvement in our inventory management process. We clearly see the opportunities, we have the team of very talented retailers and merchants in place, and we look forward to better weather and continued positive growth and development throughout our network. With that, I'll turn it back to Bob.

BOB SARTOR (Chief Executive Officer): Thank you, Tom. As Tom pointed out, we are already beginning to see the benefits of best practice sharing within our various businesses and as he pointed out, we're

focused on taking the successful traits of our franchise business and implementing them in our corporate big box Sport Chek. Assortments, visual merchandising, and marketing and advertising are all being reviewed and as Tom pointed out particularly so in women's apparel and sport fashion apparel where the franchise approach has consistently year in and year out delivered superior results and frankly best-in-class North American results. No doubt the cool, damp weather this spring has hurt us as it has many other retailers, but as Tom pointed out the vast majority of our shortfall was not in the summer category, it really was in the winter category and understandably so, we just had one heck of a warm burner Q4.

The other important thing to note is margins have held quite well to-date. I have even been through this a few times in the past decade and Tom and I were talking the other day and he said he has been through it dozens of times over 35 years. And we reflected in our Company's current position and we do expect to grow our market share in this situation as we use the strength of our balance sheet and free cash flow generation to further grow our store count and pursue logical, profitable tuck-in acquisitions. What you will see going forward is a company that meticulously planned its advertising, its assortment, and minimizes overlapping in its businesses. You will definitely see, I think, a leaner organization going forward as we pursue one FGL way of doing things as

apposed to multiple ways by multiple teams and I think our business will be more profitable than ever.

We forwarded a note that with the cool Q1 weather, we have shifted our advertising calibers from that somewhat concentrating our spend on consumer offerings in late June and more heavily in July and August to see if we can recover some of those loss, April and particularly May sales and the reality is, I believe, that it's up to you fish and the fish are biting and there's no point as I was reflecting while plowing my driveway the second which we made here in Calgary. There's no point advertising sandals and board shorts when there is a foot and an half of snow in your driveway. So, we've shifted our ad calendar.

I'll now turn it over to our moderator Joanne to begin a brief Q&A part of our conference call as we you will have to get ready for our AGM. At our AGM, we will be talking in an expanded way about some of the initiatives. Tom will have a lot more to talk to on that and I will be talking about the three fundamental strategic themes that will drive growth and profitability in our Company going forward. Joanne, if you'd like to start the Q&A please.

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 key. One moment please for your first question and your first question comes from Jim Durran, National Bank Financial. Please go ahead.

JIM DURRAN: Good morning. I just wanted to focus on margin first. You did mention about the fact you are doing clearance at Athletes World, so is it correct to assume that Athletes World gross margin was actually a drain to consolidated margins?

BOB SARTOR: Oh, absolutely. Absolutely significant. When you closed 67 stores in – during the span of a quarter, it ain't pretty.

JIM DURRAN: Okay, and then off staying on the margins, can you give us some idea as to how much of a drains – contributor went through merchandized margins were in the quarter? I assume they were up quite substantially because of less markdowns.

BOB SARTOR: As they were, but the fact is we did so few sales that there was really minimal impact in what I call the overall consolidated margin, I mean, yes the margins were significantly higher than the prior year because we had very little to liquidate, but the reality is because we had very little to liquidate, there was not much impact on the overall margin rate.

JIM DURRAN: So of the 100 basis point left in consolidated gross margin, Athletes World was a drain, wonder merchandize would have been a contributor to the percent margin right, but on a small basis?

BOB SARTOR: Yeah.

JIM DURRAN: And you had more spring receipts in place early so that those margins to be high, but those sales were also low.

BOB SARTOR: Exactly, I think you'll see at our AGM this morning if you had signed in or if you look at the presentation that's on our website, Richard Burnet, our CFO really breaks out the quarter in terms of front half, back half not only revenues, but also profitability, and you'll get a sense for how much stronger the last five weeks of the quarter were.

JIM DURRAN: Okay and then, and get to your point about the fact that winter merchandise was a drain to comp store sales in the quarter, what happened between the latter part of Q1 and the first four weeks of Q2 to cause comps deflate again?

