EVENT:	EMPIRE COMPANY LIMITED Q2 RESULTS CONFERENCE CALL
TIME:	14h30 E.T.
REFERENCE:	EMPIRE COMPANY LIMITED-CC-121009
LENGTH:	APPROXIMATELY 33 MINUTES
DATE:	DECEMBER 10, 2009

OPERATOR: Good afternoon. My name is Chris and I will be your conference operator today. At this time, I'd like to welcome everyone to the Empire second quarter ended October 31st conference call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks there will be a question-and-answer session. If you'd like to ask a question during this time simply press * then the number 1 on your telephone keypad. If you'd like to withdraw your question, press the # key. Thank you.

Mr. Beesley, you may begin your conference.

PAUL BEESLEY (Executive Vice President and Chief Financial Officer, Empire Company Limited): Thanks so much, Chris.

Good afternoon and welcome to the Empire Company Limited second quarter conference call. Thanks for joining us today. Our comments will focus primarily on the financial results for the second quarter ended October 31st, 2009. At the end of our comments we'd be pleased to take your questions. This call is being recorded in live audio on our website at www.empireco.ca.

Today's discussion includes forward-looking statements. We want to caution you that such statements are based on management's assumptions and beliefs. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements.

Joining me today on the call are from Empire Company Limited, Paul Sobey, President and Chief Executive Officer; and Stewart Mahoney, Vice President, Investor Relations and Treasury. And from Sobeys we have Bill McEwan, President and Chief Executive Officer; François Vimard, Chief Financial Officer; and Paul Jewer, Senior Vice President, Finance and Treasurer.

This morning we released Empire's financial results for the second quarter. Revenue for the second quarter equalled \$3.87 billion, compared to \$3.73 billion previous year, a 3.9 per cent increase.

Second quarter operating earnings, that is earnings before capital losses and other items, equalled \$72.1 million, or \$1.06 per share compared to \$63.1 million, or \$0.96 per share in the second quarter of last year. It should be noted that per-share operating earnings were impacted by an increase in Empire's diluted weighted average number of shares outstanding to 68.5 million shares from 65.7 million shares last year as a result of the equity issue completed in April of this year.

Capital losses and other items, net of tax, in the second quarter equalled $1.7 million compared to a net capital gain of $2.5 million in the second quarter of last year. Capital losses in the current quarter included Empire share of an interest rate swap agreement by Crombie REIT, which was partially offset by a positive fair value adjustment to Sobeys asset-backed commercial paper.

Net earnings during the second quarter were $70.4 million, or $1.03 per share compared to $65.6 million, or $1.00 per share last year.

Empire's liquidity remains strong, with cash and cash equivalents of $211 million at the end of the second quarter and authorized consolidated bank credit facilities exceeding borrowings by $941 million. The ratio of net debt to total capital at the end of the second quarter equalled 27.5 per cent versus 34.5 per cent at the end of the second quarter last year, a 700 basis point improvement.

I will now turn the call over to Paul Sobey.

PAUL SOBEY (President and Chief Executive Officer, Empire Company Limited): Thank you very much, Paul. Good afternoon, everyone.

Empire's earnings and financial condition continued to strengthen in the second quarter. The drivers to our growth continue to be Sobeys, which recorded a 20 per cent increase in their second quarter operating earnings. This reflects ongoing growth in Sobeys' same-store sales, the impact of merchandising innovation, and the disciplined implementation of supply chain and other broad P.V.(ph) initiatives. And Bill will comment on that a little while later.

We're also pleased to see improvement in both our residential and commercial real estate operation earnings in the quarter. Albeit this was offset by a decline in the earnings contribution from our interest in Wajax Income Fund as we anticipated.

A few comments now on our real estate division. During the second quarter, Empire's real estate division recorded earnings before capital gains of $8.8 million versus $7.4 million last year. Residential earnings reflected a modest increase while earnings from commercial property operations grew by $1.2 million.

Crombie's REIT contribution to Empire's operating income in the second quarter was $4.9 million versus $3.8 million last year. In terms of occupancy rates, both the retail and office markets where Crombie has a prominent presence, remained relatively stable. Occupancy levels remain strong at 94.2 per cent, and at the end of September leasing activity has been completed on approximately 95 per cent of their calendar 2009 expiring leases.

We remain supportive of Crombie's objective, first generating reliable and growing cash flow distributions, enhancing the value of its assets and long-term unit value, and expanding its asset base and cash available for distribution through accretive acquisitions.

