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CONFERENCE CALL
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OPERATOR: Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Forzani Group Q3 fiscal 2006 financial results 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 Friday, December 2nd, 2005, at 10:00 a.m. Eastern time. I will now turn the conference over to Mr. Bob Sartor, Chief Executive Officer.

Please go ahead, sir.

BOB SARTOR (Chief Executive Officer, Forzani Group Limited): Thank you very much. Ladies and gentlemen, welcome to the Forzani Group Q3 conference call.

With me today are Richard Burnet, our Chief Financial Officer, Bill Gregson, our President and Chief Operating Officer; and Tom Quinn, the President of our franchise business. And you'll be hearing from all three of them.

While we indicated in the first half that things would be difficult but by the start of the second half things would start to improve, and they have.

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Since the first week of the third quarter, we have been on a sales and margin roll. Sales and margins are up in every market and all categories had shown a decent 02, very good improvement.

Earnings per share prior to one-time spending on Sport Chek media and Sport Mart revitalization were \$0.26 versus a restate at \$0.18 last year, and Richard will go into that. We had three different accounting chains at the end of the year that all retailers had to comply with. But I'll let Richard, Bill and Tom cover those specifics.

Later on I'll come back and talk about our G&A costs because I certainly had some e-mails on that. We'll get a sense for what our run rate is, what our expectations are for Q4 there, and then just wrap up with a very brief outlook on Q4. Obviously it won't be exceedingly detailed because we don't provide that level of guidance at this stage.

So without further ado, I'll turn things over to Richard Burnet, our CFO, who'll walk you through the numbers in a little more detail.

Richard?

RICHARD BURNET (Chief Financial Officer, Forzani Group):

Thanks, Bob.

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Retail system sales for the quarter ended October 30 were \$307.6 million, a \$50.2 million increase from sales for the quarter ended October 31st, 2004 of \$257.4 million.

Revenue was \$305.4 million. That's \$39.7 million, or 14.9 per cent increase over the 13-week period last year due largely to the sales stemming from the acquisition of National Sports on January 31st, 2005.

Combined gross margins for the 13 weeks ended October 30 was up 200 basis points to 33.1 per cent of revenues from 31.1 in the prior year. On the strength of primarily of improved corporate store results, particularly in the hockey equipment, athletic casual and outdoor clothing and footwear categories, in absolute dollars, combined gross margin increased 18.5 million to 101 million compared to 82.6 million in the 13-week period last year.

Comp-store sales from corporate locations were up 3.2 per cent, a combination of positive results in the categories I mentioned earlier that contributed to the gross margin improvement offset by a bit of a slow start to the winter categories of ski, snowboard and outerwear.

Franchise comp-store sales were up 8.1 per cent, mostly on the strength of athletic clothing, footwear and winter clothing. On a combined basis, comp-store sales were up 4.7 per cent.

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Store operating expenses as a per cent of corporate store revenues were flat with the prior year at 26.9 per cent, and comp-store operating costs were flat as well at 25.6 per cent of corporate store revenues.

The comp-store costs in absolute dollars increased about \$1 million, or 2.2 per cent. The overall store operating expense increase reflects the addition of the 19 National Sports stores coupled with the opening in the past year of 11 corporate stores.

G&A expenses were 7.5 per cent of total revenue, or \$23 million. Exclusive of the impact of the acquisition of National Sports, the expenses represented about 7.2 per cent of revenue. The increase is primarily a result of the timing and focus on the advertising expense. Bob has a little more detail on those expenses.

EBITDA was \$21.7 million compared to \$20 million for the same period last year and basic and diluted earnings per share for the 13-week period were \$0.20 compared to \$0.18 in the prior year, a restated \$0.18.

Cash flow from operations decreased to \$12.7 million from \$16.4 million. The accounting changes which resulted in the restatement of the prior year's results had the effect in the current year of a decrease in net earnings of about \$600,000 on account of the EIC 144 changes and

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about \$300,000 as a result of the change in accounting for lease costs.
Bill?

BILL GREGSON (President and Chief Operating Officer, Forzani Group Limited): Thanks, Richard. I'm very happy with the quarter. The big thing in retail obviously is to gain some momentum back and we hadn't had momentum on the corporate side for quite some time and we began to build some momentum in Q2 but at a cost, it was at a margin expense and we had said in Q3 that we would build, we would begin to build some momentum with positive margins and we did that in Q3. So we're very happy with the progression and in building momentum on the corporate sales side.

