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OPERATOR: Good afternoon, my name is Krista (phon), and I will be your conference Operator today. At this time, I'd like to welcome everyone to the Empire Q3 Fiscal 2010 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 star, then the number one on your telephone keypad. If you'd like to withdraw your question, press the pound key. Thank you.

I would now like to turn the call over to Paul Beesley, Executive Vice President and CFO. Please go ahead.

PAUL BEESLEY (Executive Vice President and Chief Financial Officer, Empire Company Limited): Thanks a lot, Krista, and good afternoon and welcome to Empire Company Limited third quarter conference call. Thanks for joining us today. Our comments will focus primarily on the financial results for the third quarter ended January 30th, 2010. We'll then be open to your questions.

I'd like to remind you that this call is being recorded on live audio on our website at www.empireco.ca.

Today's discussion includes forward-looking statements, and we want to caution you 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.

(Inaudible) me on the call this afternoon are from Empire Company Ltd., 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, CFO and Paul Jewer, Senior Vice President, Finance and Treasurer.

This morning we released Empire's financial results for the third quarter ended January 30th, 2010. We reported revenue for the third quarter of $3.84 billion compared to $3.8 billion in the previous year, a $36.2 million increase. Third quarter operating earnings, that is, earnings before capital losses and other items, equaled $68.3 million or $0.99 per share compared to $64.8 million or $0.98 per share in the third quarter 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 from 65.7 million last year. As a result of the equity issue completed in April of last year. There were no capital gains or losses and other items in the third quarter of fiscal 2010 compared to net capital losses and other items of $3.5 million in the third quarter last year. Capital losses and other items in the third quarter last year were largely due to Sobeys fair value adjustment of 3 million, net of tax, related to asset backed commercial paper investments.

Net earnings in the third quarter were $68.3 million or $0.99 per share compared to $61.3 million or $0.93 per share last year. Empire's liquidity remains strong, with cash and cash equivalents of $257 million at the end of the third quarter, and authorized consolidated bank credit facilities exceeding borrowings by a total of $884 million. The ratio of net debt to capital at the end of the third quarter equalled 26.4 percent versus 33.2 percent at the end of the third quarter last year.

I'll 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 consolidated earnings performance and improved financial conditions continues to reflect the strong performance of Sobeys, and Bill will comment on this a little bit later.

During the quarter, Empire's real estate division recorded earnings before capital gains and losses of 6 million versus 10.5 million last year. Residential earnings accounted for 3.4 million of the decrease, while earnings from commercial property operations declined by 1.1 million. The decline in residential earnings was expected as we'd previously advised. Residential net earnings contribution to Empire of 2.7 million or $0.04 per share.

Crombie REIT's contribution to Empire's operating income in the third quarter was 4.4 million versus 6.5 million last year. The decline is largely due to a decrease in future income taxes recorded in the third quarter of last year. In terms of occupancy rate, both the retail and office markets where Crombie has a prominent presence remains stable, with occupancy levels relatively unchanged from the prior year. During the third quarter, Crombie announced the acquisition of eight retail properties from ECL Development for 62 million at an average capitalization rate of 8.16 percent. Subsequent to quarter end, the sale of the first tranche of five properties closed for proceeds of approximately 31.5 excluding closing and transaction costs. The remaining three properties are expected to close by the end of our fiscal year.

Operating earnings in the third quarter from investments and other operations, net of corporate expenses, improved by 1.4 million over Q3 last year largely the result of higher earnings from Empire theatres and higher interest income. The increase more than offset the decline in equity contributions from Wajax, which we had expected. For detailed information on both Crombie and Wajax performance, please see their third quarter releases dated February 25th and February 26th respectively.

Bill will now provide his comments on the performance of our food operations.