On the development side, Crombie continues to work closely with ECL Developments to identify opportunities to enhance its growth. Progress continues to be made with 20 development properties totalling 1.8 million square feet under development in Ontario, Quebec and Atlantic Canada, and these properties are anticipated to be made available to Crombie over the next 24 months.

Subsequent to the end of Q2, on November 5th, Crombie announced the acquisition of eight retail properties from ECL for $62 million, representing a capitalization rate of 8.16 per cent. Closing of this transaction will occur in stages over the next six months.

A few comments on our investment and other operations. Our earnings in the second quarter from investments and other operations, net of our corporate expenses, declined by $3.4 million over Q2 last year, largely as a result of the lower equity earnings from Wajax, as mentioned.

Equity accounting earnings from Wajax in the second quarter were $1.9 million versus $5.1 million last year, and Wajax management has advised that market demand, in their opinion, has stabilized and is expected to rebound in 2010.

I'll now turn it over to Bill McEwan for his comments and performance on Sobeys.

BILL MCEWAN (President and Chief Executive Officer, Empire Company Limited): Thank you, Paul.

Sobeys' Q2 sales increased $147 million, or 4 per cent, to $3.81 billion, up from $3.66 billion last year. Same-store sales grew by 2.7 per cent with negligible inflation for the full quarter. Sobeys' Q2 net earnings increased $12.1 million to $66.9 million, up 22 per cent over last year. Trailing four-quarter net earnings increased $40 million to $251 million, up 19 per cent.

Operating income in the second quarter increased $11.7 million, or 12 per cent, to $107.6 billion. Operating margin was 2.83 per cent compared to 2.62 per cent in the second quarter of last year.

Sobeys EBITDA in the second quarter increased $14.6 million to $186.4 million. Trailing four-quarter EBITDA totalled $741 million, up $64 million, or 9.5 per cent.

Second quarter EBITDA as a percentage of sales increased to 4.90 per cent from 4.69 last year. During the second quarter we invested $97 million in our store network and infrastructure. Ten corporate and franchise stores were opened, acquired or relocated compared to 11 stores opened, acquired or relocated in the same quarter last year.

Despite $382 million invested in our store network and infrastructure over the last year, our debt ratio continues to improve largely as a result of our trailing four-quarter free cash flow of $251 million. At the end of the second quarter, Sobeys' funded debt to total capital ratio was 28.1 per cent, down from 34 per cent a year ago.

Our momentum and our progress continues on the strength of the series of strategic management and operational improvements and investments we have made over the past several years. Our manager ranks continue to strengthen across the company. Our store-level productivity initiatives, including fresh item management and workforce management, continue to fuel our highly competitive and nimble promotion and pricing programs and our margin increases.

Our product and service innovation initiatives continue to come on stream, and the execution of our Compliments private label program repositioning that we outlined last quarter is well underway. Our information system upgrades have equipped our people with more timely useful and consistent information, and we continue to leverage our scale and procurement administration and more, and we do so without compromising the clear advantages of regional and local management teams executing with authority and agility to capture individual market opportunities.

Our Club Sobeys and Air Mile programs continue to attract new customers each month, and in September we very successfully launched Club Thrifty Foods built on the same platform and inclusive of the strategic and comprehensive customer insights capabilities that we have in house and through our exclusive highly qualified third party relationship with Clear Sell(ph).

To be clear, our focus on customer insights is not new. Our insight infrastructure is well in place and is already being deployed in our business. We have made significant progress and are well advanced delivering tangible results already, and we have world-class expertise through our Clear Sell and SAS relationships.

Our distribution network has been continually upgraded and expanded. Our new automated distribution centre in Vaughan, Ontario is now fully operational. We are very pleased with the transition, and look forward to optimizing these operations. This centre is another example of the exceptional project management, governance and implementation expertise that is going in the company.

To conclude, our sale earnings and cash flow performance have been and will continue to reflect the ability of our people to consistently improve our offering, improve our service, increase productivity, lower cost and execute well and consistently store by store.

We will now complete this portion of the call with comments from Paul Sobey.

PAUL SOBEY: Thanks, Bill.

So a solid second quarter, and going forward our key priorities have not changed. We remain committed to investing in businesses that we know and understand. We intend to remain focused on our core strengths in food retailing and real estate, and Sobeys has been able to continue to grow sales and profitability in a competitive market. But we are not complacent. We will continue to support Sobeys as it innovates, executes and grows in a manner that is consistent, being widely recognized as the best food retailer in the country. And we intend to remain committed to the development of free-standing grocery stores and food-anchored shopping plazas that capitalize and continue to build on the synergies between Sobeys and our real estate operations.

