

Conference call: THE FORZANI GROUP LTD. Q4 CONFERENCE CALL
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OPERATOR: Good morning, ladies and gentlemen. Welcome to the Forzani Group fourth quarter and year-end fiscal 2009 conference call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session with instructions provided at that time.

If anyone has any difficulties hearing the conference please press *0 for operator assistance at any time. I would like to remind everyone that this conference is being recorded today, Wednesday, April 8th, 2009 at 10:00 a.m. Eastern Time.

And I would now like to turn the conference over to Mr. Bob Sartor, Chief Executive Officer. Please go ahead, sir.

BOB SARTOR (Chief Executive Officer, The Forzani Group Ltd.):
Thank you very much, Luke. And welcome to our fourth quarter year-end fiscal 2009 conference call.

With me here in Calgary today are Tom Quinn, our President and Chief Operating Officer; Mike Lambert, our Chief Financial Officer, and Richard Burnet, our SVP of Finance and Administration.

Before I begin with opening comments, I'll ask Richard Burnet to provide a brief safe harbour statement.

RICHARD BURNET (Senior Vice President, Finance and Administration, The 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. 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 the company's public record, including our annual and interim MD&A which is available on SEDAR.

BOB SARTOR: Thanks Richard. Well, we closed off what was a tough year with, I think, a very good fourth quarter as a lot of our initiatives began to bear fruit.

Consolidated same-store sales were down 0.2 per cent for the quarter as we generated \$0.79 against \$0.85 last year, this against a backdrop of a faltering economy and consumer confidence that is at its lowest level in a quarter century.

We exited Q4 in phenomenal shape from a winter product point of view, with same-store inventories down yet again. I won't jump into a bunch of numbers. I think I'm going to ask Mike Lambert now to provide details for both the quarter and the year.

MICHAEL LAMBERT (Chief Financial Officer, The Forzani Group Ltd.): Thanks, Bob and good morning, ladies and gentlemen. I'll cover the financial highlights.

I'm going to start with the fourth quarter and then move to the year. For the fourth quarter, retail system sales were 507 million against last year's 499 million, a 1.6-per-cent increase; of course, on a 13-week to 13-week comparative. Corporate same-store sales were actually down 3.5 per cent and franchise was up 5.9 per cent against last year's fourth quarter; again, excluding the extra week in last year's quarter.

You'll recall that last year was a very strong fourth quarter with strong winter weather across the country. Total revenues were 381 million versus last year's 411 million, a 7-per-cent decrease. And breaking our revenues, corporate store revenues of 317 million were down 6 per cent, a combination of the comps mentioned earlier and the extra week in last year's fourth quarter.

Wholesale sales of 64 million, or 11 per cent below last year's fourth quarter, was primarily due to reduced volume in our INA and FGL wholesale divisions. The comp increase in franchise sales in the quarter was offset by the extra week in the comparative period.

FGL wholesale was affected by the very weak U.S. retail conditions and the weakening Canadian dollar during the year.

Consolidated margins for the quarter were 39.8 per cent, 20 basis points below last year, reflecting price pressures on a corporate retail business.

Corporate store operating expenses as a percentage of retail revenues was 23.5 per cent against a prior year of 21.9 per cent. G&A expenses at 29.6 million, or 7.8 per cent of total revenue, compared to 8.6 per cent in the prior year, a reduction of \$6 million in the quarter, with reduced Athletes World overhead, reduced bonuses, and reduced severance.

Fourth quarter EBITDA was 47 million, down 13.6 per cent from last year. Net earnings for the quarter were 24 million, down 15.7 per cent from last year's record fourth quarter. Both basic and diluted EPS were \$0.79 versus \$0.85 in the previous year. Cash flow from operations of

43 million was up \$8 million versus the previous year due to the cash classification changes related to the AW tax loss utilization.

Now, before I turn to the year, let me talk a little bit about taxes. Our tax rate came in a little lower than we anticipated for the year, about 150 to 200 basis points, half due to a reduction in permanent differences, mostly around non-deductible compensation, and half due to the impact of the utilization of AW losses. The AW loss utilization mostly impacts cash taxes and not rates, and for those of you who model going forward you should assume no impact on the current year's tax rate.

Now let me turn to the year. For the year, retail system sales were 1.58 billion versus last year's 1.50 billion, up 4.9 per cent on a 52- to 52-week basis. Corporate same-store sales were down 1.9 per cent and franchise were up 4.8 per cent, with a combined annual comp store sales increase of 0.5 per cent, again, on a 52- to 52-week basis.

Total revenues were 1.35 billion against last year's 1.33 billion; a 1.2-per-cent increase. Corporate store revenues were 994 million, up 2.5 per cent with wholesale sales down 2.5 per cent at 353 million.

Consolidated margins for the year was 35.9 per cent, flat with the prior year, primarily on the strength of a small increase in franchise offset

by a small decrease in corporate margins with additional discounting, which occurred in Q3 and Q4. Mix of wholesale and corporate had a small impact.

Store operating expenses as the percentage of retail revenues was 27.9 per cent versus 26.0 per cent in the prior year. On a comparable basis they were 25.6 per cent versus 24.9 per cent last year, mostly due to less than planned sales for the year.

Same-store expenses in absolute dollars decreased 3.2 million, or 1.4 per cent, as a result of managing variable costs to reducing same-store sales.

General and administrative expenses of 109 million were up \$5 million from the previous year, essentially due to expenses related to Athletes World, and that's both the infrastructure and the reorganization costs. Increased marketing activity in the year offset by reduced compensation and that's severance and incentive compensation. All this resulting in EBITDA of 97 million, down 21 per cent from last year's record of 123 million.

