

EVENT: THE FORZANI GROUP LTD. - SECOND QUARTER
FISCAL 2006 CONFERENCE CALL
TIME: 8H00 E.T.
REFERENCE: 21134153
LENGTH: APPROXIMATELY 45 MINUTES
DATE: AUGUST 31, 2005

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OPERATOR: Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Forzani Group Ltd. Second Quarter Fiscal 2006 Conference Call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties hearing the conference, please press * 0 for operator assistance at any time.

I would like to remind everyone that this conference call is being recorded on Wednesday, August 31, 2005, at 8:00 a.m. Eastern time.

I will now turn the conference over to Bob Sartor, Chief Executive Officer. Please go ahead, sir.

BOB SARTOR (Chief Executive Officer): Thank you, and good morning, and welcome to today's second quarter conference call. I've got three other people with me in the room today: Bill Gregson, our President and Chief Operating Officer, who's going to be talking about our Corporate stores, and the tremendous progress we've made there; Tom Quinn, who will talk about our strong Franchise business; and Richard Burnet, our CFO, will provide some additional color on the results.

The way we see it, the progression of our results in the second quarter -- and certainly our performance in the latter part of the second

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quarter, and during Q3, to date -- certainly give us reason to be really optimistic for the second half. I think, more importantly, it basically tells us that, certainly, the turnaround plan for SportChek is going according to Hoyle. I'll talk a little more about that later on.

Well, we started off the quarter, we ended off Q1, and all of you who follow our stock, or our shareholders, would know that our Corporate store margins were significantly below last year, at the end of Q1, close to 400 basis points. Close to [inaudible] basis points of that was driven by inline skates and license margins, and the balance of it, clothing. We had expected, and communicated that we expected, to significantly improve our margins during the quarter, as we completed the last of our SportChek renovations, and as our new assortment began to take hold, and things did, in fact, improve quite dramatically.

For the quarter, overall comparable Corporate store sales improved 0.2 percent. Total margins ended off the quarter on an average of 200 basis points. More importantly, we ended up the quarter at corporate margins slightly below last year.

What's significant here is that the quarter did start significantly down, and in the span of 3 months, we were able to make up an enormous amount of ground on the margin front, without compromising sales.

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Our current run-rate during Q3 for SportChek and Coast is positive comparable sales of approximately 3.9 percent at margins that are running fairly heavily ahead of last year. As of this point in time, we're running about 140 basis points ahead of last year, and Bill will talk to the key categories, and how they're all performing as expected.

If we just step back for a minute, and look at the margin swing from the start of the quarter to where we are now, that's over 500 basis points, and I certainly don't have to do the math for the folks on the line. That is a significant turnaround, and we were committed to executing this turnaround at SportChek quickly. There is no doubt it was painful, but rather than death by a thousand cuts over a longer period of time.

Repositioning Chek, from store look to products, including in-store Visual and merchandizing and signage, as well as marketing, was difficult. It took 6 months -- which, quite frankly, we're very pleased that it *only* took 6 months -- and great effort. Now that it's complete, we look forward to reaping the results in the back half on the SportChek / Coast side.

I'm now going to ask Richard Burnet, our CFO, to provide just an overview for the quarter. Then Bill Gregson will come on and talk about Corporate briefly, and Tom Quinn will talk about some of our Franchise initiatives and the Franchise business.

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RICHARD BURNET (Vice President and Chief Financial Officer):

Thanks, Bob. Just to confirm dates, this year's 13-week second quarter was the period ended July 31st, against last year's second quarter ended August 1st.

Our retail system sales for the quarter were 305.1 million, a \$48.7-million increase from the sales for the quarter last year, at 256.4. Revenues, being the Corporate store sales, wholesale sales to franchisees, and related fees, was 243.6 million, a 27.2 million or 12.5 percent increase over last year.

The Corporate increase is largely sales stemming from the acquisition of National Gym in January 2005.

Our combined gross margin for the 13 weeks ended was down 210 basis points, to 34.2 percent of revenue, from 36.3 in the prior year. As was the case in the first quarter, overall gross margin performance was negatively impacted by Corporate store results in the inline and licensed categories, together representing a reduction in gross margin dollars of some \$3.3 million over the prior year. In absolute dollars, combined gross margin increased 4.6 million to 83.2, compared to 78.6 in the 13-week period last year.

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Comparable store sales from Corporate locations were up 0.2 percent, primarily a result of strong footwear sales, which themselves were up 9.5 percent. These gains were offset, to a large degree, again, by the continued declines in the inline skate category.