In closing, our corporate success and sustainability has been made possible by more than the 90,000 employees, franchisees and affiliates of the Empire group of companies. They have been instrumental in creating a successful and exciting organization, and that success has continued to turn and create a winning environment.

We'd be now happy to respond to your questions.

OPERATOR: At this time I'd like to remind everyone in order to ask a question, press * then the number 1 on your telephone keypad. We'll pause for a moment to compile the Q&A roster.

Your first question comes from Perry Caicco from CIBC World Markets. Your line is open.

PERRY CAICCO: Thanks. I think we'll start by asking a few questions around the same-store sales number. First of all, Bill, did the number change over the course of the quarter?

BILL MCEWAN: Did the number change over the course of the quarter?

PERRY CAICCO: Yes.

BILL MCEWAN: We don’t segment that by period, Perry, but 2.7 is the aggregate result driven by about two-thirds sales per transaction increases and one-third customer count increases.

PERRY CAICCO: Okay. And you mentioned that inflation was negligible in the quarter. Is that… what’s your outlook for inflation in the next, you know, couple of months?

BILL MCEWAN: Yes. Pretty much consistent with what we said about inflation at this time last year, and the 4 per cent I think we realized in the second quarter last year to the 7.6 per cent constant Q2 last year, that was the peak. We now find ourselves at negligible… no inflation, and we actually anticipate modest, at least, deflation for the next quarter and possibly into the final quarter of our fiscal year.

PERRY CAICCO: And how do you intend to prevent profit erosion when you lose the benefit of inflation?

BILL MCEWAN: It’s careful management of the costs and the details and the pricing structure and the promotions. You know, there is that tendency if you’re not careful to, as deflation hits, not look at your penny profit and your profit and look exclusively at rates, category by category, and that can have a devastating short-term impact, and also has an impact on your labour ratios and other operating metrics. So it’s just a day-to-day management. We've been through some deflationary cycles before. This one probably more acute, more profound, but our teams are on top of it.

PERRY CAICCO: And just one last question, Bill. It looks like gross margins are up a bit over last year. Can you tell us a bit about the balance between price investments, cost improvements, and mix changes that might have gone into that number?

BILL MCEWAN: Primarily mix changes more than anything else. The margins are up just very modestly. The majority of the EBITDA increase is activity improvements and SG&A savings. But it's primarily mix changes.

PERRY CAICCO: Okay. That's good for now. Thank you.

OPERATOR: Your next question comes from Ken Chernin from Jennings Capital. Your line is open.

Ken Chernin, your line is open.

KEN CHERNIN: Oh, I'm sorry. I apologize. Just a couple of quick questions. I was wondering if you could provide a little colour on the Vaughan D.C.? Just what percentage it's utilized right now, what you're seeing? Is it surpassing your expectation, that sort of thing?

BILL MCEWAN: We're very proud to have brought the Vaughan facility on stream very much consistent with our plan that started five years ago. It became fully operational in middle of October. It began operations on July the 1st or thereabouts. We're very satisfied with the transition of grocery from Whitby and Milton. We're not disclosing the capacity that we have not the capacity we're utilizing at this point. But suffice it to say we've built in additional capacity for future growth, and we're very satisfied with the operation. The management team and the project team that brought it on line did a terrific job, and we're very pleased and very proud of what we've accomplished thus far.

Lots of optimization to go from here, including some DSD consolidation and some consolidation of other store orders from the other facilities yet to come, but it's right on track and meeting our expectations as we outlined.

KEN CHERNIN: That's great. Thank you. And in terms of Quebec transformation, do you have anything in any timeline for that?

BILL MCEWAN: We'll be sharing the timeline with you before the end of this fiscal year. We will be proceeding with the final transition of the SAP implementation in the province of Quebec, having done a very careful GAAP analysis considering the differences and the nuances of the Quebec environment, not the least of which is the change management associated with language and making sure we're lined up to execute as well as we have everywhere thus far. And we'll disclose that timing. But you will see it unfold. We're in the process of developing the specific blueprints and plans right now, but it will unfold in the next minimum two years.

KEN CHERNIN: All right. Thank you. And sorry, just one more question. It's regarding the sale of the eight properties to Crombie REIT. I believe in Crombie's press release they said over the next six months. Do you… in stages. Can you provide any colour of when you expect the sales to happen or are you able to do that?

PAUL SOBEY: Not able to do that at this point in time. Some of them will probably close before the calendar year end, but it could spill into their first quarter.