Net earnings for the year of 29 million were down 38 per cent and diluted EPS of \$0.93 was down 33 per cent.

On the balance sheet side we continue to manage our inventory with a \$27.9 million decrease from last year. Inventory intensity, that's to

say our inventory investment per square foot, decreased 5.9 per cent for the year. Net total debt to capitalization rose as a result of the \$44 million share re-purchases made during the year under our normal course issuer bid.

And earlier this year, in the second quarter, we renewed our credit agreement with GE with an increase in facility, now at 250 million and at rates pretty favourable to us, especially against what today's rates would be.

I'll now turn it over to Tom Quinn for his comments on the business. Tom.

TOM QUINN (President and Chief Operator Officer, The Forzani Group Ltd.): Thanks, Mike.

Good morning, ladies and gentlemen. I thought I would focus my comments this morning on the quarter and year by highlighting a number of significant changes that have been implemented throughout our corporate network.

But first, let me point out that once again our franchise business continues to perform consistently as per previous years and appears to be weathering the economic crisis quite well. So I will not spend a lot of time here.

In our corporate business during the past several months, we have eliminated completely our commission-based payroll compensation system and have refocused our business on teams on customer service as a priority.

The presentation standards in our Sport Chek and Coast Mountain banners have also seen significant improvement with the addition of brand boutiques, improved product assortments and the leadership of our operations team to significant improve our store standards.

We've also seen considerable improvements in our National Sports and Athletes World stores throughout the country. We had successfully tested six Nevada Bob's concept shops within our Sport Chek environment and as a result of the positive performance in these shops, we'll be adding an additional 21 shops this year with 14 already up and running going into the Masters weekend. It is our plan to significantly increase the number of these shops in Spring 2010.

We launched our Sport Chek brand positioning in Forza Magazine this past year and have also increased the productivity of our tactical advertising spend by over 600 per cent.

We have focused on evolving the skill levels of our leaders throughout the organization and are now transferring many of the identified

best practices throughout the organization. And our seasoned team has never been more focused or more driven.

We are in the process of consolidating our merchandising teams and realigning the priorities of brand management within the categories. Our private-label division has also seen some significant brand consolidation during the past year without sacrificing volume. This continued direction will enable our organization to build meaningful private and licensed brands within our entire store network.

We have launched our 20,000 square foot prototype Fitness Source banner in November '08 in the Calgary market and it has exceeded all of our expectations. We will follow up with the second location in Edmonton this year, and assuming a similar performance, we'll look to a larger development plan in 2010.

We'll also be testing a larger format Hockey Experts banner in Calgary this summer, which with the strong results we have been delivering in the Quebec market with this banner for over two years, will give a clear indication of our development potential here. Incidentally, the hockey store in Calgary will be in combination with the new Fitness Source in that market, which will show us and demonstrate the potential to demonstrate to us interesting growth opportunities, assuming the plan is realized.

We integrated and launched a new concept look in our recent Athletes World acquisition and early indications are that this banner will meet our objectives. Our specialty banners on the franchise side, including S3, Atmosphere and Hockey Experts in Quebec continue to post strong comparative numbers.

Our numbers in both the corporate and franchise stores have been showing steady improvement over the last six months, with this past nine weeks of our new fiscal year showing a combined positive comp of 1.5 per cent.

From a category perspective, our footwear, sport fashion, fitness, racquet sports, bikes, camping, hockey, snowboard, all had positive growth in the past year. Notably it was a weaker ski and inline skate year throughout our network and golf was slightly ahead of the previous year.

We finished the year with our inventories being in the cleanest position they'd ever been in; and so far this spring our footwear and sport fashion has been off to a positive start.

Regionally last year the Maritimes west to Saskatchewan led in performance with B.C. and Alberta being slightly behind the previous year. As we continue to apply our best practices throughout our businesses we

are seeing significant performance improvement and potential even with the challenging economy.

And with that I'll pass it back to Bob.

BOB SARTOR: Thanks, Tom. Well, I can tell you that it's never pleasant to have to talk to our shareholders about a year in which we came off of a record year, but I can tell you that when I look for signs of strength in our business, I look at the fourth quarter and I was reminded by some of my folks that even though I was disappointed we didn't beat last year's \$0.85 number, this is the second best Q4 in the history of the company, in the 35-year history of the company. And this amid some pretty tough economic news and some pretty grim consumer confidence.

I think most importantly is that, as I look at Q4, even though the malls, and I'm sure many of you would have walked the malls during the fourth quarter Christmas shopping, the malls were exceedingly promotional and our margins held up quite well. And we were able to exit the year and the season with winter inventories in great shape.

Also to be noted is we once again, for the ninth consecutive year, increased market share yet again, which is good news for us. One of the things that the strong players have to do in a weak market is to basically

take share from the weaker players and we were successful in doing that again.

As Tom pointed out, the new year has started off fairly well for the company, with same-store sales for the first nine weeks on a consolidated basis of up 1.5 per cent. Most importantly to me is to see the strength in corporate same store sales up 2.7 per cent.

As I said before, the inventories and stores are in their best shape ever, and the changes that we made to our marketing and product assortment, which really emulates many of the successful strategies that were developed and in our consistently successful franchise Sport Experts business, are having the desired effect on sales. Our focus has been, or Tom's focus in particular has been Sport Chek because it is the big cash flow engine of the company and obviously I think all of you who follow the company as analysts, if you do the math on sales per square foot times the number of square feet we've got in Chek, if we can get to Experts' levels, which we fully believe we can in a reasonable period of time, then the numbers that we would produce would be phenomenal.