Overall, as it was stated in the press release, the 4.2 comp in the Chek Coast banner and a decline of 0.9 in the Sport Mart. For Q4 we're seeing that continued in the Chek Coast banner, the continued pause in momentum both on sales and margins, and the good news so far in Q4 is that we've been able to reverse that decline in Sport Mart and Sport Mart being on the positive side for Q4 so far.

In Q3 sales, in terms of geographic was led by Ontario and in terms of category as Richard stated, it was led by footwear, hockey, clothing which are the key back-to-school categories. As Richard also said, the Q3

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winter category suffered somewhat through the warm weather. That has been reversed in Q4.

From an inventory point of view, we're very happy with our inventory going into Q4 and going into Christmas. We have less comp inventory than we did a year ago at the end of the quarter and that is despite the fact that our receipts were advanced this year. At the end of Q3 last year, our warehouse was undergoing a... had put in a new system and was undergoing a physical count and so we had held receipts for a while.

This year we went full boar, so the good news is even with greater receipts, our comp inventories were down at the end of the quarter and it also means that our receipts will be into the stores at an earlier period for Christmas than they were a year ago.

So again, very happy. A huge momentum shift in the quarter from where we've been back to positive corporate comps at higher margin rates.

Tom?

TOM QUINN (President of Franchise Business): Thanks, Bill.

Good morning. As you have heard, our franchise business continues to progress well. We've seen most of our categories growing and our sport

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fashion and footwear business continues to lead the charge with double-digit increases in the quarter.

Our racket, camp, fitness and ski categories also performed well in the quarter. We've now opened three of our specialty banners in the year – Nevada Bob's Golf, Hockey Experts and Pegasus – our running specialty banners. Initial reaction to these concepts has been very positive and we will continue to grow these banners over the next several years.

We have also introduced our first multi-banner complex in the Laval power centre that has four banners connected with four separate entrances and store fronts for the consumers. In this case, Sports Experts, Atmosphere, Hockey Experts and Nevada Bob's are the banners.

In the future, this will open up a variety of options for store developments. We have a lower cost operating format as a result of shared back office functions and again initial consumer reaction to the project has been positive.

With that, I'll turn it back to Bob.

BOB SARTOR: Thanks, Tom.

I'm going to spend some time talking about G&A and then we'll talk about Q4 and next year briefly without getting into specific guidance.

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Those of you wringing your hands about our general and administrative spending should rest assured that management of Forzani Group has not lost its senses. The Forzani management team has been running this business for a period of time, has always been very frugal when necessary. But I firmly believe that there is a time to save money and there is a time to spend it. And the time to spend it was on the heels of the revitalization of Sport Chek to get consumers back into the stores.

The extra spending on media and the formation of precision retailing group is designed to drive sales and margins and we are now doing just that.

Media spending for next year, for example, will return to historically normal levels after the more elevated spend that you saw in Q3.

If we look at Q3 specifically on the G&A side, there's a few things I want to point out. First and foremost, we have to remember that we have National Sports in the mix. National Sports had about \$2.4 million in G&A and it's roughly its run rate for the quarter.

In terms of one time, obviously we had that extra media spend. That was about \$2.5 million and that is not a timing issue. That was a deliberate spend to basically tell people about the power of sport, to get people into

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our stores, to get them to see the new assortment and to buy product. And that's what they're doing right now.

With respect to some one-time issues, we had a bonus reversal in the prior year in Q3. Obviously last year for the first two quarters we felt we could still make our target. Hence, we were throwing bonuses as most companies do. By the third quarter, we realized we wouldn't hit our budget. Hence, we reversed that. That was about \$1.5 million.

So in effect, last year's G&A numbers were \$1.5 million light because of the reversal of Q1 and Q2 bonuses. And that's store level obviously as well as at the head office level.

And we also had a one-time severance accrual in the quarter of roughly \$0.5 million. So basically we had roughly \$2 million of one-timers. We have to look at \$2.4 million run rate for national and the \$2.5 million on media was definitely, I think, well-spent money.

If we look at Q4 store operating expenses as a percentage of corporate store revenues should remain similar to last year's levels. There should be no increase. Our ad spending for Q4 will be really in line with prior years from that perspective.

And the overall sort of G&A outlook, we typically don't give those but it will give you a sense that we do expect to return to more normal levels

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with the addition obviously of National. The addition of a precision retailing group and its current run rate is probably \$300,000 or \$400,000 a quarter.