KEN CHERNIN: Okay.

PAUL SOBEY: Okay. Yes.

KEN CHERNIN: That's great. Thank you very much. No further questions.

PAUL SOBEY: Yes.

OPERATOR: Your next question comes from Jim Durran from National Bank Financial. Your line is open.

JIM DURRAN: Good afternoon. Just on the Vaughan D.C., how far out do we have to look before you think that your distribution costs as a per cent of sales could become a contributor to improved margins?

BILL MCEWAN: There's a slope and a ramp up based on operationalizing it and optimizing it now. There's also the capacity changes and the reconfiguration of the other two D.C.s, which because we emptied them of grocery, until we retrofit them for fresh as we had intended, we don't get the full productivity out of those two sites. But once we get that done and Vaughan continues to… we continue to optimize Vaughan, you'll see a slope, and that slope has started today.

We're realizing benefits and distribution costs today, and as we've mentioned before, we're realizing benefits in store-level savings based on how the pallets arrive and how they're sorted and the labour savings associated with much better load integrity, much better load accuracy, and loads that are sorted in a store-friendly way. So we're not quantifying them, but the benefits have commenced and the slope will continue.

JIM DURRAN: Okay. That's great. Just back to comp store sales and inflation, when you came out of the last quarter you'd indicated that inflation had essentially touched zero, so consistent with, I guess, the full quarter. Did you see any material change in the inflation through the quarter?

BILL MCEWAN: The inflation, the slope is downward. So we now, we have passed zero, and we're in deflation at this moment. And the slope is downward from the first period of the second quarter, which was period four to period five in our case, and then it finished in negative territory in period six.

JIM DURRAN: And would you attribute most or all of that to what's going on in terms of FX in produce, et cetera, or has there been some, you know, natural price deflation and any increase in price promotion activity?

BILL MCEWAN: Yes. It's all three. So you've actually identified the three factors working in concert to create deflationary pressure. You know that's called the promotional pressure that there's been to the extent that it's happened in some regions, this inflation created by a desire to generate traffic for stores. But the FX influence for sure, and then some national deflation as things normalize from the highs of last year and the year before, all work in concert towards this deflationary trend.

Don't forget we're cycling 4 per cent inflation. And I'm glad you called it out because as we… you know, 2.7 comps on negligible inflation, cycling 5.4 per cent comps the last quarter and 7.6 per cent comps, which I'll remind you included, as I said, 4 per cent inflation, and the benefits of a competitor strike in Quebec that we're cycling this full quarter, that at the time I believe we indicated was approximately 1 per cent of our total comp store sales. So we just think it's appropriate to call that out.

JIM DURRAN: So would you say that your volume trends then – you know define them how you wish – have improved in this quarter versus last quarter?

BILL MCEWAN: Our volumes and item counts are up.

JIM DURRAN: Quarter-to-quarter, sequentially?

BILL MCEWAN: Quarter-to-quarter, sequentially, and obviously as a result of that year over year.

JIM DURRAN: Yes. No, that's great.

BILL MCEWAN: I think people need to be careful when they start talking about that because you have to look at average item count, tonnage and total, and average dollars per item. And there's a significant mix shift at this time of year as you head into the holiday season. So my position would be a lot of people are looking at this two… one or two dimensionally. There's actually a third dimension, an average item value as the mix changes from season to season. It needs to be considered.

JIM DURRAN: And would you say then that… I'm not even sure how to ask this question, but that the manufacturers are ponying up more support funds for the food retailers at this point?

BILL MCEWAN: I won't speak for what's happening elsewhere, but based on the performance and there's nothing that drives willingness to invest than sales and sales performance on our core programs that we negotiate on a national basis, through our national procurement, and what our regional teams on a regional basis. So I say based on the performance that you're seeing, the relatively strong performance in same-store sales and over off sales from Sobeys, that they're coincidental and corresponding investment by suppliers.

I won't comment on what's happening elsewhere, but we're satisfied that a good percentage of the suppliers are getting good performance for what they choose to invest with us.

JIM DURRAN: Okay, great. I'll let somebody else ask some questions.

OPERATOR: Your next question comes from Patricia Baker from Scotia Capital. Your line is open.

PATRICIA BAKER: Thank you. Good afternoon. Bill, I'm just wondering if you can clarify for us whether you saw any discernable difference in the consumer behaviour in your stores on a sequential basis this quarter versus last quarter?

BILL MCEWAN: I would point to a few things, and I mentioned it kind of cryptically in the average item value.