I can tell you that the changes to our apparel assortments in particular are significant and the early results where we've had spring tell us the consumers really, really like the apparel line-up.

I think it's important to note that in the brief time that we've consolidated the presidency of the company so that both corporate and franchise are under one president, we have made dramatic changes to this organization culturally and also from a mindset perspective. One of the key mantras internally in this organization now is unity and simplicity. We have growth both organically and through acquisition, but I can tell you that while we've consolidated the back offices in those acquisitions I still believe we are a complicated company to run. And over the course of the next few years we're going to dramatically un-complicate this company and dramatically reduce the cost and complexity of doing business.

Looking ahead, despite the tougher Canadian economy and a consumer that is certainly more reluctant to part with his or her cash, early results indicate that we have reason to be pretty optimistic about this year. You know, it's said that in tough times, people spend more money on certain things and that liquor stores do better. I can tell you that our business, while not recession-proof, is weathering the recession storm quite nicely and we still continue to generate interest in cash flow.

Before I turn it over to questions and ask Luke, our moderator, to open it up, I will... I'd just like to announce that we had talked at our last conference call about holding an Investor Day in the spring. Our plan is to

hold one on April 28th at 10:00 a.m. in Toronto. It will be webcast. Additional details on that will be released shortly and the objective of that Investor Day, obviously, is to paint the picture of a unified FGL, a dramatically uncomplicated FGL with reduced costs and with corporate stores that deliver the kind of consistent results we've seen from franchise for nine consecutive years.

On a final note, we did issue a press release yesterday, it would have been, on INTERSPORT International Corporation and FGL's agreement to market the INTERSPORT International Corporation brands in the U.S. We previously had an agreement with IIC that gave us the rights to the United States. The problem was that we could not market the brands without actually having retail stores put up the INTERSPORT signs. That made it exceedingly difficult to get any traction.

This agreement eliminates the need to have the store signage up, so that we can, through our INTERSPORT, INA, INTERSPORT North America division, we can now go with some of the brands directly to some retailers. And it will be a selected group of retailers. This will not be a full-blown sales pitch to retailers across the U.S.

There are some retailers where our brands, we think, would work, and those are the retailers we'll focus on.

I'll now ask Luke, our moderator, to open it up for questions.

OPERATOR: Thank you. Ladies and gentlemen, we will now conduct the question-and-answer session. If you do have a question, please press the * followed by the 1 on your touchtone phone. You will hear a tone acknowledging your request. Your questions will be polled in the order they are received. Please ensure you lift the handset if you are using a speakerphone before pressing any keys.

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

JIM DURRAN: Two questions. First of all, can you give us an update on the apparel boutique status and how that performance was in the quarter? And what your roll-out plans are for that?

BOB SARTOR: Jim, I do have one question for you before we answer that. How is it at every conference call for the past 12 years you're the first guy on the line?

JIM DURRAN: (Laughs). It's totally a fluke.

BOB SARTOR: Answering on that question I'll ask Tom to start, and then I'll follow-up.

TOM QUINN: Jim, obviously in the past year you probably saw some of the different brands that we did roll out. Our focus this year is to

continue to roll that out and it will be set up as we build our new designs in stores continuing to develop that type of presence.

We're finding that by featuring the top brands, or increasing the sales per square foot considerably, as well as introducing a better concept in some of the hard goods, like we've done with the Nevada Bob's test in some of the stores.

JIM DURRAN: Can you give us some idea what kind of lift you're getting in that square footage?

BOB SARTOR: You know what, on a percent basis, I'm not going to give you specific dollars per square foot, but, but on a percent basis where we're done the brand boutiques, the lift has been anywhere from 60 to 100 per cent.

JIM DURRAN: And I don't want to put words in your mouth, but I believe that previously you said you'd hoped to get those apparel boutiques rolled out to the rest of the Sport Chek stores that would, you know, accommodate it, by the end of calendar 2009. Is that still where you're at?

TOM QUINN: Yes, that's still in line, especially with the brand boutiques, as we're doing with Adidas and Under Armour or Nike and Columbia and North Face.

JIM DURRAN: Okay. And then, Mike, you knew I was going to go here, but just going back to the tax situation for the fourth quarter, that 150 to 200 basis point comment you made earlier, is that for the full year of the past reported year or is that for the quarter?

MICHAEL LAMBERT: Yes, Jim, so let me be clear on that. The 150 to 200 basis points is for the year, and so that causes our fourth quarter tax rate to be a bit wonky. On the year our tax rate is comparable to last year, but you may recall last year we had the rate reduction impact, I think around 200 basis points then too.

JIM DURRAN: Okay. And so can you give us sort of the Q4 metric then, if it was 150 to 200 on the year, what would it be for the quarter and would the split still have been 50/50 between comp and Athlete's World?

MICHAEL LAMBERT: Oh, on the core... you know what, I don't know that offhand, but in round numbers, I think our rate for the year is going to be 33.8. Last year it was around that. In the quarter it's around 28 per cent. I'm looking at Richard here. Yes, about 28 per cent.

JIM DURRAN: And would you say that on a normalized basis your tax rate for Q4 would have been what?

MICHAEL LAMBERT: Yes, probably around 34 per cent, 34 per cent.

JIM DURRAN: Okay, and then within the fourth quarter again, directionally, what was the biggest driver? Was it the Athletes World tax loss uses or what was the balance between that and the compensation changes?

MICHAEL LAMBERT: Like I said in my commentary it was about... I'd split it half and half.

JIM DURRAN: Okay. Great, thank you.