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

Sobeys Q3 sales increased $33 million to 3.77 billion, up from 3.74 billion last year. Net of significant deflation of minus 1.5 percent in the quarter and cycling (phon) exceptionally high inflation in Q3 last year, same store sales grew by 0.3 percent in the quarter. However, when adjusted for the positive effect of a competitor's labour conflict during the same period last year, Sobeys same store sales increased by approximately 1.3 percent. Sobeys Q3 net earnings increased $9.7 million to 63.5 million, up 18 percent over last year. Trailing four quarter net earnings increased $37 million to $261 million, up 17 percent. Sobeys EBITDA in the third quarter increased $700,000 to 177.5 million. Trailing four quarter EBITDA totaled $741 million, up 33 million or 4.6 percent. Third quarter EBITDA as a percentage of sales was 4.70 compared to 4.72 last year.

Continue to invest in our store network and infrastructure. During the third quarter, we invested $74 million in our store network and infrastructure. Six corporate and franchise stores were opened, acquired or relocated. Four stores were expanded and three stores were rebannered. Despite $331 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 $257 million. At the end of the third quarter, Sobeys funded debt to capital ratio was 27.7 percent, down from 33.4 percent a year ago.

We are pleased that as a result of our ongoing operational improvements and strengthened financial condition, Standard and Poor's upgraded Sobeys credit rating to triple B minus recently. As we noted earlier in the year DBRS has upgraded the company to triple B.

Our momentum and progress continues on the strength of a series of strategic management and operational improvements and investments we have made over the past several years. Fresh handed (phon) management and workforce management continue to fuel our highly competitive and nimble promotions and pricing program requirement. Our product and service innovation initiatives continue to come on-stream. The execution of our Compliments, private label program repositioning that we outlined in the first quarter continues and is on track.

Continue to leverage our scale and procurement and more and we do so without compromising the clear advantages of regional and local management teams executing with authority and more agility to capture individual market opportunities. Club Sobeys, Club Thrifty Foods and Air Miles programs all continue to attract new customers each month. All built on the same platform and inclusive of the strategic and comprehensive customer insights capabilities that we have in-house through our exclusive, highly qualified third party relationship with Clear Cell.

Distribution network has been continually updated and expanded and a new automated distribution centre in Vaughan, Ontario continues to meet our expectations. As we've said before, we remain committed to continuing -- to improve our performance by improving our offering first, supported by our service, increasing productivity, lowering cost and executing well and consistently store-by-store.

We'll now conclude by turning it back to Paul for comments.

PAUL SOBEY: Thanks, Bill.

Saw good progress in the quarter and fiscal year-to-date. Going forward our key priorities have not changed. In closing, Bill and I would like to acknowledge that sustainability has been made possible by more -- by the more than 90,000 employees, franchisees and affiliates of the Empire group of companies. They have been and will continue to be instrumental in creating a successful and exciting organization and that success has in turn created a winning environment.

We'll be now happy to respond to your questions. Thank you.

PAUL BEESLEY: We'll take calls now. Thank you.

OPERATOR: At this time, I would like to remind everyone, in order to ask a question, please press star, then the number one on your telephone keypad.

Our first question comes from the line of Patricia Baker from Scotia Capital. Your line is open.

PATRICIA BAKER: Good afternoon, everyone. Bill, I wonder if you could talk to us about the trend that you saw in the gross margins in the quarter? What accounted for the change?

BILL MCEWAN: Well our gross margins for the quarter were down between 20 and 30 points and our expenses improved to offset that. For all intents and purposes there's only a 2 point difference in EBITDA margins, as you know. The combination of a few factors, we had the benefits, we've mentioned before of the competitive strength in last year that contributed to the higher margin rate of higher margin dollars of sales last year, and the increased promotional activity through the Christmas period accounted for a portion of the margin investment that we made. So those would be the two highly contributing factors.

PATRICIA BAKER: Okay. And on the second quarter conference call, you referred to looking at average item value, maybe talk to that a bit. Can you talk about what the trend was there in this quarter?