BOB SARTOR: I think two things. The first one was not in our control. The second one clearly was. First thing was the fact that we had very cool and damp weather and continue to have cool and damp weather, frankly in Western Canada right now and that impacted the sales of some key summer categories like sandals, board shorts, tops and swim obviously. The second thing is, you know, like I said earlier, we like to fish when the fish are biting, I mean if we're going to go out and spend, you

know, hundreds of thousands of dollars advertising, you better drive traffic to your stores when there's snow on the ground as there was up until the second week of May in certain parts of Western Canada or when it's really cold and damp, you're not going to get traction on those ads. So, we have consciously shifted our ad calendar. So, we expect to pick-up some if not all of what we lost in May, June and July.

JIM DURRAN: Okay. Last question and I'll let somebody else take over. On the rollout of your apparel test into more stores, can you give us some idea as to how many stores this year versus next year?

TOM QUINN: We're doing – this year we're going to rollout additional 14 complete renews to the stores and do an additional 2 significant renovations to the stores and in following the year, in the spring we anticipate doing somewhere in the neighborhood of 24 locations and then follow-up through the summer and fall to try and complete them all during the year.

JIM DURRAN: Great. Thanks, Tom.

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

RYAN BALGOPAL: I was just wondering if you could just talk about the franchise business, what do they do so differently in the quarter that

there would be such a divergence in comps versus the corporate stores given the fact that they even had, you know, much a tougher comparison against a year ago.

TOM QUINN: Well, one of the things obviously they had a positive 3.1% comp in the quarter, major significant difference, they declined in the winter sport categories as well, they were significant – some of the corporate business is key hardware and the outerwear was off double digit in that business as well in that quarter, where the difference was in the leisure and sport fashion clothing. They had significantly made about 19% comp in those categories because there is a broader brand presentation and a little bit more variety in some of the areas in the store and that's one of the things that we're starting to see. We tested in this quarter, we'll be talking about at the AGM, some brand shots in the – within the environment to generate very considerably – much considerably higher sales per square foot when we ran in a North Face shop or a some of the other shops that we've tested and that will be rolling out. So, the franchise business has been fairly consistent every quarter whether there's other economic downtrend and I think there has been a number of years where we clearly identified where the consumers and they seem to continue to put product mix into some (technical difficulty).

BOB SARTOR: I think I would like to add is that on the Chek side, we were much more heavily invested in Crocs last year than franchise

business likely. It was an enormous part of our sales list in Q1 and in footwear. We also had a much stronger Heelys presence in our corporate stores much more so. Obviously Heelys has fallen off the face of the earth and the Crocs business is very soft, I mean, anybody who wanted to buy clog-like foam sandals probably has one. So that impacted corporate more, but I think, Ryan, that the thing that is hardening to us is that we're going to take a proven -- tried and proved philosophy on a broader variety of apparel, a broader feminine offering that we have in our franchise business that as you've pointed out has had consistently, you know, delivered the sales even in a tough Q1 and you're going to see that going forward in our corporate banners and particularly in Sport Chek. We have a tremendous opportunity because our stores are in malls and that is where the shoppers are and you know, rather than perhaps putting hard goods on the lease line, people come in to buy hard goods at the destination. We're going to put that attractive apparel assortment that has benefited our franchisee so well.

RYAN BALGOPAL: And I guess the apparel offering, the move that you are making over the last couple of years was to try and put in more, more of Circus Skate brand into your business, based on your comments, am I to take that you've changed direction and it's more sort of an older category that you're going after them in terms of the fashion?

TOM QUINN: Yeah, you know, Ryan, one of the things that we're definitely dealing with there was a little bit difference in the franchise business or had been versus the corporate business. We're actually segmenting the consumers out in that 12 to 20 year-old group, the 20 to 40, and then the 40 plus and we're going to be building programs addressed to each of those at consumer basis. In the past, our focus in the corporate side of the business was basically new surf and skate business, as well as outerwear and the athletic clothing. Most of the three categories, but what we've left out of the corporate business, that we see the significant difference was the whole leisure and casual clothing specifically for women and specifically in the demographic from that 25 to 50 year old.