Looking at Q4, clearly we are very happy with the start. It's obvious to us now that what was initial momentum has turned into a solid trend. As we said in our press release, our performance continues to improve. All banners are now working well on a sales and margin front and working well across the country in all categories, and that's wonderful news.

On the franchise side, Tom Quinn and his team continue to run a superlative business and it continues to fire on all cylinders.

Our Genex business for Q3, which I haven't talked about earlier, actually hit its profit targets. For Q4, I don't expect any issues on the wholesale front.

So that pretty much gives you an update of where we are. Obviously, one of the things that we're focused on this year is, as the saying goes, riding ship and it's clear that the EBITDA margin levels that we saw in Q3 are not EBITDA margin levels that we would be happy with on a sustained basis.

Going forward, however, we expect those margin levels to continue to improve because frankly it's the top line and the growth and margins that are going to drive the profits in this business, not the G&A costs.

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So I will now ask Marie, our conference moderator, 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 a speakerphone, before pressing any keys. One moment, please, for your first question.

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

JIM DURRAN: Good morning. Not to diminish the improvement, I was just wondering with respect to the 3.2 per cent on corporate versus what was back to school at 4.7, was it purely weather related in your estimation or is there some pricing dynamics out there that might have impeded sales growth?

BILL GREGSON: Jim, it's Bill. Yes, I would say, as we pointed out, we had a strong quarter in footwear hockey and clothing, which are all happening, basically in August and early September. We did have a weaker quarter in ski, snowboard and outerwear which typically happened

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beginning in October. Those trends of tougher sales in ski, snowboard and outerwear have been reversed in November and are positive.

JIM DURRAN: And with respect to the franchise number at 8-1 versus 3-2, that ongoing nemesis, what categories would franchise have done better in and was it weather related or not?

TOM QUINN: I think if I look overall, we had an earlier start to the winter fashion. A lot was in the junior areas that kicked off very well this year, as well as some early ski sales. That would have been probably the most significant difference between the groups. And again I think it was just because there seemed to be an early start and more success with the earlier ski, early ski sales we did.

RICHARD BURNET: I think also, Jim, is that you have to look at the momentum build in the last couple of years and franchise has been on a roll for the last couple of years and really kept it going. And on the corporate side, corporate has been on a roll for the last couple of years, built some positive sales although albeit very minor in Q2 at a cost of margin and then Q3 stepped in to both positive sales and higher margin rates. So I think it's also an evolution difference as well.

JIM DURRAN: And last question just on the gross margin rate improvement, would it be wrong to sort of categorize this past quarter as

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back-to-school margins were quite good and then you gave some back as outerwear became a bigger component?

BILL GREGSON: That probably would be wrong to say that, Jim. Outerwear typically is a high-margin business for us as it is also at the beginning of the season especially in October is a high-margin month. It's just that the sales rate wasn't there. We didn't try and buy sales in outerwear in October. We basically said we'll wait until it gets a little cooler in November.

JIM DURRAN: And from a promotional stance in the fourth quarter, any reason to believe that margin would be up less than what we saw in Q3?

BILL GREGSON: I would say that for Q4 is that we believe the improvement in margin will continue through to Q4 and with our inventories in a better shape, like we talked about, we don't have as much reason to be as promotional or as moving as much inventory as we had the prior year. So we wouldn't expect it to continue.

JIM DURRAN: Okay. I'll let somebody else ask a question. Thank you.

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

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SHEILA BROUGHTON: Hi. Congratulations on the quarter revenue growth. I just wanted to double check on Sport Mart. It looks like you've done the \$0.02, so that should be about \$6 million in expenses so far. I was just wondering how much more we should be looking for in the Q4 period, and also rolling into '06, I mean '07.

RICHARD BURNET: Sheila, the \$0.02 a share would be not \$6 million. That would be roughly \$800,000 or \$900,000 pre-tax.

SHEILA BROUGHTON: Sorry about that.

RICHARD BURNET: But less than that and we would expect somewhere between another penny or two pennies in Q4 but that's already factored into our forecast.

SHEILA BROUGHTON: Okay. Sorry about the math. Thanks a lot.

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

BOB GIBSON: Good morning.

BOB SARTOR: Good morning.