BILL MCEWAN: Average item value was down but average transaction size is down. Customer count continues to climb and the two -- on the average item value and the basket size, those are both driven by the significant deflation in the quarter.

PATRICIA BAKER: Okay. Thank you very much.

BILL MCEWAN: Okay.

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

JIM DURRAN: Great. Thanks. Good afternoon. As far as the performance of sales in the quarter, would you say that you saw any significant change in consumer spending habits, or are we still seeing trade down? Has that sort of ground to a halt? And on your private label program with the relaunch moving in place, have you seen any pick up in your private label growth?

BILL MCEWAN: I'll answer those in reverse. First of all, yes, we've seen pick up in the private label growth. We're very pleased with the

Sensations red positioning, and we're very pleased with the early signals on the Signal brand, which we expect to have fully transitioned from (unintelligible) by the end of this fiscal year. In terms of consumer spending habits, no, not discernible change from the prior year. We'd only already seen and mentioned, Jim, on prior calls that we've seen this trading down or levelling out to lower transaction sizes, particularly in the meat department, and that trend has continued, for all intents and purposes, as is.

JIM DURRAN: And with respect to the Vaughan DC, how close are you now to sort of the expected metrics you had in terms of handling cost etcetera?

BILL MCEWAN: At this point in time we're right in line with our expectations on productivity and throughput. As I'd said, we're right on track. It's been a very precise performer and good performance, exactly consistent with our expectation. You know, it will continue as we've said before, as we put more volume to that facility it's exponential almost, all the benefits will flow, but we're right on track with what we had expected with the Vaughan facility. We're very pleased with its operation.

JIM DURRAN: And how far out would you expect it to sort of peak?

BILL MCEWAN: Well, it's all driven by the capacity. The variable cost of putting a case through and volume increases is negligible, so I won't say it's limitless but until we reach full capacity in the facility, which is sometime out, we won't have reached its peak potential, so there's lots of headroom for performance associated with the distribution with just the cost (phon) out of Vaughan.

JIM DURRAN: Okay. I guess a question for Paul, just on the residential real estate side. We have seen a significant improvement in housing starts in the Alberta market, can you give us some ideas as to whether you feel this is just a timing issue for you guys or is it related to some other dynamic in Alberta?

PAUL SOBEY: Well, number one, the performance has been basically in line with what we'd indicated previous quarters. I think Genstar itself is going to have to go through a rebuild on a lot of their lots positions, and during the recession they prudently, you know, reduced their inventory levels and managed their capital accordingly, so they're going to be going through a rebuild period. So we're very pleased with the performance. They're still very well run and it's on (phon) our expectations.

JIM DURRAN: Okay. Thanks, Paul.

PAUL SOBEY: Yes.

OPERATOR: Your next question comes from the line of Perry Caicco from CIBC World Markets. Your line is open.

PERRY CAICCO: Bill, can you call out the primary categories that drove the deflation number in the quarter, and tell us if there's been any change in any of those trends over the February/March time periods?

BILL MCEWAN: The two driving categories in aggregate are driven by number one, meat, and number two, produce. There were modest declines in the other fresh (phon) departments and pretty much stable (unintelligible) slight declines in grocery. So that is, I would say, meet particularly accelerated from prior quarters, the rest -- I'm sorry, meat and produce and the rest were pretty much on track from before. The change from where we were to where we are is driven by those two departments primarily.

PERRY CAICCO: And has there been any change recently?

BILL MCEWAN: No, and again, we anticipate similar deflation in the fourth quarter.

PERRY CAICCO: Okay. Bill, your SG&A dollars were just about flat to last year, which I guess is, you know, a pretty good testament to cost control and efficiency. I'm just not asking you to sort of guide or forecast, but I'm just wondering if this is a rate or level that might be indicative of what the business can run at going forward?