RYAN BALGOPAL: And the same brand that you have in the franchise means you can put in your corporate stores?

TOM QUINN: Yeah, I think we'll be testing a number of them at different times with probably 80% of them that we'll be able to have direct application to the corporate business.

BOB SARTOR: I think an important thing to note is that one of the reasons why we have had consistently better result is we have had a broader brand offering in the franchise stores. In other words, what we've done is we haven't purchased as deep as we have corporately, but we've had more brands and more brands means more variety which appeals for

a broader base and that's effectively where we are going with the Sport Chek over the next couple of years.

RYAN BALGOPAL: Okay. Let me just changing tacks here, on the Athletes World, store operating expense is quite high relative to the sales of Athletes World, was that all because of the sales shortfall, a lack of inventory or were lease rates still quite high?

BOB SARTOR: No, not that one.

RYAN BALGOPAL: I guess when we have to get to a normalized operating level?

BOB SARTOR: No, it's not lease rates at all. Part of the CCAA is to get your lease rates in good shape and they are in phenomenal shape. Really the issue there is two fold: On the stores that we liquidated, when we're liquidating a 50 to 70 off in the final analysis, you still need people to sell that product so your sales relevant to your cost are out of lag. That's the first thing. Second piece is that when we took over the business, they have not bought any product, apparel product for spring and it was December already. So, we scrambled to find product and we found quite a bit of products, but needless to say, we had far less products for spring than we would have liked so clearly it impacted sales. The good news is that that banner produced phenomenal results considering the inventory levels they had on the go forward store. And the second piece is, as we have begun to what to get to normalize inventory levels, we began to comp

in that banner. I would expect to see very strong comps in the back half of that banner but potentially double digits.

RYAN BALGOPAL: Okay and so when I think about, sort of expense ratios in that, when do you get to a normalized sort of level on Athletes World?

BOB SARTOR: I'd say in the back half. Once we hit Q3, we should be (indiscernible).

RYAN BALGOPAL: Okay, so Q2 is going to have a bit of pressure from that still, I suppose.

BOB SARTOR: Yeah, a little bit, but certainly no where near what we experienced in Q1.

RYAN BALGOPAL: Okay. Just lastly, the environment as there seems tough in the retail, are you seeing any enhanced opportunities to make acquisitions right now and sort of what are your thoughts directionally in terms of that?

BOB SARTOR: Well, in fact we'd like to announce tonight and on this case. The reality is that whenever times are tougher, what happens is expectations are lowered on the part of vendors. I will talk at the AGM where I point out that with our balance sheet, our strong cash flow generation, and with fact that our -- we've made it quite public that we will pursue a profitable tuck-in acquisitions where they are category specific and related to what we do or if they are in a line of business that is

complementary to us that makes just a lot of strategic sense. And I would expect that if we have a – what I would call prolonged downturn consumer confidence, then those opportunities will present themselves to us. I don't expect it'll be a prolonged downturn. And in fact, what we're seeing – whenever we get good weather for example, we have hot weather last weekend in Eastern Canada, and not surprisingly our sales spiked.

RYAN BALGOPAL: Alright.

BOB SARTOR: Well, you know, I think, while we read about it in the paper everyday, the Canadian consumer is in much, much better shape financially than the American counterpart.

RYAN BALGOPAL: Okay. Great. Thanks Bob.

OPERATOR: And your next question comes from Bob Gibson, Octagon Capital. Please go ahead.

BOB GIBSON: Good morning everybody.

BOB SARTOR: Good morning.

RICHARD BURNET: Good morning.

TOM QUINN: Good morning.

BOB GIBSON: Could you kind of walk through how Athletes World loss was \$0.04 given the numbers that you've presented us with?

RICHARD BURNET: I'm sorry Bob, I'm not sure I understand the question...

BOB GIBSON: Well, on – when you are breaking out the earnings per share was minus \$0.09 and then those earnings per share excluding Athletes World was minus \$0.05.

RICHARD BURNET: Right, Athletes World on its own lost \$0.04.