OPERATOR: Your next question comes from Candice Williams, of Genuity Capital Markets. Please go ahead.

CANDICE WILLIAMS: Given that last year you spent so much money on your share buy-back, there was a list of uses in the press release, I was wondering if you could prioritize your spending for this year, or what you expect the big use of the cash flow to be? How you'll prioritize that.

BOB SARTOR: Sure, I think probably our biggest use of cash flow is going to be to continue to drive the productivity of our existing asset base. And that means, like we talked about some of the brand boutiques that we're doing and some of the initiatives we're doing in-store.

Obviously the second one is going to be new store activity. We're very... there's always an opportunity for those who are well positioned in a tough marketplace, Candice, and because of our strong balance sheet and our strong cash flow generation we were able to very quickly jump on the opportunity that was presented by the insolvency of Linens 'n Things and we're very pleased that we've finally been able to get into three key areas that we could not get in.

So we will soon be opening stores in the Sherway Power Centre, across from Sherway Mall. We'll be opening a store at Laird and Eglinton in Toronto as well, and a store in South Calgary in Shaughnessy, which is a densely populated area in which we could never previously get in.

We expect there's going to be more such opportunities during the year and it is our intention to basically go after these, you know, once-in-a-decade opportunities to get into phenomenal malls at great rates and that's definitely something we are very focused on.

The second thing is we will be renewing our normal course issuer bid. Obviously in tough economic times, it's the board's intent to always have the flexibility required and the renewal of a normal course issuer bid would give us that flexibility.

And obviously we will continue to look at companies that are reasonably priced. Certainly a lot of the smaller players who previously were doing very well as small standalone players in a stronger economy are having difficulty in a weaker economy. We have a great opportunity to do a couple of tuck-in acquisitions, either in categories or to give us... that we don't play strongly in today or that give us access to brands that we don't have today, and that has been a stated strategy of ours for some time.

And obviously with retailers pulling in their horns, especially those who have credit agreements that give them pressure or that are coming up for renewal, we don't have that issue. Our credit agreement does not come up for renewal for another four years. We are going to continue to look at new locations because we believe that we've got the momentum at Sport Chek and that it's only going to get better, even in this tough market. So those are, on a broad basis, our cash flow priorities right now.

CANDICE WILLIAMS: Okay, that was a thorough answer. Thank you. Can you give us a handle then, given the first two, the new boutiques in the stores what we might be seeing for capex?

MICHAEL LAMBERT: Yes, capex. First of all, this year was unusually high for us. Next year we're going to go back to a more normalized level. A more normalized level for us is around 30 to \$35 million,

and I think, like Bob mentioned, most of that is actually going to be in new stores. So we're actually pretty excited about the impact on the top line and those locations that we couldn't get into before.

TOM QUINN: And Candice, just following up on the brand boutiques, now that the brands have seen the performance that's been happening with their brands in the boutiques, a lot of them are offset by the suppliers investing to put those boutiques in the stores.

CANDICE WILLIAMS: Perfect. Thank you. And one final question before I pass it on. Can you give us an idea as to what Athleten World contributed to the top line?

BOB SARTOR: Sure, we're just going to dig that out.

CANDICE WILLIAMS: Thank you.

RICHARD BURNET: Candice, it's Richard. This past year they were just over 75.9.

CANDICE WILLIAMS: Great, thanks a lot guys.

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

TAL WOOLLEY: Hi, good morning.

BOB SARTOR: Good morning.

TAL WOOLLEY: I was wondering, Tom, maybe if you can... obviously it is a more difficult time in the retail environment. I'm just wondering if you could speak to traditionally what sort of movement we might see in the categories, if you can just maybe talk at the broad level between hard goods, footwear and apparel. Where do you see best upside potential right now? Where do you see where you're probably going to face stiffer headwinds?

TOM QUINN: Well, I think our... if I take it in three separate segments, in our footwear business we've a fairly dominant position in the country in footwear. We continue to put out the best selection for the consumers, and we have access to a number of products and pricing that keeps us very competitive.

So we sort of measure, if people are getting tighter with cash and want better value we have the ability to move our price points to follow that market without giving up any of the margin with that.

In our clothing and apparel selection one of the things that has happened is we are seeing continued movement to more technical apparel, but we're also, with the introduction of some of our new apparel brand boutiques, as well as some of the casual wear that's going into the store, we're really seeing that being... reacting to the consumer demand. So just

by enhancing the apparel mixes in the stores we're seeing strong growth there.

On the equipment side, what tends to happen over the years, because we've gone through this before, or at least I have, over the last 35 years, we've seen situations where when people start backing off the big spend in economies like this, they end up, instead of going for the long vacation, they end up doing camping trips with the family, they end up buying the children new bikes, they end up going after that type of thing. So some of the categories that we anticipate growth this year would be in areas like the bike business, the inline skate business. You'll see some of the team sport business picking up, like the soccers, as well as you'll see probably a stronger return in the racquet business as well.

So that's a bit of an indication of what we're anticipating.

TAL WOOLLEY: Okay. And just in terms of speaking with your vendors right now, I'm assuming all of them are still pretty much on sound footing. How helpful are they being on pricing and payment terms, things like that?

TOM QUINN: Well, I don't think... we've fairly favourable terms with the trade. I haven't seen huge movement there. Where I think with our vendors that they're obviously concerned in controlling their inventories

much tighter, but they also... we have the ability to access a lot of their inventories on a global basis, and sometimes in this type of environment it does create considerable opportunity for us to acquire product at more reasonable pricing based on the global glut of product.