Corporate clothing sales, exclusive of the licensed products, were down 1.2 percent, and licensed clothing sales continued to suffer, primarily a result of the NHL dispute, and did end the quarter down substantially.

Franchise comp store sales were up 4.6 percent on the strength of summer clothing and footwear, and on a combined basis, comp store sales were up 1.8 percent.

Operating costs in the comparable stores were 27.1 percent of Corporate store revenues, versus 26.7 in the prior year. The comp store costs, in absolute dollars, increased 0.8 million, or 2 percent.

The overall store operating expense increase reflected the addition of the 19 National Sports stores, along with the opening in the past year of 18 Corporate stores.

G&A expenses were 8 percent of total revenue, or \$19.4 million, a decrease of 70 basis points, compared to the 13-week period last year. In absolute dollars, expenses increased 0.6 million, in part due to the acquisition, again, of National Sports.

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EBITDA was 8.6 million, compared to 14.7 last year, and earnings before tax for the 13 weeks were a loss of \$3.7 million, compared to a \$3.0 million profit for the same period last year.

Basic and diluted earnings per share were a loss of \$0.07, compared to a profit of \$0.06 in the prior year.

Cash flow from operations decreased from 11 million to 5.4 million. On a per-share basis, the cash flow was \$0.16, versus \$0.34 in the prior year.

Just a note on the accounting changes. The EIC 144, in the current year, the impact is about 0.5 million on net earnings, and in the prior year, 0.3 million. Bill?

BILL GREGSON (President and COO): Thanks, Richard. The second quarter, really, the focus on the Corporate side was about building momentum, and building momentum in our biggest banner that drives overall FGL revenues and FGL profits, which is the SportChek / Coast banner.

We finished the first quarter with a positive comp in the month of April on SportChek / Coast. We wanted to maintain those sales, and momentum starts by building sales, and as we said, margins would follow. To do that, we renovated 50 SportChek stores, and that finished in the first

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half, in July, to give us the new look of paint and light. The new assortment that came in in the spring, we felt strongly on, and the Visual merchandizing.

So we believe, with the new-look store, the new assortment, and new Visual merchandizing, and, beginning in the second half, in August, a new marketing program, we could build momentum again, and once you build some momentum, it tends to keep going, and that margins would follow.

So we executed the plan. We believe, in the second quarter, we continued to drive sales. Including August now, we've had 5 positive comp months in a row, on sales in the SportChek / Coast side. It's been a long time since we've been able to say that, and obviously, we are margin-challenged, though, in the second quarter, as we continued the renovation sales to get rid of the old merchandise, and prepared for the second half.

When you look at it, though, how the trend goes, we're quite happy. As Bob indicated, it got better as the quarter went along, and now, for the month of August, it's happening like we had hoped for. In the month of August, we have had positive comps, and, for the first time in a long time, at a higher rate, margin rate.

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And our footwear category is up in August, and our margin is higher than it was a year ago. Our hockey category, which is a key category in August, is up in sales, and a higher margin.

And, I'm happy to say, for the first time in a long time, on our clothing categories, our key sportswear categories, is that we have higher sales in the month of August *and* at a higher margin. It's been a long time since we've said that.

Also in the second quarter, we did invest some money to gain momentum in store hours. When you have a prolonged period of negative comps, you tend to cut hours. And when you tend to cut hours, you tend to cut customer service. We needed to increase our hours, and we needed to do it before we saw those sales gains, in order to be able to serve our customer better, and to try and get some comps. So we made that investment in the second quarter as well.

So, by the end of the second quarter, then, the single biggest contributor to our revenues and to our profits being SportChek and Coast. We had done the renovations -- over 50 stores -- and we had cleaned out the inventory. We had made the stores, I think, look visually much better than they had in a long time, and we're preparing ourselves of the start of the third quarter, which is the back-to-school period. And it was our

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expectation that we would comp positively, and that we would do it at a higher margin rate, and to date, that is what's happened.

So again, it's about momentum. Momentum, once you get it, you can ride that for a while, and build on it. Once you lose it, it's tough to get back, as we've experienced in the last couple of years. And so we think that, on the SportChek / Coast side, paying the price to build the momentum is behind us. Our inventories are clean. Our inventories are much better. Our stores look much better. They're visually presented better. And we added in some additional marketing to -- we brought in some people in August, from a brand point of view, to build it on a long-term basis -- and we've been successful with that.