BOB GIBSON: Yeah, but you've got a \$9.6 million store expenses and you got \$2.8 million of G&A expenses off of \$24.7 million in sales.

RICHARD BURNET: At a very reduced margin.

BOB GIBSON: Exactly. So I'm trying to go, how can, you know, \$0.04 isn't that many millions of dollars and I'm just wondering how can it be so low?

RICHARD BURNET: How can it be so -- you are anticipating that the Athletes World loss was greater?

BOB GIBSON: Yeah.

RICHARD BURNET: Well, I don't know what to tell you, Bob...

BOB GIBSON: Okay.

RICHARD BURNET: Where the number should go --

BOB GIBSON: Okay, okay, very surprising. Second thing is franchise looks like they didn't buy as much as they normally do from you guys, were they anticipating something bad this quarter or what's the general mood on the franchise people?

TOM QUINN: No, ones -- that's directly related to timing, some years we get earlier deliveries, in some years it's later and we posted sales on the delivery and we get invoice in. So in the last period we've actually gone ahead of last year.

BOB GIBSON: So I could --

BOB SARTOR: The other thing Bob is that we experienced some delays by deliveries because of some production problem in China. That impacted wholesale sales through the franchisees and also impacted our receipts in corporate and, you know, the silver lining of that cloud is we probably wouldn't have sold them in March and April anyways.

BOB GIBSON: Right. So I could put almost \$10 million plus sales into the second quarter that should have gone into the first quarter?

TOM QUINN: On the franchise side, yeah.

BOB GIBSON: Yeah. Good. Thank you very much guys.

TOM QUINN: You're welcome.

BOB SARTOR: You're welcome.

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

ADAM CLARK: Hi guys. We've addressed the Athletes World acquisition and the impact on margins, but could you just quantify what EBITDA margins would have been if we excelled Athletes World?

BOB SARTOR: You know, I don't think we have that information and it's --

RICHARD BURNET: You don't have it handy, Adam.

BOB SARTOR: We're not in our offices. We're outside of the offices for it and so. I'm certain we can look at it if you'd like to try reaching Richard this afternoon after our general dial us in our offices.

ADAM CLARK: Okay, sure. Also, I just want to clarify that on your buyback you've bought back about a million shares this year and you'd have how much left?

RICHARD BURNET: We would have another million two or so, Adam.

ADAM CLARK: Good, for the rest of --

RICHARD BURNET: For the rest of the year, yes. We're about 2.2, 2.3 for the year that are out to buy.

ADAM CLARK: Okay, and on -- can you comment on your inventory positions because things are low, going forward though, have you or are you going to be able to pick that back up?

BOB SARTOR: Just one thing on the inventory, I think increasing new churns, which is what we're doing, is a good thing. The fact of the

matter is we've been over inventory in our corporate business. Historically, precision retailing has been able to generate a better turn, improved margins, we are at lower inventories and that's really what retailers seek to do, the best-in-class retailer. I can assure you that we're not over inventory because we turn our inventories far less than Dick's and we look at Dick's as a benchmark. You should expect to see our comp store inventories to continue to decline because I don't think we're in a position that as we could be.

ADAM CLARK: Okay. Are you comfortable with your current inventory positions given the state of the business right now?

TOM QUINN: Absolutely.

ADAM CLARK: Okay, okay.

BOB SARTOR: We could not be in a better position. In fact at our Board meeting yesterday, I went to great lengths to point out the fact that, you know, we were in an enviable position because some retailers who are managing their inventory probably panicked and may in gateway margin, we don't have to do that, the consumer will buy that product and we've just got it. We'll be ready when they do.

ADAM CLARK: Okay. Just one last one with regards to Athletes World again, how is the footwear market doing and how is the footwear market behaved since you've picked it up?

RICHARD BURNET: Athletes World or just in general?

ADAM CLARK: Athletes -- in general and then with regards to has there been changed because you've picked that up?