BILL MCEWAN: No, we still have room to improve our SG&A. It won't be in leaps and bounds but would be a steady modest, continuous improvement (phon) in SG&A, and those will come from various efficiency initiatives associated with our administrative functions, primarily, and just ongoing scrutiny on cost management. But, no, Perry, there's still room, but it won't be in significant chunks, it'll be in steady increments.

PERRY CAICCO: But though, basically the Q3 performance you think could be repeated or improved upon.

BILL MCEWAN: Yes, I do.

PERRY CAICCO: Okay. And last question then, has the strong Canadian dollar changed the way you deal with your grocery suppliers? Does it create opportunities that you could possibly leverage this year, either into pricing or into margin?

BILL MCEWAN: Well, I'll put it this way, we've -- in dealing with our suppliers, not directly and only related to the Canadian dollar, we are, as you know, open for business and we're seeking additional promotional investment and making sure that we're competitive on acquisition costs, so I wouldn't say it's driven by the Canadian dollar. Maybe a contributing factor vendor by vendor, but nothing of any serious magnitude that I'd be able to report, Perry.

PERRY CAICCO: Okay. That's it for now. Thanks.

OPERATOR: Your next question comes from the line of Peter Sklar (phon) from BMO Capital Markets. Your line is open.

PETER SKLAR: Bill, just a follow-up question on the deflation outlook. What's the, in your mind, is the primary driver there? Is it the dollar promotional activity there or just the strong comping that you're doing?

BILL MCEWAN: Well, it's a function of those that you'd mentioned, the dollar, but don't forget, we, as I'd mentioned in the remarks up front, we're cycling (phon) the highest period of inflation this time last year. We reported last year in our 7.6 percent comp store sales increase, 4 percent of that was inflation, which gave us the net of3.6 last year. If you look at the contributing factors this year, you've got 1.5 in deflation, 1 percent associated with the competitive cost strike (phon) which puts us in that 3 percent range on, let's call it, adjusted same store sales net of inflation and that (phon). So it's the cycling as much as it is the Canadian dollar impact on deflation overall.

PETER SKLAR: And what about some of this weather they've had in the States? I know that the tomato crop was pretty well wiped out when it cycled through Florida, I mean is that helping you at all on the produce side?

BILL MCEWAN: No, it's not helping us at all, really.

PETER SKLAR: I mean is it revert -- are we getting some wholesale inflation on the produce side because some of these crop issues?

BILL MCEWAN: No, we have not.

PETER SKLAR: Okay. I just had a couple of questions on Empire. Just wonder if I could get a update on how much square footage you have under development on your commercial properties?

BILL MCEWAN: Overall basket was around two million square feet, and that's relatively unchanged from prior quarter.

PETER SKLAR: And that includes the latest parcel that you announced the sale to Crombie on...

BILL MCEWAN: No.

PAUL BEESLEY: No.

PAUL SOBEY: No.

PETER SKLAR: Okay.

BILL MCEWAN: (unintelligible).

PETER SKLAR: And I wasn't clear by your comments earlier, the 62 million proceeds on the sale of the properties to Crombie, you had not received any of that by the end of the third quarter, is that correct?

PAUL SOBEY: That is correct.

PETER SKLAR: Right. Okay, that's all I have. Thank you.

BILL MCEWAN: Thank you.

OPERATOR: Again, if you would like to ask a question, please press star, then the number one on your telephone keypad.

Your next question comes from the line of Keith Howlett from Desjardins. Your line is open.

KEITH HOWLETT: Yes, I had a question just on the business process initiative that you will be doing in Quebec. I'm just wondering if you have any sense on when that will get underway?

BILL MCEWAN: Sure. Well, in fact, in the development and planning stages on what we call, blueprinting, it's been underway for six to nine months. In terms of the go forward, we expect to be fully implemented our SAT (phon) implementation, net of some not insignificant upgrades in 18 to 24 months. So we're well underway, we're into it, but we begin implementation in a phased, methodical way, like the other implementations, over the next 18 to 24 months. So you can take that as our guideline for now.