TAL WOOLLEY: Okay. And just with respect to opportunity buys and things like that, I know you talked about trying to encourage more multi-unit purchases. Will the tempo of that continue to remain high at this point?

TOM QUINN: We'll continue, as I said, we'll continue to develop areas. One of the reasons why we're testing the Hockey Experts with the Fitness Source is that if they work, it's a good complementary business to offset the seasonality of their businesses. And we can go after a larger box environment and we'll continue to look at developing our multi-free-standing boxes and in our general sporting goods, as we... that are in the triple A malls and that, as we test things like Nevada Bob's boutiques that we've done in Sport Chek, or even Hockey Expert boutiques that were tested in Sports Experts, we see considerable productivity increases in those environments.

So we'll continue to follow that plan. It's pretty sound so far.

TAL WOOLLEY: Okay, that's great. Thank you very much.

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

KEITH HOWLETT: Yes, I was wondering if you can speak to your square footage expectations for '010 and the store opening program?

TOM QUINN: Okay, on our corporate side of the business we're probably at the particular moment we're looking at adding roughly 14 stores to the network. Now that doesn't include if there's additional opportunities as Bob talked to earlier that we decided to take advantage to. And we're planning square footage moving roughly from about 4.6 million up to 4.8 million on the corporate side of the business.

On the franchise side of the business, we're looking at growing that from... and adding an additional 12 stores to that network, growing from about roughly 1.8 million to 1.9 million square feet there.

MICHAEL LAMBERT: So let me add something to that. That's one of our more aggressive years, if you look back over a decade in terms of numbers of stores, and also in terms of the size of Cheks. About 50 per cent larger on average than the stores we opened this past year.

BOB SARTOR: And I guess to add to that, I mean it seems counterintuitive, gee, shouldn't we be pulling in our horn? My view is not

when you can get phenomenal deals and our real estate team is doing a very good job at that, and not when these stores are immediately accretive.

KEITH HOWLETT: And in terms of the sort of deals you're getting from landlords, are you getting sort of 25 per cent lower per square foot or what sort of is the range of landlord reductions?

BOB SARTOR: Keith, for competitive reasons I'm not going to get into what kind of deals I'm getting, because I'm sure there's a competitor or two listening to our conference call here.

MICHAEL LAMBERT: But as you can imagine the environment's changed.

BOB SARTOR: Very much so.

KEITH HOWLETT: And just in terms of the wholesale business, which, you know, is down a bit, is that predominantly the gen-ex business, just that there's not many retailers looking for deals?

BOB SARTOR: I think there's two reasons why that business was down. And by the way that business, as you know, is broken down between the licensed product business, licensed brands and owned brands and closeouts. We're actually having a pretty good closeout year, this year, as you can imagine, in the new year. But the license business was tough for two reasons. I mean, one simply has to look at the comps of U.S. retailers

and you get a sense for how tough it is for our wholesale division, the wholesale there right now. But it is a fundamentally sound division. It still makes decent money for us.

The second piece is the fact that we felt we lacked a big marquee brand to market in the U.S. market and we were able to secure a long-term agreement to market the Airwalk brand in the United States, and then that's a big deal for us. And I think that you're going to see a pickup, certainly from back to school onwards, as we begin delivering on the orders for that brand.

KEITH HOWLETT: Great, and just on the closeout business, I know there's lots of inventory around. I'm just wondering who wants to buy it? Is that sort of moving it across the ocean or there's just... it's just idiosyncratically there are people who are willing to buy it?

BOB SARTOR: No, in the U.S. as well as in other markets there are people who are positioned to take advantage of this; and even in our case a prime example is we're being very cautious with our open to buy. We have significantly more holdbacks than we've had in more robust times, but if we see a smoking hot deal that we can put in front of consumers in a flyer, we're going to take advantage of that and simply look to pair our open to buy in other areas.

So from that perspective there are retailers still in the U.S. who can take advantage of this stuff and certainly we're not shy about moving product wherever we have to move it, obviously respecting whatever constraints the source of the products have.

TOM QUINN: And to that, in the past year, we also spent considerable amount of time managing the aged inventory out of the system and our inventory at the end of January had never been cleaner.

KEITH HOWLETT: And just on the impact of the... well what used to be the high Canadian dollar, that great one year we had there, but how does that affect your... do you think it affected your margin in the year past and how does that affect your gross margin in '010?

BOB SARTOR: Well, it's interesting. We've had some interesting conversations with... early on with some vendors who suggested that the weakening Canadian dollar would give rise to the price increases. And obviously we've rebuffed all of those requests for the simple reason that when the Canadian dollar was significantly higher I didn't see any price rollbacks.

The reality is the Canadian dollar had that... I'm going to call it momentary blip, and I believe that our vendors' structure, fundamental structure, the way they're structured in Canada and abroad, the way they

source, and the way they market is designed to recognize a Canadian dollar that has a certain discount to the U.S. dollar. And I think that we had an abnormal situation for a period of time that threatened to change some of those supply chain decisions and sourcing decisions and so on. We're now back to where we were.

Certainly the concern I have is the continuing strength of the U.S. dollar. It's entirely possible that it will weaken with a lot of the things that are going on. That would have an impact on us, particularly and almost singularly, at this stage I'd say, in our private label business where we obviously have produced, and most private label products are denominated in terms of settlement, are denominated in U.S. currency.

So as the Canadian dollar weakens the pricing, or the costing for our private label brands increases. And that's one of the things that Tom Sampson, who runs our private brand business, has had to struggle with and for the most part has done a phenomenal job at basically looking at alternate factories and different specs and so on to try and bring those products in so that they still generate the healthy margin lift versus non-private brands.