RICHARD BURNET: Well, I think the big change for Athletes World is obviously when you go through a year after year of decline and you're in CCAA, nobody wants to tell you, so the acquisition of the AW by Forzani's meant that brands that have previously never been acceptable to AW, brands that have been cut off from AW were restored. So their business, and I think particularly you're going to see with those ads Back to School. That would be a very different looking business with tremendous fresh inventory and a variety of brands never previously seen at Athletes World. We're certainly not finding the footwear business, in general, soft. As I pointed out earlier, really, if you back out the Heelys in them (phon) last year and Crocs, all of our court categories are doing well. So, we're not terribly concerned about that.

BOB SARTOR: Yeah. And also as I mentioned earlier, in the quarter our footwear business actually comped positively and that's with the impact of Heelys and Crocs had on the business last year. So, certain categories such as the one category will begin very strong growth then.

ADAM CLARK: Okay. And on the corporate stores side, is it fair to assume that there was -- were with (phon) these markdowns?

BOB SARTOR: Yeah.

RICHARD BURNET: Yeah, they're rest assured.

ADAM CLARK: Okay.

RICHARD BURNET: I mean, that's one of the beauties of being on top of your inventory to managing them better, we just have less products to mark down in general now.

ADAM CLARK: Okay, great. Thank you, guys.

OPERATOR: And your next question comes from Tal Woolley, RBC Capital Markets. Please go ahead.

TAL WOOLLEY: Hi, good morning.

BOB SARTOR: Good morning.

RICHARD BURNET: Good morning.

TAL WOOLLEY: Richard, I just got a couple of questions on Athletes World. The cost to discharge the unsecured creditors, I think you guys took a provision for those about \$17 million already?

RICHARD BURNET: For the unsecured?

TAL WOOLLEY: Yeah.

RICHARD BURNET: No, they -- well, not on provision so much, there's \$9.2 million set aside for the unsecured.

TAL WOOLLEY: Okay. And so that will get paid out this quarter?

RICHARD BURNET: Yeah.

TAL WOOLLEY: Okay. And you're intending to be -- remain active on the buyback, I don't ask that (phon) you may have left, but I was just wondering if you're still intending to remain active on that?

RICHARD BURNET: Well, absolutely, yeah.

TAL WOOLLEY: Okay.

RICHARD BURNET: One other point, that \$9.25 was actually deposited with the monitor back in November. It's not a cash outflow into the business, it's that -- that money was out of the business in November of last year.

TAL WOOLLEY: Okay, great. And I guess, Bob, the last thing would be -- maybe to talk a bit about, you know, I just -- with me, you know, going to the Annual Report and so, talking about how you want to sort of build the Company or build some of the banners out into more of an active lifestyle focus rather than straight up sports and obviously that entails ramping up from the brands offered in stores and trying to get everyone pointing in the right -- although different banners pointed in the right direction. Could there, you know, do you see yourself maybe like if you stay on the road or you can maybe sooner like, is there any, you know, a banner repositioning strategy, you know, coming our way or, you know, maybe a consolidation of banners; is that something that's on the pipeline or you like the group you've got now?

BOB SARTOR: Tal, I -- first and foremost is, you know, where we're going to end up in this process. I probably will not -- cannot just tell you frankly because that's proprietary and very forward-looking. Although what I can tell you is our philosophy to managing our business has changed materially in the last four months. Unit buy in the corporate franchise business is under Tom. What we have done is we've taken a step back and said, "We're going to manage these businesses strategically. We're going to make sure that they are completely complementary to each other." Where we have -- though we have overlap, we're going to look at that.

And most importantly, we will plan each season in terms of what do we want to accomplish by category, what do we want to accomplish by vendor, and what businesses are we going to do that. We are not going to allow individual people to make those decisions any longer. This will be a unified Company and a unified offering to consumer. And as Tom pointed out earlier, as we expand our brand lineup, and particularly for women, we will morph into more blend as an iconic sports lifestyle retailer and that's where we have to go.

TAL WOOLLEY: Okay. And just one last quick question on working with your vendors there, you know, we, you know, we talked I think in Q3 about how towards the back half of this year you're expecting to see your

suppliers maybe help you out a little bit given the hits you had to take for the Canadian dollar, are you -- how is the progress on that?