BOB GIBSON: I want to focus on Nevada Bob's for a minute, if I could, and kind of walk me through what's been happening with the associates and, but your buying power and if you see any independents starting to look your way.

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TOM QUINN: Well with Nevada Bob's, what we had done, as we mentioned before, the first year we had kept them on as licensees for the first, we said for the first 18 months right out to 2007, at which time we're evaluating their businesses because you know we have fairly strict standards in our franchise business. And also whether they want to work within the framework of our franchise business.

We did open our first prototype concept in May that has started on very well and has exceeded all of our budget numbers and we have also gone through a first Nevada Bob's buying show in October that performed very well. Included in that were a number of independents that are signing on to be Nevada Bob's franchisees for spring '06.

At this particular point in time, we have not released any names of those groups as we're finalizing all our legal documentation. We should have an announcement early in the new year with a number of stores that are joining in to Nevada Bob's group in the spring and we anticipate somewhere in the neighbourhood of 40 to 44 stores in Nevada Bob's chain effective the month of March '06.

BOB GIBSON: Okay. Great. Are you going to break out National Sports at all? And if not, could you just maybe give us some colour on that?

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BOB SARTOR: The only segmented reporting we do, again for competitive reasons because obviously we do have, we still do have some competitors out there, we do not break out our business more than wholesale/retail because those are the two segments we have and I do not see us changing that going forward.

I can tell you that National has been a great addition to our company for two reasons. Number one, it's profitable, and nicely so in its first year. In a transition year, National is doing, is doing well. And the second piece is that obviously the National business, along with Chek in Markham, Ontario, along with other competitors were creating an awful lot of noise on the competitive front and that's calmed down and we see it in our Ontario margins day in and day out now. So it's really been a win/win.

Going back to National, one of the things we have done this year is we have worked at consolidating all of it back office functions and that's never a pleasant thing but obviously something that has to be done in acquisition. And we expect to have all of that completed by the end of our fiscal year.

BOB GIBSON: Will you be providing comp-store numbers for them in the future?

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BOB SARTOR: We typically provide only corporate comps so they will be included in corporate comps going forward as of next year obviously because then we'll have a full year's history under our belts.

BOB GIBSON: Yes, but like right now you do a Sport Chek Coast comp and a Sport Mart comp.

BOB SARTOR: You know what, Bob, when it's necessary to provide additional colour, we'll do that but we're not going to commit ourselves to always providing individual banner comps.

BOB GIBSON: Okay. Great. Thank you.

OPERATOR: Your next question comes from Benoît Caron, from Canaccord Capital. Please go ahead with your question.

BENOÎT CARON: Thank you. Good morning, everyone. A couple of questions here regarding your working capital. There's been some great improvement in the working capital accounts and I was wondering in the inventory, was there all an increase in inventory turnover? Was there some chunk of the inventory that came down that was due to a write-down previously in the quarter at some point?

RICHARD BURNET: There were no specific inventory write-downs in the quarter. Obviously part of the Sport Mart revitalization we did definitely move inventory at lower margins in Mart in the quarter.

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But I think the fundamental reason is we have a very, very big focus, Benoît, on inventory, on turns, on getting those turns up and on a more what I would call sort of just-in-time approach to inventory. So, for example, we expect to be able to drive our comp results with significantly less inventory than we historically had and that's simply a question of a couple of things.

One, focusing on the timing of the buy and the timing of receipt, closer to season. And the second thing is a real belief that we can actually do the business with less inventory and we've demonstrated that to ourselves this year.

So I think it's just another step in the evolution of Forzani Group from a business that just opened a tonne of stores obviously for many years with great success. We hit a wall and because we are not opening as many stores, we've been able to really hone in on the efficiency of the existing stores and of the existing inventory. And I think that's what's really driven the working capital improvements and we expect to continue to make further improvements throughout the entire year next year.

BENOÎT CARON: Okay, and regarding Sport Mart more specifically, I remember last spring there was still a big amount of winter wear and winter equipment related goods in stores on the shelf. Will you guys be

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required to make a lot of markdowns to get this merchandise moving going forward or is it pretty much clean now?

RICHARD BURNET: Actually we're relatively clean, actually. If you were to have our data, which obviously you don't, but if you did, you'd see that our winter category in all banners actually are in phenomenal shape.

And as Bill pointed out earlier in Chek and the same will hold true for Mart, when we had some warm temperatures in Q3 and ski, snowboard and outerwear wasn't moving out west, we didn't push the panic button because we don't have to anymore. We don't have the inventory level we used to have.