KEITH HOWLETT: Great. And just on the Club Sobeys Clear Cell, are you in the sort of data analysis stage or are you already beginning implementation of sort of some of the benefits of that relationship and information?

BILL MCEWAN: Well, as you know, with our Club Sobeys and Air Miles and Club Thrifty Foods programs, we established the data collection mechanisms through those loyalty mechanisms. That was step one. Since then -- and not since then, but in development before then, just at the same time and since we've had the customer insights solutions work that has been completed, so we have our analytical data and segmentation models all set, and we are in active analyst utilization and application of the insights in the marketplace today. Not entirely across the country but in three of our four regions.

KEITH HOWLETT: In -- would you anticipate the benefits of that work, does it take some period of time, like, four, five or six quarters before you begin to see benefit? I'm just thinking of the -- I don't know what the experience is in the US or UK was as to how long it takes after you begin this to start to see change in consumer behaviour related to these programs?

BILL MCEWAN: Well it's not so much change in consumer behaviour as it's change in the retailer's behaviour. We behave differently because we have more intelligence by what retailers are really motivated by and are looking for. So it allows us immediately to target more efficiently things that people value. So in the earlier stages, as we begin the insight analysis and -- or the data analysis and insight solutions applications, there's some learning, and, you know, you learn through the process of putting in place direct mailing options and customer insight solutions and marketing campaigns, and you modify along the way. So we've had some initial not in significant benefits, and we're tracking and measuring the impacts and adjusting as we go. This is a continuous improvement process that will deliver sustained efficiencies and benefits over the long term. But make no mistake about it, we think we're well ahead of where others might be in the analysis of the information and the development of implementations through marketing programs, and we're in the process now of determining what is the best way to configure our data to share with our vendor community, to further improve our sales and merchandising efforts. So it's a long, continuous process, but make no mistake about it, we're well beyond the starting point.

KEITH HOWLETT: Just -- I know you don't typically speak about regional markets, but just, I don't know if you can comment generally how the west, which has been, I guess, an area of the most activity, maybe not, but that's what I perceive anyway how the western market has sort of generally fared through the year.

BILL MCEWAN: Well as you know, we don't segment banner or regional results, but I'll give you a general statement. That we're satisfied with our growth.

UNIDENTIFIED SPEAKER: Satisfied.

BILL MCEWAN: We're paid to be unsatisfied, but we -- our growth is solid, our team is in place, our performance is consistent, we've got a good plan and from our perspective we think we're on track to make even greater improvements going forward. The marketplace itself went through a more, I suppose, recalibration economically than anywhere else in terms of the housing start declines and the unemployment issues, particularly in Edmonton, but also in Calgary and elsewhere. So we're still going through that cycle, but on the other hand it's had positive effects. We have considerably less employee turnover than we did a year or two ago in the west because things have stabilized, in a positive sense, that way, so the market's still as you know continues to be highly competitive, there's additional discount square footage in here, but we remained absolutely determined and reasonably successful to this point and expect to be going forward with our fresh offering and our positioning in this marketplace to satisfy that consumer requirement. So a competitive market, lots of square footage, a lot of dynamic change, economic downturn, unemployment, all of those factors, but we are not displeased with our relative performance in the market.

KEITH HOWLETT: Just one last question. I -- sort of my lack of knowledge really, but on the Empire theatres business, I'm just trying to make sure I understand the numbers, do they rent the premises from Crombie REIT or is the number that one sort of infers or interpolates from the statements indicated, it's not that lucrative a business or -- I'm just trying to get a sense of where that business is, where it's going?

PAUL SOBEY: They do indeed rent a lot of locations but they also own locations, particularly in Atlantic Canada. The earnings contribution of the business from a net income perspective is low but the metrics on the cash flow return on their equity is similar to the industry, so.