KEITH HOWLETT: And do you hedge any of that private label U.S. dollar exposure or not?

RICHARD BURNET: Yes, we do, Keith.

KEITH HOWLETT: So do you hedge like some per cent some months out, or how does that...?

RICHARD BURNET: We hedge the bulk of it with a combination of forward buys and options.

KEITH HOWLETT: I see, so you're buying sort of today's price, but taking delivery later, is that the idea?

RICHARD BURNET: Sure.

KEITH HOWLETT: I see. Great. And just on the Sport Mart, obviously the Sport Chek has been a big focus and done well. What's the status of the plans on the Sport Mart?

BOB SARTOR: The Sport Mart business I think should be stronger than it is in this kind of an economic environment. It's generating decent returns for us, but I firmly believe in that opening price point business. And the plan in the last fiscal year was to begin to get the Sport Chek train rolling and rolling faster and the plan for this year is to do the same thing with Sport Mart.

So there is going to be a lot of energy and emphasis put on Sport Mart and you're going to hear all about it during our Investor Day.

KEITH HOWLETT: Great. And sorry, just finally on the Athletes World, do you have... are you able to narrow down the amount of useful tax losses or do you sort of debate this each year as you file the income tax with the government, or how does that work out?

RICHARD BURNET: Well, Keith, the estimated useful tax losses that we envisioned when we purchased AW we don't have a reason to believe that they've deteriorated to any great extent. So moving forward we would anticipate those losses to be available.

MICHAEL LAMBERT: So, and Keith, I'm going to try and be as clear as I can with taxes. In terms of rate it'll have negligible impact on the current year, but cash taxes will be better. So last year in fourth quarter cash taxes were reduced by about 10 million in the fourth quarter; and going forward that'll continue. But in terms of rate on the current year, if you model the rates, it should have no impact.

KEITH HOWLETT: So it would still be in the 33 range or... 33 per cent range?

MICHAEL LAMBERT: Our normalized rate is closer to 35.

KEITH HOWLETT: Thirty-five.

MICHAEL LAMBERT: Rates are coming down, but it'd be closer to 34.

KEITH HOWLETT: Thirty-four. And is there some limitation on how quickly you use the Athletes World tax loss?

RICHARD BURNET: Quickly?

KEITH HOWLETT: You know, can you use it all... say this fourth quarter you did not... you know, you actually paid some cash taxes that appeared.

RICHARD BURNET: Well, Keith the AW losses... AW was amalgamated with Sport Chek International, one of our legal entities that operates our corporate businesses.

KEITH HOWLETT: I see.

RICHARD BURNET: So those losses are available against taxable income in that legal entity. Sport Ex is a separate legal entity which is profitable. The losses aren't available for use in that legal entity. So to the extent that our corporate business on an ongoing basis had a taxable income we can utilize those losses.

KEITH HOWLETT: Great. I apologize for the... one last one on Athletes World. The \$0.01 in the fourth quarter I think was maybe less than you were expecting when we began the year. Can you just speak how Athletes World is doing now that the back office has been consolidated and all that sort of thing?

TOM QUINN: Well, what we did, obviously is we've consolidated the back office. We started going in and renovating and re-merchandizing a number of the stores. And as we went in through November and December we could start seeing the business improve and the comps starting into the spring already are considerably higher than the average that was showing today of the corporate network.

BOB SARTOR: Yes, the Athletes World comps are approaching double digit, so that's a good number.

KEITH HOWLETT: Very good, thanks very much.

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

RYAN BALGOPAL: Good morning. Thanks. I think you've answered most of my questions. Just did have a question for you, Bob. In your opening comments you talked about the productivity of the corporate stores moving up to the franchise level in what you thought was a reasonable timeframe. Could you just maybe help us define what reasonable is?

BOB SARTOR: Sure, if you were to look at the delta in performance between the average, and I'm really going to focus on Sport Experts versus Sport Chek, because we've got different brands out there,

and those are the two most comparable, there's a 58-per-cent difference in top line per square foot between Sport Experts and Sport Chek and there is absolutely no reason why there should be a delta that large. Yes owner/operator and store makes a difference, but not a 58-per-cent difference, Ryan.

So it is our plan, it is our plan to get to as close to the franchise standard quite quickly and the difference obviously is that the franchise business got there over several years and in a franchise business you manage through persuasion and by modelling stuff, by actually showing them the stuff.

In the corporate business, once something works you can implement that throughout the chain very quickly and that's the approach we're taking. We're being very aggressive in taking those best practices across to Sport Chek, be they how we market, be they how we buy, be they what we buy. And we've looked at all those things. And it is our belief that we can get to a comparable franchise standard quickly. We'll be talking extensively about that during our Investor Day and I certainly don't want to spend the next 10 minutes deliberating it, but we will talk about what specifically we plan on doing and when specifically we plan on doing it in a little over a week's time.

RYAN BALGOPAL: Okay, I'll wait till then. Thanks.

OPERATOR: Ladies and gentlemen, if there are any additional questions at this time, please press the * followed by the 1. Your next question is a follow up from Jim Durran of National Bank Financial. Please go ahead.

JIM DURRAN: Yes, I just want to go back to the Nevada Bob's boutique test. What kind of square footage are you putting into the stores?

TOM QUINN: Jim, what we did last year is we ran out in six locations, we ran about three different sizes of stores because we wanted to test. It went from a low of 1,800 square feet to a high of 4,000 square foot, because we wanted to find out what the sweet spot was, so as we started to roll it out it would move fairly effectively and profitably. This year, the 21 stores were rolling out on average, this year, are going to be about 2,500 square feet.