BENOÎT CARON: Okay. And I also noticed that you've closed two Sport Mart stores. Are there any more rationalization required with the banner going forward, or is it just...?

BOB SARTOR: Well we've done a couple of things with Sport Mart. We've converted in Ontario two so far and we'll convert a third in the new year. A Sport Mart that was too big was converted into National Sports, one in Whitby and one in Cambridge, and we'll do one in the upcoming year.

We haven't finalized everything but you will see a few less Sport Marts at the end of next year compared to the end of this year.

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BENOÎT CARON: Okay. And maybe one last before I got back in the queue for Tom or Bob. What about the longer-term plans for Hockey Experts and Pegasus banners? How many of these stores can you believe, do you believe can be placed in Canada before you run to saturation?

TOM QUINN: Well, what we're doing with Hockey Experts, first of all, we're maintaining that in the province of Quebec only.

BENOÎT CARON: Okay.

TOM QUINN: Because Sports Experts and even Intersport stores traditionally don't have huge hockey departments in their stores and we felt we could better service the market with a specialty retailing in the hockey category. So that we assume we can do between, anywhere between 12 and 20 stores in the province.

The Pegasus banner as we roll it out, it can go up probably in the range of between 50 and 70 stores across the country as we roll it out.

BENOÎT CARON: Okay, 50 and 70 stores you mentioned?

TOM QUINN: Yes.

BENOÎT CARON: Okay. And regarding hockey, how is it going so far? Aren't you running into severe price competition against Russo Sport?

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And how's the competitive landscape now that you're opening these banners?

TOM QUINN: Well, I don't normally chase competitors but what we've done is we've set out a very specific plan for Hockey Experts and it has executed and exceeded expectations to date.

BENOÎT CARON: Okay. So for now you're starting that in Quebec but I guess this could be a banner that could be rolled out across Canada and across the cities, right?

BILL GREGSON: No. No, it's Bill. We do a lot of hockey business outside Quebec in both the National and in Sport Check.

BENOÎT CARON: Oh no, no, I understand that, but I meant is there room for a specialty hockey banner for you guys outside Quebec?

BILL GREGSON: That's what we're saying is we don't think we need one right now. We think we're covering the market with National, with Sport Chek and with Sport Mart. And we do a very sizable business, much more skewed towards hockey in those stores. And Sports Experts and Intersport are within Quebec so that thus the reason to open up a Hockey Experts store for the province of Quebec.

BENOÎT CARON: Okay. Well that's all, guys. Thank you.

BOB SARTOR: Thank you.

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

KEITH HOWLETT: Yes, I have some questions on the Sport Mart. The \$0.02 expense or \$0.02 of EPS on Sport Mart, what does that actually relate to?

BILL GREGSON: Keith, it's Bill. We cleared out a... We had some offsite sales. We used a third party and we got rid of a whack of inventory.

KEITH HOWLETT: In the three stores or the two you've already done that you converted Sport Mart to National Sports, what sort of square feet were those stores?

BILL GREGSON: They were around 12,000 feet each, I believe, Keith.

KEITH HOWLETT: So is there any thought that the Sport Mart chain might convert entirely to National Sports?

BILL GREGSON: No. It doesn't fit. And Sport Mart, the typical size of Sport Mart is around 7,000 feet. National needs at least 10,000 and 10,000 is incredibly tight and 12,000 is even tight. The average, if we're opening a new National, we'd open 20,000 feet. So, no, no plans to convert the 7,000-square foot Sport Mart to National Sports.

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BOB SARTOR: And also Keith, another important point is the hard goods mix in the two banners is substantially different. So it doesn't stand to reason that if you were to simply slap a national name and a national mix on the smaller stores that you would have to accept. For example, in Sport Mart we do a very good business in ski, snowboard in the wintertime. National does not. In Mart, we do a very good business in bikes, inline and golf.

National is more focused on team sports and actually is really a team sport banner. So there is I think an ability to have those stores in the marketplace. I mean just the rationalizations you saw made sense from a size perspective. There will likely be some additional rationalizations here and there in marketplaces where we now have a concentration of three banners – Chek, National and Mart – but those don't need to be done now because the stores are all profitable. So it would be a more a question of as leases come due, we would just look at things and on a market-by-market basis and decide what we're going to do.