PATRICIA BAKER: Uh-huh.

BILL MCEWAN: People are trading down from what I would call multi-packs, particularly in areas like meat where they might be buying a pack with three or four chuck steaks in it or blade steaks in it. They're going to packages of two. So that's why I say we have to be careful that we look on one dimension of item count or volume and average item value.

So we're seeing some trade down in portion sizes in store with a corresponding offset in a number of items that are being purchased through the store. So that's the one that I'd be willing to point to for this quarter that's, you know, more noticeable than it has been.

PATRICIA BAKER: So more noticeable this quarter than it would have been in the prior quarter?

BILL MCEWAN: Yes.

PATRICIA BAKER: Okay. That's really interesting. Then secondly when you were answering Jim's question and talking about the various things that contribute to deflation and mentioned the promotional environment, so presumably Sobeys, across the board, actually also was more promotional this quarter than you might have been a year ago?

BILL MCEWAN: Not necessarily.

PATRICIA BAKER: Okay.

BILL MCEWAN: Not necessarily. I think… and it's very situational.

PATRICIA BAKER: Hmm-mmm.

BILL MCEWAN: There's no way of answering that, Patricia, as one question because as you know it's a very regionally driven business in our case, and we go to business differently against the different competitors coast to coast. You know, there's more promotional activities in some areas than others. There's more store openings, which generate promotional activities in some regions than others.

PATRICIA BAKER: Right.

BILL MCEWAN: And as a result of that you've got this pursuit of traffic that has at least a short-term impact on your metrics and has had at least a short term impact on the amount of promotional investment. So it's very dynamic, as you know.

PATRICIA BAKER: Hmm-mmm.

BILL MCEWAN: It's not the same in every region in any given period. But we've had seen some of the deflationary pressure based on promotions heating up in some cases, like I said, due to new store openings.

PATRICIA BAKER: Hmm-mmm.

BILL MCEWAN: And in some cases due to the competitive reaction.

PATRICIA BAKER: Okay. And then lastly if we just look at your model, your operating model then and everybody's very focused of course on the… you know the slowing trend in sales, deflation, et cetera, et cetera, we look at your operating model, what kind of a comp do you need to guarantee that you get operating leverage?

BILL MCEWAN: Well, you need to grow to get more operating leverage.

PATRICIA BAKER: Yes.

BILL MCEWAN: But we're in the business of managing swings one way or the other. Just like Perry asked the question about deflation and how do you protect margin, you know you just… you understand the dynamics of deflation versus the dynamics of inflation. If we have a drop in sales per square foot and not just overall or in a region, but on a store-by-store basis, we have to drop to make sure that we don't get bitten on the operating leverage. You adjust your labour ratios, your supply ratios, and other things that you can impact on a store by store basis.

So again, it's just the ebb and flow and dynamics of our business to stay on top of it.

PATRICIA BAKER: Okay. And are you suggesting that you're fairly nimble with respect to how quickly you react to these things?

BILL MCEWAN: Yes, we are. We always have been, I think. But you know with improved, as I mentioned before, improved systems, which we've invested heavily in in the last six or seven years, and improved management capabilities, we're on top of it on a much more agile basis than we were even before.

PATRICIA BAKER: Okay. Thank you very much.

OPERATOR: Your next question comes from Sarah Chiasson from Beacon Securities. Your line is open.

SARAH CHIASSON: Good afternoon. How is the repositioning of the private label progressing and what is the timeline for the bulk of these changes?

BILL MCEWAN: It's positioning right on track with our expectations. By the end of this calendar year, so by December 31st, we'll have over 2,000 products converted. And by the end of our fiscal year we'll have 100 per cent of the Signal products, which you'll remember are the replacement products for the Compliment Value tier in place.

From that point forward it's a slower turnover because there's some new items being introduced, and we expect that for everything that we need to convert will be done by early fall of 2011.

SARAH CHIASSON: Okay, great. That's all for me. Thank you.

OPERATOR: Your next question comes from Keith Howlett from Desjardins Securities. Your line is open.

KEITH HOWLETT: Yes. Sorry, was that the calendar year fall ’11 to finish the private label?

BILL MCEWAN: I should clarify ‘cause I used two different years. By the end of this calendar year, so in a few weeks we’ll have launched or converted more than 2,000 products of all tiers. By the end of our fiscal year, which is May, we will have converted all the Compliments-Value tier to the new Signal label. And then from there until fall we’ll convert the balance of our portfolio to whichever tier it belongs in.