On the Sport Mart side, Sport Mart is undergoing the same analysis, detailed analysis, that we did with SportChek in the last 6 months, as we come up with a revitalization plan. It will begin to take effect next spring. But we feel very confident that we can effect the same result in Sport Mart that we effected in SportChek and in Coast.

Just in terms of the quarter, in the first quarter, for all of last year, we had talked about license business, and we had talked about inline business. We are happy that we had a 0.2 comp overall for Corporate. You saw that the Chek / Coast side was up, and that Sport Mart was down. But

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the effect of inline skates and license cost us in the range of 1.5 to 2 points total comp sales negative, for the decreases in inline skates and in licensed product. And the good news is that inline skates, the back half is no longer an issue, and we have put in the plans to offset the inline business for next spring, through golf, bikes, team sports, and camping.

Obviously, this fall -- really, beginning in October -- and October 5, all 30 NHL teams play on the opening night for the first time ever, and so, beginning, really, in the month of October, we have a tremendous opportunity to begin comping positively overall, in terms of licensed sales.

So at this point, I'd like to turn it over to Tom Quinn.

THOMAS QUINN (President, Franchise Division): Good morning, ladies and gentlemen. As Richard mentioned, the second quarter was positive for Franchise business, and back-to-school has been starting off strong. All banners performed well, with our clothing, bike, and footwear categories leading the growth.

We launched our new Nevada Bob's prototype golf store in May, and both volume and margins are exceeding plan. We also plan on integrating and opening an additional 25 stores for spring '06, which will double our store base from spring '05, when we acquired the business.

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Our Pegasus prototype running specialty banner, and our Hockey Forum specialty banner for Quebec, will be tested this fall, and the business continues to move forward very positively.

And with that, I'd like to turn it back to Bob.

BOB SARTOR: Thanks, Tom. Another good quarter in Franchise. SportChek has responded quickly and, we believe, quite well to our efforts at repositioning in the past 6 months.

Our Franchise business, as Tom just pointed out, continues to do well. And if we step back and look at the components of our business -- National Sports, our acquisition in February this year met all of its expectations for the quarter. Both of our wholesale businesses, Gen-X Sports, our closeout and license business, and Intersport North America, our private label businesses, contributed well.

And as pointed out in our press release, and as Bill just pointed out, we're in the midst of a Sport Mart repositioning exercise that is the last piece of the puzzle, and fortunately, given its size and investment base, a far less significant task at hand. I'm very comfortable in saying that I believe the most difficult period for us is behind us.

Also, I just wanted to go back to the start of the year. We've said fiscal '06 was definitely going to be a transition year, with a tough first half

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and improved results during the back half. To date, all has transpired as we had expected, and we're very, very happy about that. As a result of this turnaround -- and turning around a 120-store big-box chain in 6 months is dramatic, in my view -- that's a lot of effort by the people in this organization, to get the Chek stores pointed in the right direction quickly, and we've done that, and the result of that is, we're off to our best back-to-school start, on both the sales and margin front, in several years, and with a completely revamped assortment, and one that is not subject to the kind of cannibalization we experienced previously.

We're feeling pretty good about the back half, and as we complete our work on Sport Mart, which, as I said, is the last piece of the puzzle, the results will just continue to improve.

I'm just going to ask our moderator now, Maria, to open it up to questions.

OPERATOR: Thank you. Ladies and gentlemen, we will now conduct the question-and-answer session. If you 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're using

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a speakerphone, before pressing any keys. One moment, please, for your first question.

Your first question comes from Jim Durran from National Bank Financial. Please go ahead with your question.

JIM DURRAN: Good morning. Just wanted to get a handle on the expense rate outlook. The swing factor, I guess, you're indicating, is Nevada Bob's and National Sports -- that's about \$10 million or so? But I would assume there was also some additional expenses with respect to the renovations going on in the quarter, and I also believe that last year, you were opening up the new DC and there was a million-dollar hit on expenses last year. So I'm just hunting for what you think is sort of a run rate, going forward, on expenses.

BOB SARTOR: I think, in the quarter, we probably had, to the best that we can tell, because not all of the hours were captured at store level -- it's probably a couple of cents, as it related to renovations, in terms of non-productive hours spent. But that wasn't a significant number.

In terms of run rate, what we're looking at for the back half, Jim, is, on a percentage of revenue basis, something not dissimilar to what we've experienced in the second quarter, as a percentage of overall revenues. We are growing our G&A base, because we've added, obviously, a

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precision retailing component to our company. In other words, we're doing what a lot of the best-in-class retailers are doing in the US, as it relates to planning, assortment planning, allocation, and replenishment. But quite frankly, the top line growth will more than absorb that cost, on a percentage basis. So, from a rate basis, you should not be expecting anything materially different.