JIM DURRAN: And just... I want to make sure I've got my reference points right, and that includes the appointment of a golf pro in those locations?

TOM QUINN: Yes, well what we've done and where we obviously have people available is we have CPGA pros, we have club fitters to a certain degree, and the staff that are in the store, which would rule out a lot

of people in this room, would have to have a handicap below eight in order to be employed.

JIM DURRAN: (Laughs). That excludes me, for sure. And not all Sport Chek stores would be large enough to carry that kind of square footage.

TOM QUINN: No, and that's why we're looking at the models and where we can roll them out; and also we're looking at the Sport Chek model and where it's going to move in the future as well.

JIM DURRAN: I think Mike mentioned earlier about the size of stores that are going to be opened in 2010 versus the size of stores you opened in the past. Is that purely because there's a greater emphasis on Sport Chek stores and are the Sport Chek stores getting materially larger than the predecessor versions?

BOB SARTOR: Yes. Jim, it's Bob. The stores are getting a little bigger, the Sport Chek stores, and the emphasis is on Sport Chek. The reality is... a prime example, if we look at the Linens 'n Things stores that we were able to snag at the Power Centre across from Sherway Mall in Toronto, at Laird and Eglinton in Toronto and in Shaughnessy in Calgary, you're looking at an average size of about 30,000 square feet.

This gives us an opportunity to do two things. One, to create what I call more authentic and more credible hard goods environments, and the second one is to test new stuff. You know, it's a really interesting opportunity for us because you've been into our stores, we have had very limited selection in golf historically. We now, I think, can retail with the best of them.

We've had very limited or no selection in fitness and now we have an opportunity with the best brands in the world to showcase those in our stores. We've done very, very limited camping in our business and these are all big businesses and businesses that in the U.S. Dick's is in those businesses doing very well and there's no reason why Sport Chek can't be in those businesses.

So I think over time you'll see the average store size grow, not necessarily to 30,000 feet. Those happen to be the tremendous opportunities that were out there. But you should expect to see slightly larger boxes in the future.

JIM DURRAN: Okay. And you may want to hold the thought till the Investor Day, but so what do you expect is going to happen to your average ticket? I mean, I know we're in the middle of a recession right now,

so it's probably not a good frame of reference, but it sounds like Sport Chek's becoming less mid to low and more mid to upper middle.

TOM QUINN: Without getting into all the category detail, I can say, Jim, over the last, say the last six months, and especially going into this spring, the average ticket has moved up.

BOB SARTOR: And I guess to put it another way, rather than focus on price, I think really what we're accomplishing or trying to accomplish with Chek, and I think we have had tremendous success this year in moving the needle, is in the consumer's eye shifting their perception of Sport Chek from a retailer of sporting goods to a retailer that provides a certain aspirational aspect, by really providing credible environments.

So a prime example, one of the things that Tom and Rick White, our chief merchant, have looked at, is our racquet business. And you know, our racquet business had remained relatively stagnant for a number of years, and the reasons were that we didn't take any creativity or imagination to that category.

So in looking at the racquet business, one of the things that was obvious is, have we got the racquet that Rafael Nadal is playing with in Sport Chek? And the answer was, no, we didn't. You know, do we have all

of the accessories and the right footwear to go along with the sport we're selling?

So if you're going to be more than just, yeah, I went there because they had a great flyer, I go there because they have what I need, you have to change how you buy, you have to change how you think about the sports and those are all the changes we've begun to implement in our biggest banner and our cash flow machine.

JIM DURRAN: Okay, so just a last question, going back to the Linens 'n Things locations you've acquired, is this the beginning of GTA location change? Like a shift from mall to Power Centre, or is this just an opportunity?

BOB SARTOR: It's an opportunity and the reality is that they're not building a tonne of new malls anyway. So as a retailer if we're going to grow we're going to grow where the square footage is. So there has been a natural evolution, notwithstanding the Vaughan Mills mall and the one that's being built north of Calgary in Balzac. Really it had been more of a Power Centre growth, so we'll go there.

But I'll give you a prime example. A team of folks, with myself and some of the merchants went to downtown Calgary on Stephen Avenue Mall, which is a pedestrian mall and we don't... we traditionally have not

done downtown standalone stores and we are going to be opening one, I believe it's going to be sometime in June. And that is another new opportunity for us.

And that store will again move the needle for Sport Chek because it will have, again, different brands, far more aspirational brands from an apparel and footwear perspective than we would have in a typical suburban mall.

So it's not necessarily the beginning of a trend. It's simply the continuation of a trend outside of mall and mall stores are still very, very important to us. But the reality is, if we're going to continue to grow at a decent clip we're going to have to be able to grow successfully in Power Centres and street fronts.

TOM QUINN: And Jim, to Bob's point, one of the things we are looking at is we are looking regionally to a number of our product mixes and our advertising approaches. So it's not going to be like a one print fits everywhere. What we're doing is we're getting really down and focused to the consumer. And making sure that the product mix we have in each of our locations will fit the consumer demand in that market area.

JIM DURRAN: Okay. I look forward to the Investor Day.

BOB SARTOR: Thanks, Jim.

OPERATOR: Your next question is a follow-up from Tal Woolley of RBC Capital Markets. Please go ahead.

TAL WOOLLEY: Hi. I just wanted to ask if there any major sort of product stuff we should be keeping our eyes out for this year? Any big roll-outs?

TOM QUINN: Nothing startling on the marketplace. I mean, there's obviously... we saw that trends happening about a year and a half ago where more technical clothing was happening coming into the marketplace. That's definitely continuing to drive. We're seeing product performance from the golf industry, baseball industry, hockey industry in everything from stick technology to skate technology working on building lighter, more responsive product.