KEITH HOWLETT: Great. Thanks. And I was just wondering if you are thinking about adding any additional Price Choppers in Atlantic Canada or – I know I think maybe you’ve got one in Manitoba or something if I recall, but... – or moving them into Western Canada?

BILL MCEWAN: We wouldn’t… if we were, we wouldn’t share it on this call. But we have no specific plans that we would be in a position to share with you to do so today.

KEITH HOWLETT: And then I was wondering, are you still running dollar zones in any Price Choppers or not?

BILL MCEWAN: No. No, we've eliminated the dollar zones. There might be one or two hangovers, but that's something that we tried. It seemed that the concept didn't work all that well in the vast majority of stores we executed it in. So it's been… we actually had it in a few Sobey stores as well, but it has been taken out.

KEITH HOWLETT: And can you update us on, if you can, on the Sobeys Club and the Sobeys credit card?

BILL MCEWAN: Yes. Our financial services program and our loyalty program and our insights program was something that we launched, as you know, about a year and three months ago. What we indicated at the time is it was launched behind the Club Sobey effort, but I think it's important to draw out that the real strategic benefit of the Club Sobeys program and the Air Miles program beyond rewarding the patronage to customers, is the customer insights capability. That's the primary reason that we moved forward with it.

So on the loyalty side we've been analyzing the data, working with our partners, Clear Sell, who's a very accomplished set of resources who do business in UK, the U.S. and Canada, ex-Dunnhumby personnel who have worked with us for a couple of years now to understand the data, how to batch it, how to analyze it, how to apply it. And that program is well underway in two out of the four of our regions with more to come in the others. So we're well advanced in the application of customer insights.

The Club Sobey program, it's still ahead of our expectations. As we reported, we got off to a great start when we launched it last September, exceeding our expectations for sign up in both Ontario and the West. We reactivated the Air Miles program in Atlantic Canada in Sobeys and re-launched it and introduced it to the Foodland banner, and it's always been an anchor program for us in Quebec.

In September we launched Club Thrifty Foods on the identical platform for the identical strategic reasons that we launched Club Sobeys elsewhere, and it was even more successful, and it perhaps because of the dominate market share that Thrifty's has in that portion of our business than the Club Sobey program.

So we're very pleased with the programs themselves, the penetration, the growth, the customer uptake, et cetera. We're very pleased with the development of insight and where we're headed with that as a strategic tool to market more effectively. And on the financial services side, our credit card program is active. We don't disclose the specific numbers of customers, but we're satisfied that for the customers that have signed up for it, it's performing as expected. But it's behind what we had hoped for, but it's still a solid portfolio of financial services credit cards.

So I think that was what you were asking for. I'm not sure if there was anything else.

KEITH HOWLETT: Yes. No, that's great. Thanks very much.

UNIDENTIFIED MALE SPEAKER: All right.

OPERATOR: Again, if you have a question, press * then the number 1 on your telephone keypad.

Your next question comes from Jim Durran from National Bank Financial. Your line is open.

JIM DURRAN: Yes. Just wanted to ask about the residential business out West. Do you feel that it's nearing bottom now? What's your sort of assessment of the outlook for that business?

PAUL SOBEY: Well, Jim, I think the last time we called we feel we're, you know, at the low ebb of the business, but you know it fluctuates so much I think we said last call we felt it would be around the $3 million to you know $5 million range. We were just around the $5 million range this quarter. The next few quarters, you know, should be around the similar type ranges is my guess, maybe a little bit better, maybe a little bit… it's hard to tell, Jim.

JIM DURRAN: Yes. No.

PAUL SOBEY: It really is.

JIM DURRAN: It's a tough business to predict right now.

PAUL SOBEY: It was surprising that it picked up to the upper end of our… you know the comments that we made, so...

JIM DURRAN: Was that based on just inventory that's ready for sale at this juncture?

PAUL SOBEY: Yes, inventory that's ready for sale, and you know, their management group adjusts to their market expectations. So, you know, the available for sale lots, inventory that they would have, will be a little bit less than otherwise, so. But they're going to, again, adapt and adjust as they feel the market is progressing, so.

JIM DURRAN: Great. Thanks, Paul.

PAUL SOBEY: Yes.

OPERATOR: There are no further questions at this time.

PAUL BEESLEY: Thank you very much. Ladies and gentlemen, thanks for your continued interest in Empire. We look forward to having you join us for Empire's third quarter conference call on March the 10th. Goodbye.

OPERATOR: This concludes today's conference call.

****