And obviously, the only thing in SG&A, on the store operating expenses, we've got 18 additional Corporate stores. We were rate-challenged slightly in the second half, but we would expect that to correct itself, now that we see strong comps in the Corporate business again.

JIM DURRAN: Okay. Just one other question on Gen-X. Was there any recuperation of the lost sales in the first quarter and the second quarter?

BOB SARTOR: Very little. The bulk of our... and I'll give you an example. The bulk of our bookings -- because it's really on the licensed product side of booking business -- the bulk of our bookings are really focused on Q3 and Q4, and I can already tell you that, from a booking perspective, Gen-X is shooting the lights out, in Q3.

JIM DURRAN: Okay. I'll turn it over to somebody else.

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OPERATOR: Your next question comes from Bob Gibson from Octagon Capital. Please go ahead with your question.

BOB GIBSON: Good morning, guys.

BOB SARTOR: Good morning.

BOB GIBSON: Can we talk about the specialty banners in Quebec, and give me some more color on that?

THOMAS QUINN: Well, basically, where we're starting off, obviously, is going with the Nevada Bob's banner next year in that province. We did launch the prototype store in the month of May, and we'll be expanding that right across the country, as we go forward, in the next 24 months.

We are launching a prototype hockey banner for the province of Quebec only. Our store base that's there, in Sports Experts and Intersport, while they do a hockey component, there's still room for growth in a specialty banner in that province.

Our running banner, Pegasus, we will be running on a national basis, to compete in the specialty running categories, and that will be launched within the next 6 or 8 weeks.

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BOB GIBSON: Okay, great. If you look at the gross margin, how much [inaudible] can be attributed to your mix? Because clothing was down a bit.

BILL GREGSON: [inaudible] it's not so much the mix as it was the cleansing of the inventory. Certainly, on the apparel side, predominantly, the apparel margins, again, in the second quarter, ran significantly below where our long-term expectations are. That has changed dramatically in the last 5 weeks, as we have right-sized our inventories, or finished right-sizing our inventories, and as we've received tremendous sell-through on our new assortment. So it wasn't so much the blend as it was, I guess, cleaning up some past issues.

BOB SARTOR: This is Bob Sartor. I think another issue that's important to point out is, we wanted to get this done in 6 months, and we did not want lingering margin drag for a prolonged period of time. So when we basically divided the new assortment for SportChek on the clothing side, there was product that, quite frankly, didn't fit with our new sort of vision of where we were going, on the clothing side at SportChek. And importantly, I think, we said, "You know what? Rather than basically have this stuff in here, which is not going to be marketed, not really part of our go-forward strategy, we need to move it." And moving it slowly does no

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one any good, quite frankly. So we took conscious action to make sure we would start Q3 with the kind of inventory we wanted to have, going forward, that would tie in to the marketing we're doing, and if you look at some of the marketing initiatives on television, you'll see that we are focusing on some brands that certainly would not have been considered core clothing brands for Forzani in the past.

Something else, also on the clothing side, which some of you may or may not know, is that we did hire, during the second quarter, someone out of the US to run our apparel businesses on the Corporate side, someone with about 25 years' experience in the kind of clothing that we are moving forward with, and I think that's going to help us a lot .We critically needed that kind of long-term apparel expertise in our organization.

BOB GIBSON: Okay, great. And maybe just could you give us some of the gems during the quarter? What struck you as doing very well?

BILL GREGSON: Footwear. Footwear was an overwhelming success everywhere. Part of that may be due to the disappearance of Joggers, as we consolidated the marketplace at the beginning of the year. Footwear was the single biggest positive element, and it was very, very strong, from a sales point of view and a margin point of view.

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Other things were golf. Golf, we had a good golf season. We had a good bike season. Those were probably some of the highlights.

And then, on the Corporate side, and this has long been a success on the Franchise side, near the end of the quarter, and certainly at the beginning of the third quarter, our move into outdoor clothing, which is a new strategic move on the Corporate side, driven by Columbia and by North Face -- that's a business that we hadn't been in, to a great extent, and Franchise has been in there for a long time, and then we've had tremendous initial reaction to that as well.

BOB GIBSON: Great. Thank you very much.

OPERATOR: Your next question comes from Jean François Laplante from Canaccord Capital. Please go ahead with your question.