KEITH HOWLETT: And when you look at the Sport Mart across Canada, does, does it continue to do well on its traditional market of Western Canada? Is more the pain here in Ontario or is it...?

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BILL GREGSON: Yes. I mean Sport Mart has a stronger performance absolutely in Western Canada than it is in Ontario, although Ontario has been the area that's seen the greatest increases in this year.

KEITH HOWLETT: Great. And just on a licensed apparel, how is that doing with this hockey over or is it offset by declines elsewhere or...?

BILL GREGSON: No. Hockey back is a definite plus for the corporation.

KEITH HOWLETT: I was asking, some of the U.S. fellows said licensed apparel, and you know they're talking sports pretty much everything but hockey was sort of down, so I was wondering in your business...

BILL GREGSON: It's a totally different model in Canada versus the U.S. Canada is not driven by NFL and NBA or NLB or NCAA and in the U.S. it is. And it has been... they've had less of a run on that lately. For us it's all about hockey and there in the U.S., I think, it has much more of a fashion element to it as well. In Canada, it's very much a meat-and-potatoes day-in and day-out business and we just need the NHL to be playing, and they are and it's back to solid day-in, day-out business.

KEITH HOWLETT: Great. And a couple of other categories they mentioned in the U.S. were very hot. I'm wondering how they're doing for

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you is the technical casual wear, the under armour products and also the high-end sneakers or how your price point is doing on that?

BILL GREGSON: Our reaction to those categories would be very similar to what's happening in the U.S., very positive.

KEITH HOWLETT: And the average price point of your athletic footwear, is it sort of going up?

BILL GREGSON: Yes, it is going up.

KEITH HOWLETT: Great. Maybe just, if I can ask on the technical things, do you happen to have the weighted average shares outstanding diluted and basic, by any chance?

RICHARD BURNET: We do. The weighted average diluted for the quarter is 33,164. Year-to-date would be 32,895.

KEITH HOWLETT: Great. Thanks very much.

OPERATOR: Your next question comes from Amit Anand, from Axial Capital. Please go ahead with your question.

AMIT ANAND: Hi. Good morning.

BOB SARTOR: Good morning.

BILL GREGSON: Good morning.

AMIT ANAND: How are you doing?

BOB SARTOR: Good. Good, thank you.

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AMIT ANAND: I just have a couple of questions. One is on the marketing spend, you know, the incremental \$0.04. I understand why it's necessary at this point for you to reinvest in the business quite heavily but sort of how do you get comfort and how do your investors get comfort that once the spend goes back to normalized levels that your comp also won't just go away with it?

BILL GREGSON: Well, I think, we're not buying the sales with advertising. We are building the sales with strong fundamentals that needed to be revisited and have been revisited right across the board from the physical look of the store to the assortment to the visual presentation of the store, at the mix of our marketing between strategic and tactical to the inventory management of the store and to all the initiatives we're doing with our associates that work in the store.

And so what we chose to do with Q3 was to reintroduce Sport Chek specifically to some of the consumers who we had either lost or hadn't been in a while. And once they get in, obviously all those things I just mentioned we hope combine to create a much better consumer experience than they would have had in the last 24 months.

So it's an introduction. It wasn't a buy sales marketing spend. It was a reintroduction to Sport Chek and quite honestly what I think that it does is

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it tells us that we don't need to buy as much sales in the past with advertising and we can shift the blend of our advertising a little bit to build longer, higher-margin sustainable sales.

AMIT ANAND: Right.

BILL GREGSON: So we feel very comfortable.

AMIT ANAND: Have you given any thought to perhaps, instead of just pulling back to normalized levels in the fourth quarter to actually testing in certain markets what it does when you pull back significantly to your sales?

BILL GREGSON: No. Amit, I think that there's a whole pile of things that go into what make up your marketing expense and I think we feel very comfortable going forward that the amount of impressions that we have in the marketplace will be sufficient to sustain sales momentum.

BOB SARTOR: I guess, Amit, to put it another way – it's Bob Sartor – we, I said earlier that for Q4 we are back to normal levels from an ad spending perspective. We are now solidly into Q4 and if there was a reaction to a pull-back that was significant, we would have seen it in our comp-store sales. Our comp-store sales are in great shape for Q4 to date.

So from that perspective, I don't think there's an immediate cause and effect. It really is going back to Bill's point. You redo your stores. You

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bring in a visual team. You completely re-merchandise them. You completely change your assortment. You've got to bring people back into the stores. You just can't wait for word of mouth because otherwise we'd be having a discussion two quarters from now talking about why comps aren't up.