BOB SARTOR: Well, you know, the progress is in my view mixed. We have some vendors who understand that, you know, even though they have country-specific pricing. They need to throw that old paradigm out the window and what they need to do is provide retailers and ultimately consumers with a fair wholesale pricing. Some have embraced this totally, some have embraced this partially, and some haven't embraced it at all. And obviously those who embraced them totally are our friends, those who have embraced this partially are our partial friends, and those who haven't will be much, much smaller buyers, who only buy what is absolutely essential for people who continue to basically make luxurious (phon) profits.

TAL WOOLLEY: Okay. Thank you very much.

OPERATOR: And your next question comes from Keith Howlett, Desjardins Securities. Please go ahead.

KEITH HOWLETT: Yes. I had a question on the Athletes World. When you say it will be accretive for the year, is that after at least CCAA or including the losses up to the end of June?

RICHARD BURNET: No. Our expectation in that case is it would be it would be on a whole year basis accretive.

KEITH HOWLETT: Whole year basis, great. And I don't know if you want to disclose this number or not, but what is broadly the sales level of the 70 stores left; is that sort of a \$75 million business or?

RICHARD BURNET: You know, it is, but the reality is that that's the sales level last year based upon really, frankly, inventory position and no money market. We don't know how high, high is. If I look at those things four or three years earlier when I have proper inventories, the sales level in those markets was higher. So, you know, we would expect on an annualized run-rate target (phon), you know, Q3 because that number would be considerably higher.

KEITH HOWLETT: I had a question on the eighth DiMarco Golf that you own corporately. I was wondering how significant a drag they were in the first quarter?

THOMAS QUINN: The golf, it wasn't actually much of a drag in the first quarter. The corporate golf stores that have actually been driving this year we're actually comping on a positive number.

KEITH HOWLETT: So -- and your plan is still to sell the eight DiMarco, former DiMarco to franchisee?

THOMAS QUINN: Once we find the right candidates and once we have them operating to our normal franchise operating norms then we'll turn them to over to franchise.

KEITH HOWLETT: Did those stores actually performed quite well in the first quarter?

THOMAS QUINN: Yeah. They did.

KEITH HOWLETT: Thanks. Great. And just finally on the -- just on the lifestyle concept, does that go to things like the nutrition center and the fitness source store that you're going to test or?

THOMAS QUINN: Yes. Absolutely, as I mentioned earlier, we are and we will be looking at nutrition within those store environments as well as education.

KEITH HOWLETT: And what about something like travel; is that something you would look at or not?

THOMAS QUINN: Travel. What we've been doing even in our golf business. Currently, we've been doing through an outside source that really makes the travel available and information on the travel available.

RICHARD BURNET: But, Keith, going about there is that, you know, I want to thank by helping Bob (phon) with the operating (phon) be. We are going to let our consumers just tell us that. We're currently in the market. We have a very comprehensive market research on every one of our banners in corporate and franchise and, you know, we're going to let

the consumer tell us what they want in our stores. I mean, obviously we got fairly good idea based upon the success of our franchise business, but, you know, I didn't mean to sound at our consumer on some of these issues and we need to do so on a fairly frequent basis going forward.

KEITH HOWLETT: Actually -- that actually was my last question; whether there was a better level of consumer information in Quebec, firstly on, you know, sort of who is the consumer, what they buy, all that sort of thing? And the second part of that was, is there any difference between the consumer in Quebec who tends to be a bit more style and fashion conscious than consumers in the rest of the country? I guess those are the two questions.

THOMAS QUINN: I think, the first, in terms of the consumer research, we've been doing consumer research in Quebec for a number of years in targeting our banners and globally positioning them. We are undertaking fairly exceptional studies currently on our corporate business. In terms of the consumer behavior, I think you have some case differences at different times, but I think it's the same consumer.

BOB SARTOR: Yeah. And then, Keith, I'm shocked if you would insult (phon) consumers outside of Quebec that way.

KEITH HOWLETT: That I would what?

BOB SARTOR: If you would insult consumers outside of Quebec that way.

KEITH HOWLETT: Lucky, I'm not out there at the Annual Meeting.

BOB SARTOR: Okay.

KEITH HOWLETT: Okay. Thanks a lot.