JEAN FRANÇOIS LAPLANTE: Yes, good morning, everyone. Could you explain why wholesale revenues are down 2.5 percent from last year, despite the Nevada Bob contribution and the timing issue in Q1, if I remember correctly?

BOB SARTOR: Yes, I think the biggest single contributor there is, last year's Gen-X top line was greater than this year's, but Gen-X obviously did a good job on margin and on expenses this year, to deliver the kind of

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numbers we were looking for from them. So really, it was not a purely Franchise issue.

JEAN FRANÇOIS LAPLANTE: Thank you.

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

KEITH HOWLETT: Yes, I wonder if you could just outline the store opening plan for the year, and what you've done, to date.

BOB SARTOR: Sure. You want to start with Corporate or Franchise?

BILL GREGSON: [inaudible] do Corporate. I don't have it to date, Keith, on the Corporate side. In the second quarter, we added 67,000 square feet. For the--

KEITH HOWLETT: Is that a net number, or...?

BILL GREGSON: Yes, that's a net number. For the rest of the year -- I don't have the numbers in front of me -- it's... I'm going to say it's in the range of 80,000 to 100,000 square feet, somewhere around there.

BOB SARTOR: And, Keith, just for your edification, from a Sport Mart perspective, obviously, we're busy on the rethink, as Bill said. I'm actually pretty excited as to where we're taking that banner, and I think we've hit on something pretty interesting there, which we'll be testing in the fall. We have obviously put any and all growth of the Mart banner on hold

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until we do that. So you should not expect to see any activity on that banner.

THOMAS QUINN: On the Franchise side, Keith, we plan on, and still are on track, to open probably an additional 189,000 square feet, spread out through the banners. Obviously, the fastest growth is going to be the Nevada Bob's category, as we integrate existing golf retailers into the system, as well as some of the new stores that have opened up.

Our Intersport and SportEx banners will, on the SportEx side, will probably open 1 or 2 stores in the year; Intersport, 3; and our Atmosphere banner will open 3 additional ones. So we're basically on track for the development we had talked about during the year.

KEITH HOWLETT: And just so I've got it, there will be 25 more Nevada Bob's by spring?

THOMAS QUINN: By spring '06. And that's a combination of new stores and converting existing golf retailers into the banner.

KEITH HOWLETT: And then, just a question on the National Sports. Maybe can you sort of just generally speak to what you're expecting from it, for the year, or...?

BOB SARTOR: In terms of... specific banner contribution, no. We don't specifically talk to that. We never have, and I'd be loath to do that, for

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competitive reasons, although less and less in Ontario -- the competitive issue is not as acute as it was. But we are expecting, from a top line perspective, probably in the \$82 million range for National, on an annualized basis this year.

And interesting to note as well is, Ontario is becoming one of our stronger-performing markets, so as we begin to hum on the SportChek side, even during our really strong days at SportChek, Ontario was not the strongest performer. So we're feeling pretty good about the Ontario marketplace.

KEITH HOWLETT: And as roughly as I computed it, the cost of National Sports was 30 million, including assumed debt?

BOB SARTOR: I'll get Richard to check that. Yes.

RICHARD BURNET: Yes.

BOB SARTOR: Roughly, yes.

RICHARD BURNET: Roughly, yes.

KEITH HOWLETT: And so would you be willing to talk as to what the multiple of acquired EBITDA was, or anything of that sort?

BOB SARTOR: No.

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KEITH HOWLETT: No? Okay. And I guess, just trying to figure out the Ontario market, you own Joggers... Or, that's right, Joggers is out of business. You own National Sport.

BOB SARTOR: Right.

KEITH HOWLETT: And EBITDA is down... I can't do the math in my head, but say it's down 40 percent from last year. So I guess what I'm trying to figure out is, if Ontario is better, where would be problem be?

[overlapping speakers]

BOB SARTOR: Well, we've been talking about it all along, in the sense that, when I say Ontario is better, I'm focused on, a) comp sales, and, b) on a relative basis, margin erosion. We have... The story in our business, I'd say, in the last 6 months, and the story, certainly, in Q2, has been one of margin erosion, as we retooled the assortment. It is, in a 120-store chain, with an average inventory level of, per store, Bill, about... net retail?

BILL GREGSON: It's probably around \$140, \$150 retail, per foot.