So in that perspective, it was essential that we bring people into the stores and say by the way, this is the new Chek. And it has worked.

AMIT ANAND: Right. And on the comp front, just so we have a perspective on, I'm looking at your comps up from a longer term than a year-over-year perspective, the 3.2 that you did on the corporate side this quarter, could you give us a sense of what that compares to last quarter? And then I believe you were up against easier comparisons in the fourth quarter, if I'm not mistaken, sort of what that number is.

BOB SARTOR: When you say 3.2 again, what do you mean by last quarter? Q2 or...?

AMIT ANAND: No, sorry, that was the Q3 number.

BOB SARTOR: Yes.

AMIT ANAND: And I just wanted to get the comparison for the same period in 2004.

RICHARD BURNET: We don't have the number in front of us.

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BOB SARTOR: We don't have it in front of us. Sorry, Amit. We can always get back to you with that information.

RICHARD BURNET: It was negative.

AMIT ANAND: Right. That's fine.

BOB SARTOR: We can get back to you with that information after the call. One of us will call you back.

AMIT ANAND: Yes, that would be great. And then finally, on the gross margin side, I know you don't break out your segments on gross margins but directionally, can you give us a sense of the 200-basis point improvement that you're seeing this quarter, how much of that is coming from the synergies you should be getting from National Sports acquisition versus how much of that is just IMU improvements?

BILL GREGSON: Well, it's margin improvement at the till corporate stores.

BOB SARTOR: That's really what's driving the vast, vast majority of the increase. The National, obviously National margins have come up but frankly National's overall margin because we're really putting in some of the inventory management practices that we have been instituting in Chek. National's margins still have frankly a way to go, so the reality of it is it's really in the achieved margins at the till in Chek that are driving us, which

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has now been revitalized which has been reintroduced to the consumer and is actually generating significant lift in margins.

AMIT ANAND: Great. Thank you very much and good luck.

BOB SARTOR: Thank you.

OPERATOR: Your next question comes from Adam Clark, from Nesbitt Burns. Please go ahead with your question.

ADAM CLARK: Hi guys. Year to date, what would you say footwear is up by?

RICHARD BURNET: We don't release those numbers, Adam.

ADAM CLARK: But you do annually, right?

RICHARD BURNET: No.

ADAM CLARK: Normally you do segment between equipment, apparel and footwear.

RICHARD BURNET: Well, we segment the blends of what per cent of our total sales come from footwear, from hard goods and apparel. We don't release what the comps were for those categories.

ADAM CLARK: Oh no, you don't have to talk about the comps. You could just say sales growth in footwear.

RICHARD BURNET: Footwear is up for the year.

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ADAM CLARK: Okay. Could you give us some sort of sense of what the change in retail and wholesale margins were?

BOB SARTOR: The wholesale margins were pretty steady with a year ago and the franchise business from a margin perspective, which is the bulk of wholesale is very, very predictable. So that one there is fairly, fairly steady. The Genex or licence business margins were roughly flat as well, give or take a few basis points.

So really the entire increase is due to first of all the growth in corporate store sales and they carry a greater margin. That's one of the reasons. The other reason is frankly just significantly better margins at the till, again driven by Sport Chek which has had its revitalization behind us. And I'll talk about, in my wrap up, these Sport Mart revitalization and how that's going because obviously its margin growth is trailing Sport Chek because it's in the midst of the changes we're making there.

ADAM CLARK: Right. Now next spring, do you think there'll be a bit of a spring cleaning like you did with the Sport Chek to get it going again?

BOB SARTOR: No, no, we're...

ADAM CLARK: Not to the same magnitude but do you think there'll be...? There must have to be some pruning.

BILL GREGSON: Well, actually, in terms of Sport Chek or...?

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ADAM CLARK: Sport Mart.

BOB SARTOR: We're doing that now. That's included in our results.

BILL GREGSON: I'm not sure, are you talking about a specific banner, Adam?

ADAM CLARK: Yes, Sport Mart.

BILL GREGSON: Sport Mart. Yes.

RICHARD BURNET: Well, which is a much smaller portion of our, a size of our business.

ADAM CLARK: Right. Right.

RICHARD BURNET: Has had some already and we'll have a smaller amount than it's had already both in Q4 and in the spring. But I don't think it's going to be significant.