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

JIM DURRAN: Yeah, it's fun to talk about operating expenses overall. If you take out the stock-based comp difference quarter-over-quarter and also extract the Athletes royalties, according to my math here operating expenses both G&A and store op were up about 7.7%; do you consider that inflationary rate a run-rate?

RICHARD BURNET: I don't know that I'm looking on the 7.7%, Jim.

JIM DURRAN: It's total loss expense, I mean, doing the G&A and store ops combined.

RICHARD BURNET: Both G&A and store ops combined.

JIM DURRAN: And extracting Athletes World and extracting stock-based comp. So in the quarter, they were up 7.4%.

RICHARD BURNET: Well, the G&A out of zone where you are seeing without the stock-based comp in AW that would be considered a run-rate. The store ops -- while the store ops, the run-rate really was a function of the drop in the sales like as much as anything. I can't really

Speak to that percentage as we -- I think I'll just normalize quite to the sales number you wouldn't see that reduced run-rates.

BOB SARTOR: I think you understand if you'll notice this in Q3. We've changed our compensation approaches fortunately (phon), we used to be commission-based. That was driving some of the behavior, but I think this is largely driving some, some behaviors that we didn't want in the stores then that was keep checking people to write their employee number on to that. We have gone to a base salary that is a highly competitive base salary now. So, we're going to see a higher probably higher run-rate in I think Q3 than you would have seen last year, but in Q4, when we used to pay commission, some people will get 25 bucks an hour in Q4 and we have significantly lower wage talk in Q4, which is the daily border needed previously. So, I wouldn't panic over that one and we will manage to the same percent levels that we're looking at last year and we'll make a ton of it up in Q4.

JIM DURRAN: Okay. And last question just on the stock-based comp. In the press release you've indicated, I think, a variance of \$1.8 million, but if I look at the cash flow statement, I'm only seeing a variance of 1.456. And I'm just wondering what that spread is? Last year's recorded number on the cash flow statement your stock-based comp was 21.6.

RICHARD BURNET: Yeah.

JIM DURRAN: This year's 690?

RICHARD BURNET: I have to come back to you, Jim. I don't know the details in front of me.

JIM DURRAN: Okay. And then if the 690 -- I mean, I realized that the stock price has an impact on mark-to-market...

RICHARD BURNET: Yeah.

JIM DURRAN: But 690, do you consider that within reason to be, you know, future quarter run-rate?

RICHARD BURNET: It depends on the stock price in the mark-to-market. I just can't imagine that's going to cause some good cost and considerable swing. So, I don't know what I...

JIM DURRAN: But we are seeing it, the full issuance of any new RSEs (phon) and stock options that's already reflected in Q1 number?

RICHARD BURNET: Yeah.

JIM DURRAN: Okay. Thank you.

RICHARD BURNET: And we'll take one more question this morning and then we're going to have to get ready for our AGM. And again, a final note, if you do look into the AGM or get a chance to look into the repeat, you will see the slides of the presentation that really cover the three strategic teams in more detail, and Tom goes into significantly more detail on some of the initiatives we got to spread those best practices across the Company.

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

RYAN BALGOPAL: Yeah. I just want to ask, but I think I'll go back to actually Bob Gibson's question. When you back up the loss because you disclosed in the G&A and store operating expense, you know, against the sales, does it imply something of a gross margin that in terms of low to mid 40% range. Is that a bit right for Athletes World in the quarter?

RICHARD BURNET: Right. Those margins are just for Athletes World?

RYAN BALGOPAL: Yeah.

RICHARD BURNET: No. Those are deferred (phon) in.

RYAN BALGOPAL: Okay. Something in the math doesn't seem to work right then.

RICHARD BURNET: Well. We'll I have to get back to you, Ryan. I mean, personally, I take it out of our GL (phon) so I'm comfortable with my math.

RYAN BALGOPAL: Okay. May be if you could follow up with us and then call back.

RICHARD BURNET: Sure.

Right. Well, then, thanks very much folks for listening in this morning. As I said, we will be going into some of the issues we talked about here in far more details in about an hour and a half. Thanks very much and good day.

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