BOB SARTOR: Per foot. To basically completely retool the clothing piece of that assortment, which represents roughly a third, is something that is very difficult to do. And our view all along was that we are going to retool this in 6 months, we are going to be very aggressive with this

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repositioning, and it is going to cost us on the margin front. We had said all along that, once we do that, we expect results. And we see, obviously, what you don't see, and that is that the trend in Q2, specifically the last month of Q2, and in the really strong Q3 to date, where we say to ourselves, "Okay, it's all going according to Hoyle." So really, it was a margin issue, and when I talk about performance relative to the other markets, I'm talking about sales performance. So, as the margin now has crept up, obviously, the overall contribution from Ontario is going to be significant.

KEITH HOWLETT: And let me just finally, on the National Sports, I think last quarter, you gave their comp. I was wondering what their comp in Q2 was.

BOB SARTOR: The comp in Q2 for National would have been... I'm pulling that one out. As you can imagine, we've got thousands of numbers in binders that we have to flip through here.

KEITH HOWLETT: You can just send those over.

[laughter]

BOB SARTOR: Yeah, right! I think we're running roughly flat on National for the second quarter.

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KEITH HOWLETT: Great. Well, I have to compliment you. The stores do look a lot better.

BOB SARTOR: We think so. And you know what? We're not even done yet. I think, Bill, if you could just talk about some of the sort of merchandizing initiatives for the Christmas period. Because some of the merchandizing fixtures actually have to get manufactured, and still aren't in stores. So we are very happy with it. Maybe, Bill, you can just chat to that.

BILL GREGSON: Well, the bulk of the physical changes to the stores, the 50 stores renovated, has been done. We will do additional... There were some that weren't done, that we had talked about before, and they weren't done for various real estate reasons, looking to move, looking to expand, etcetera. So as some of those real estate issues don't come to fruition, we will go back and do one at a time, kind of thing, some additional stores, in terms of renovating, or we will move them, and we'll have a fresh look. So the actual freshness of the physical store will continue to, at a much slower pace, continue to continue.

As we've said, we worked a lot on the assortment. We had a better assortment for spring, we thought, but we still had a lot of carryover we needed to get rid of. The assortment for Q3 is better, and I think the assortment for Q4 is better. So we needed to house that, and visually

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present it, in a much better fashion, and that's part of the Visual team that we created.

Some of the tools that we're missing, and one of the next big steps, we believe, on the apparel side, is, now that we have some of the better brands, now that we're getting performance from some of those better brands, is we need to also tell more of a fashion story. Our stores currently, basically, the stories are told on the walls; and the fixtures in front of those walls, while we tell stories, are really designed to hold a lot of product, and not necessarily to convey a merchandizing story. So we need to go back and begin to implement, and we will, for Q4, implement a fashion table solution that allows us to tell a merchandizing story in each of the key clothing departments, so that, in fact, at the beginning of the department, you will get a fashion story on a table. You will have fixtures that are designed to hold a lot of product in between, and then you will get another story on the wall.

So, again, it will be a fairly significant uplift to the look of our store, and the presentation of our merchandise, and it's just continuing on with our commitment to radically change the look of the store, physically, from an assortment point of view, and from a Visual point of view.

KEITH HOWLETT: Great. Thanks very much.

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

JIM DURRAN: Just wanted to follow up on SportChek. So if we were looking regionally on comp store sales results for the quarter, and as we headed into back-to-school, would Ontario be stronger than Western Canada? Or how is that working out?

BILL GREGSON: Yes. Yes, it was.

BOB SARTOR: And interestingly enough, Jim, in back-to-school to date, if you go into the stores -- which, obviously, I know you do, and we certainly do -- some of our clothing and footwear competitors in the marketplace have been very aggressive with logo activity and with significant in-store discounting. We have let our new stores, our new assortment, our new approach to marketing, do the talking, and we have not been as aggressive, and lo and behold, we are generating comp, and we are generating good margins, because we have better stores, and that's good news for us.

JIM DURRAN: And with Sport Mart and National both sort of flattish in comps, what's the challenge there?

BILL GREGSON: On the National side, Jim, it was... Really, probably the single biggest challenge was just to get... I think you know

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how National was operated before. It was whatever deal you could find, whether it would be a loot bag or dishes -- it didn't matter if it had anything to do with sporting goods -- was to put it into the stores. With the new management, led by Doug Hayes, starting in February, once we acquired it, we've basically become more true to a sporting goods lifestyle environment. But we needed to get rid of some of those, and we did that in Q2, which caused some price deflation.

But that is, again... It's not that there's a revitalizing going on. That was a very short-term period. We are... That supply line has gone. So for National, really, the biggest challenge for National, just going forward, I think, is just the transition into our infrastructure, into some reporting systems, and it's just running the business as a business, as opposed to much more of an entrepreneurial hobby. So, really not a whole lot required on National, is, I guess, is what I'm saying.