So that's a continual evolution in the business. But there's not a new category such as kite surfing all of a sudden going to become a snowboarding phenomenal.

TAL WOOLLEY: Okay, but there's no like Under Armour footwear this year or anything like that either?

TOM QUINN: Oh that's a continual evolution of what happened last year. They've moved from... well, they started off with cross-training, introduced the running line and they'll continue to evolve that as well.

TAL WOOLLEY: Okay. And you're not seeing any, in terms of the consumer perception on some of the core brand... you know, core exclusive brands, you're not seeing any sort of tiring on the consumer's part there either?

TOM QUINN: Not to date.

TAL WOOLLEY: Okay, that's great. Thank you.

BOB SARTOR: And Tal, maybe as an add-on to that, it's Bob, one of the things that we have decided that we should be doing at FGL, we're the biggest retailer of our type in the country and we don't think we have properly taken advantage of the sporting events that, whether they're in the country or outside of the country. For example, World Cup Soccer in South Africa; obviously the Olympics coming up next year. The lead up to that in the fourth quarter will be huge and we need to own those events. We need to be the retailer of choice for products related to all of these sports events, whether they take place in Canada or outside of Canada. We have a great opportunity with our store base to actually create excitement and to create traffic and we haven't been doing that historically, and that is going to be a huge focus of ours going forward.

TOM QUINN: And just to follow up on Bob's point there, one of the things we have done in the past five months, in terms of getting more

direct with our consumers and the consumer base, we have already signed contracts with Hockey Canada, Soccer Canada, in the process of dealing with Squash Canada, as well as Canada Games, making long-term commitments to get directly involved with helping grow sport in this country.

TAL WOOLLEY: Okay, that's great. Thanks a lot, guys.

OPERATOR: Your next question is a follow up from Keith Howlett, of Desjardins Securities. Please go ahead.

KEN HOWLETT: Yes, I just had a couple of questions on stores and one related to the two... I think it was two trial stores you had that were much larger footprints, I think in Edmonton and in Dartmouth perhaps. I was wondering what the experience with those has been now that they've been up, I guess, three or four years?

BOB SARTOR: Frankly not great, and the reason they haven't been great is because we've basically taken an approach that, okay, we'll take an assortment that's in a 20,000-square-foot store and we'll just make it bigger, as opposed to going back to what I'd said earlier is, look, we've got these brands like Fitness Source, we've got Nevada Bob's, we've got Coast Mountain. We should be basically turning those larger stores into a truly novel shopping experience and an authentic one with the best brands.

So in fact, you're going to see some changes there, and I'll let Tom talk about some of the changes.

TOM QUINN: Yes, basically the stores from a square footage, they're very positive from a contribution perspective to the organization, because we have very good occupancy deals. But one of the things we've done is just this summer we've introduced roughly a 3,500-square-foot Nevada Bob's shop into the Orleans space. We're looking at building in a Coast Mountain environment going into this mall in that space, which just will improve the productivity. And the Edmonton store, we're actually we're putting our 15 to 20,000-square-foot Fitness Source test in that environment this fall.

So both those stores, while large dominant square footages, we weren't taking advantage of the product mixes that we can showcase within that square footage. This year we're going to start rolling and fixing that a little better, obviously which will make it more productive and higher sales per square foot.

KEN HOWLETT: And I just had a question on the combination of Hockey Experts and Fitness Source. I obviously don't know too much about fitness retailing. I guess I should know something more about it personally, but in terms of my first personal condition, but in terms of why those are fit

together, is fitness is not sort of a January to March business and hockey's also a winter business, or why do they fit well?

TOM QUINN: Okay, basically the strength in the fitness business tends to be, although it's a moving a little bit, it tends to be between that September and April period of the year. Our hockey business is a 12-month a year business now. It has a few peaks, but every month we do get performance in the hockey category. And the link there is that as the push goes to performance in certain sports, a lot of the hockey players that are competitive do overlap with the fitness business.

KEN HOWLETT: I see. Great. Thanks very much.

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

BOB SARTOR: Great. Thank you very much, Luke. Ladies and gentlemen, thank you for taking the time to listen to our Q4 and year-end fiscal '09 conference call.

Hopefully, you can sense our excitement at the changes we're making. I believe that the mantra that was introduced in this organization last January, which is we will unify and simplify this business, and we will maximize the return of every asset we have has truly been embraced by

our people. Over the course of the next several years we will likely have less banners, not more and they will likely be larger, not smaller.

Certainly one of the focuses we have, because even though we feel pretty bullish about our prospects even in this environment, because of the nature of the business we have, we are focused on reducing costs in this organization. And I believe that as we unify and simplify this will be an organization that is not only a lot easier to run, but a lot cheaper to run.

We're being judicious with our capex and keeping an open mind to great real estate opportunities that only come along at times like this. Our open-to-buy hold-backs are the largest ever, for two reasons. One, to closely follow sales trends and the second one is to take advantage of opportunities as they come up; and we will be opportunistic with potential small tuck-in acquisitions, particularly those that give us access to brands that we may not already have, or that allow us to expand categories in which our market share is significantly lower than we believe it should be.

In closing, I will remind you again that our Investor Day is going to be the 28th of April at 10:00 a.m. in Toronto and we will be sending out additional details on that very shortly.

Thanks very much and we'll look forward to seeing you in a few weeks.

OPERATOR: Ladies and gentlemen, this concludes the conference for today. Thank you for your participation. You may now disconnect your lines.

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