KEITH HOWLETT: Great. So you're satisfied with the performance [talk over].

PAUL SOBEY: We're very satisfied with the performance during this period of time. They continue to make improvements.

KEITH HOWLETT: Great. Thank you very much.

BILL MCEWAN: Keith, just back on the other question, when I think of the west, we have a western region but we have an operation in BC as well and with our new stores in the lower mainland, we invite you to go look at them. We're quite pleased with how Thrifty's been accepted there.

KEITH HOWLETT: Great. Thank you.

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

PATRICIA BAKER: Yes. Just a follow-up question. Bill, in your answer to Perry, you did indicate that you expected to see a similar level of deflation in the fourth quarter, and then in the discussion with Keith you just reviewed quite ably a number -- all the factors that you're facing, can you share with us just your view, if we look out through calendar 2010, what your prognostication would be just on the industry and when we might see any sort of shift in the fundamentals?

BILL MCEWAN: Well, what we would be prepared to talk about there, frankly, our CFO has a great expression, because he's not exactly sure his crystal ball is any better than anybody else's but he's been [talk over]. He's been more (inaudible) on inflation than (phon) deflation than most.

PATRICIA BAKER: Yes.

BILL MCEWAN: He would say that on the deflation side, as I'd said before, we expect to continue through this fourth quarter, and then modest improvement in the less deflation heading towards modest or very slight inflation through the course of our fiscal year next year and that goes beyond the calendar year, so we see that. But from a consumer behaviour perspective, and the metrics in the industry, you know, no discernible change and we expect more of the same. Clearly, their announcement around this about competitive square footage that we've anticipated and have been prepared for, we have our own capital plans to continue to be aggressive to upgrade our network and expand our store base. So we -- I don't want to see more of the same because it's a very dynamic business, but we don't see any major disruption or anticipate any disruption and a little -- not smooth sailing but a continued competitive dynamic where we continue to make the improvements that we have thus far.

PATRICIA BAKER: So you're not looking for any abrupt -- you don't anticipate any abrupt shift in either direction basically.

BILL MCEWAN: No.

PATRICIA BAKER: Okay. That's very helpful. Thank you.

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

JIM DURRAN: Hi, Bill. I'm just wondering if you could give us an update on Price Chopper?

BILL MCEWAN: On Price Chopper -- well, as is very well understood, we have a strong team now in place in Price Chopper, and they continue to work hard to make refinements to the concept. And as

I've said a few times before, rather than preannounce what changes you might expect to see in Price Chopper, we'll just have to wait for you to see them as they occur in the marketplace. Not in the very distant future, you'll see some improvements to that format.

JIM DURRAN: Okay. And just to go back to the whole deflation issue. As I see it, the currency impact on deflation is going to get worse up into the March time frame, and then it starts to ease a little bit depending upon where the currency nets out. Would you then be suggesting that the competitive intensity was greater in the holiday shopping period less now going into this next quarter for you?

BILL MCEWAN: That's -- yes, sure, I'd be able to agree to that. That's fair. It was intent -- and I won't say that there was a panic, but I think with the deflationary impact, as we said so cautiously before, you really have to watch what you're doing in a deflationary environment and the tendency is to chase sales rather than understand the metrics and the impact of inflation, so there was some of that, there was some activity around Christmas time that we would consider slight panic, and we think that's stabilized and there's a better understanding that deflation is deflation and there's no sense chasing that which is not there.

JIM DURRAN: Okay. Great. Thank you.

OPERATOR: Again, if you would like to ask a question, please press star, then the number one on your telephone keypad.

There are no further questions at this time.

PAUL BEESLEY: Thank you very much, Krista. Ladies and gentlemen, this concludes the call. We appreciate your continued interest in Empire Company Limited, and look forward to having you join us for our fourth quarter call, which will happen on June 25th. Good-bye.

OPERATOR: This concludes today's conference call. You may now disconnect.

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