On the Sport Mart side, the Sport Mart side, the challenge, and what the whole revitalize is focused around, is Sport Mart is a value banner, and defining what "value" means, from an assortment point of view, from an in-store pricing point of view, and then from an in-store communication point of view, and from an external communication point of view, all around the word "value," and that's what we're in the process of doing.

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BOB SARTOR: Yes, I think, Jim, one of the things that dealt a severe blow to Sport Mart, it had had a historical positioning with the consumer that would compare products to MSRP. In other words, its advertising went sort of compare at. When we went away from that, we didn't find another, what I would call "advertising niche", and we, as I've said earlier, we've been going through the process of rethinking, and I think we have a really good approach to communicating the discount and value message in Sport Mart, and I really don't have a concern about where Sport Mart is going to end up.

The reality is, we don't do wholesale, either signage changes or communication changes, without testing them. So we're going to test that in a couple of isolated markets this fall. I suspect, based upon what we see, that we'll be very happy with what we see, and by next spring, we'll be rolling out to all markets.

JIM DURRAN: Okay, thank you.

OPERATOR: Your next question comes from Sheila Broughton from Pacific International Securities. Please go ahead with your question.

SHEILA BROUGHTON: Hi, guys. I just wanted to get a little bit of clarity on back-to-school and, actually, all these seasons that are coming

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up in Q3. So SportChek is up 3.9 percent on comps for back-to-school so far?

BOB SARTOR: Yes.

SHEILA BROUGHTON: Okay, and how many weeks are we into, in back-to-school? I know that season can shift a bit, depending on when Labor Day falls.

BILL GREGSON: Well, the reporting numbers are as of... what, Richard?

RICHARD BURNET: The last week.

BILL GREGSON: So the reporting numbers would have been for the first 3 weeks.

SHEILA BROUGHTON: Okay.

BILL GREGSON: Last week that was just finished would have been the 4th week, and we're in the 5th week right now. And really, back-to-school continues to be a longer period. So we see this week, next week, and the following week as part of back-to-school. So, counting the week that we're currently in, there's 3 more weeks to the completion of back-to-school.

SHEILA BROUGHTON: Okay, so roughly a 7-week--

BILL GREGSON: Yes, it is. It is a 7-week period.

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SHEILA BROUGHTON: Okay. And if I have this correct, I think, then hockey becomes the big emphasis in the next roll of Q3?

BILL GREGSON: Actually, hockey is a huge factor in the month of August. August is when you get ready for playing, obviously, for starting the season again. So one of our biggest weeks of the year has already been, and was a very successful week for us. It was a double-digit comp, actually. And the next big week for hockey is coming up in a couple of weeks.

SHEILA BROUGHTON: Okay.

BILL GREGSON: And then, basically, the rest of... After that, hockey is a major part of our business, but it's peaked, and it doesn't peak again until Christmas season.

SHEILA BROUGHTON: Okay. So what are the big sale drivers in the rest of October, then, if you don't mind me asking?

BILL GREGSON: October is kind of a transition month. October is a month to get set up. Obviously, you get your outerwear on the floor, you begin to put your skis and your snowboards on the floor. Typically, near the end of October is when you will begin to have significant action on the ski side, the snowboard side, and the outerwear side. So late October is when ski, snowboard, outerwear, and winter accessories kick in. Up 'til

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then, it's a solid hockey period, it's a solid footwear period, and it's a solid apparel period.

SHEILA BROUGHTON: Okay, great. And then it just rolls right into the holiday selling season, right?

BILL GREGSON: Yes.

SHEILA BROUGHTON: Okay. Now, do you have any more inventory to clean out, except for, as the seasons progress, I understand there will be inventory to clean then, or are things exactly where you want them to be now?

BOB SARTOR: When we redo the Sport Mart banner, there's going to be some brands we'll likely have less of, and some new brands we'll likely have more of. It's not going to be a significant number, though. Certainly... Well, we wouldn't even consider it material, so that's why we haven't really discussed it. Would it be several hundred thousand to less than a million? Absolutely less than a million. So we don't really have a major issue in front of us, as we go forward. So that's why we are quite relieved to be where we are today.

SHEILA BROUGHTON: Okay, great. Thanks so much.

OPERATOR: Ladies and gentlemen, if there are any additional questions at this time, please press the * followed by the 1. As a reminder,

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if you're using a speakerphone, please lift the handset before pressing the keys. Your next question is a follow-up question from Jim Durran from National Bank Financial. Please go ahead.

JIM DURRAN: Just on the footwear business, can you give us some idea as to what brands are doing well, and what categories within the business might be doing well?

BILL GREGSON: A lot of brands are doing well, Jim. Nike, Basics, New Balance, Adidas, Puma. In terms of categories that are of particular interest right now, running, cross-training. Our cleated business always does well. Certainly, a new initiative for us is what we call trend or fashion footwear. That would be what you would see from Adidas Originals, what you would see from Puma, what you would see from Converse, etcetera. So those are probably the highlights.

JIM DURRAN: I don't know if you saw Finish Line reported that their Q2 sales trends had weakened substantially.

BILL GREGSON: Yes.

JIM DURRAN: And I noticed--

BOB SARTOR: We noticed that, I think.

JIM DURRAN: Yes, I noticed that Nike's name was sort of noticeably absent from having much strength in the quarter for them.

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BILL GREGSON: Yes, and I don't know exactly why that is, Jim. I do know that in the States, Nike and Foot Locker made up, and so, Finish Line rode a wave of the Nike / Foot Locker disconnect. They were getting all the favors. And that's probably a different playing field down there. Also, the Foot Locker acquisition of Foot Action, and so Foot Action being probably a much weaker competitor in the past, and now, with Foot Locker... So that could have something to do with it, what's gone on in the States. It's tough for us to comment.

JIM DURRAN: Thank you, I appreciate that.

BILL GREGSON: Yes.

OPERATOR: Your next question comes from Bruce Tatters from Triumph Asset Management. Please go ahead.

BRUCE TATTERS: Hi, guys. I was just wondering if you could provide us with some capex guidance for the balance of the year, and into the next fiscal year, given that the majority of your stuff is behind you now.

BOB SARTOR: Well, as far as specific guidance, as you can imagine, in turnaround mode, we don't, because we're more focused on the operational aspects. That's not to say we're not focused on EPS; of course we are.

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On the capex side, we had previously said that this year, we had expected to be at levels slightly below last year's levels, but not much. We have not yet given next year's capex numbers, and we'll be re-evaluating, at the end of our fiscal year, exactly what guidance we provide on the capex side. I would say, though, that we would expect to certainly have peaked on the capex front.

OPERATOR: Your next question comes from Andrea Beckingham from TD Securities. Please go ahead.

ANDREA BECKINGHAM: Hi, there. I was just wondering if you can give some color on your prototype Nevada Bob store that you mentioned, in terms of the difference from the other Nevada Bobs.

THOMAS QUINN: Basically, when we set the store up, we basically set it up to be a lot more fashion-friendly in terms of the presentation of the soft-goods and footwear in the store. The buy into it was higher than traditional buy into those categories, for the mix of the product being presented from your traditional golf store. Traditionally, the golf stores that have been around the country and through the States were very strong on the hard-goods component, sometimes doing up to 85 percent of their sales in the equipment end of the business.

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We also incorporated different lighting in the store, different colors. It's a much fresher look for the banner, and it's got a significant component of the women's department within the store.

ANDREA BECKINGHAM: Okay, great, thanks.

OPERATOR: Your next question is a follow-up question from Jim Durran from National Bank Financial. Please go ahead.

JIM DURRAN: I'm just wondering if you could tell us how big the Nevada Bob's prototype store is.

THOMAS QUINN: Obviously, depending on the real estate deals, but our plan is building the stores in the 6,000-8,000 square foot. The one we did in Kirkland, currently, is sitting at 11,000.

JIM DURRAN: And how does that compare to the average size of the stores you acquired?

THOMAS QUINN: The average stores currently are running around the 4,000 square foot size. Some of the new ones we've opened recently in Calgary and Red Deer are up around the 8,000 square foot mark.

JIM DURRAN: Great. Thanks.

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

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BOB SARTOR: All right, thanks very much. I said earlier that we are singularly focused on the operational changes that we've had to make. We certainly have had numerous discussions with our Board regarding, obviously, our overall financial performance for the half and for the second quarter. I think our Board is very pleased with the fact that we did exactly what we said we were going to do, on an operational perspective, and frankly, we have not been singularly focused on the quarterly results -- we've been focused on fixing the business.

I can tell you that we are very, very happy that SportChek has responded so quickly. We're also very relieved that SportChek has responded so quickly. And we're really looking forward to the back half, because all so far has gone according to Hoyle.

So, with that, I want to thank you all for listening in today, and we look forward to talking to you at the end of the third quarter. Thanks very much.

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

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