BOB SARTOR: It's going to be pretty immaterial.

ADAM CLARK: Okay. Okay. Great. Thanks.

OPERATOR: Ladies and gentlemen, if there are any additional questions at this time, please press the * followed by the 1. As a reminder, if you're using a speakerphone, please lift the handset before pressing the keys.

The next question comes from Jim Durran, from National Bank Financial. Please go ahead with your question.

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JIM DURRAN: Just back to Genex, can you give us some idea as to whether the revenue in the quarter was up or down?

RICHARD BURNET: Revenue was down slightly for the quarter.

JIM DURRAN: And how has the launch of Vision Brand gone versus what you had previously with Airwalk?

RICHARD BURNET: Vision has done very well. In terms of, if you look at our futures business, and we have one obviously in the licence brand of business, our futures for next year are in pretty good shape in terms of bookings. So we're feeling pretty bullish about the first quarter for Genex. And the good news is that the silhouette that we've come out with, Jim, are doing well. The first shipments into the U.S. are already being repeated, which is a really good thing for us.

JIM DURRAN: Great. Just going back to precision retailing, I'm trying to get a handle on the allocations group that you've put in place. You talked about the possibility that they would have a more meaningful impact on the business, I think, Q1 or Q2 – I'm not trying to put words in your mouth.

And then as a subset of that in terms of inventory dollars over the next year, do you think that there's a chance that you can hold the line on

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your inventory dollars while still growing the business once that system is fully in place?

BOB SARTOR: I think, Jim, it's both an allocation and a basic stock replenishment group. The full effect really will, the initial full effect won't be until Q3 of next year. There's some, we will have positive effect in Q1 and Q2, we believe, but the systems required have to be implemented and integrated and all that, so it'll be Q3.

Yes, we fully expect to be able to continue the same trend as this year which is positive comp sales, higher margins with lower comp-store inventory.

JIM DURRAN: And we're all getting very nervous about systems upgrades in the sector right now.

BOB SARTOR: This is a pretty minor one. The guts of our system has only been in for 18 months. The allocation system doesn't order products for you. It doesn't mark down products for you. It doesn't predict how much you need. What it takes is it takes how much you, what you did buy through our current system which we have in place already. And it just allocates it to the store. So the risk factor, I would say is either zero or minimal on certainly zero from a magnitude of inventory procurement point of view.

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JIM DURRAN: So it would be more flow of goods.

BOB SARTOR: It's allocation of goods to stores but the buy is under the same system that we've had in place for over a year.

JIM DURRAN: Okay. Thanks.

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

KEITH HOWLETT: Yes, I was going to ask about the Sport Mart revitalization but I'll leave that to Bob's remarks. Maybe, could you just update us on your, I guess, by now the final store plans for this year and whether you've done your budgeting for next, and if you have, what the outlook is for next year?

RICHARD BURNET: The outlook for next year is one Coast Mountain, three Sport Cheks, and I'll let Tom talk to franchises in a second. There's some conversions of Sport Cheks to bigger stores, to 40,000 footers. There's a few deals that will likely come together that are beneficial for us, and there will be no new Sport Marts next year.

TOM QUINN: On the franchise side going into next year, we're going to open approximately 26 stores and that's going in the budget period, one Sports Experts, approximately three Atmosphere stores and Nevada Bob's

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will probably see most of the balance of the growth there, as well as the Tech Shop opening between four and six stores...

BOB SARTOR: Pegasus.

TOM QUINN: And Pegasus, sorry.

KEITH HOWLETT: I'm sorry, I apologize, I have to ask this. What is the Tech Shop?

TIM QUINN: Pegasus.

KEITH HOWLETT: Oh, Pegasus. Okay.

BOB SARTOR: It used to be called the Tech Shop.

KEITH HOWLETT: Great. Thanks.

BOB SARTOR: We'll just take one more question. Unfortunately folks, we have to wrap up. We have a board meeting at 9:00 our time we have to prepare for.

OPERATOR: Your next question comes from Andrea Beckingham, from TD Newcrest. Please go ahead with your question.

ANDREA BECKINGHAM: Good morning. My question's just on the two Sport Chek that you opened in the quarter. Were they the bigger-format stores?

BOB SARTOR: No.

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ANDREA BECKINGHAM: And lastly, just on the National Sports, are you getting any synergies in terms of advertising spending?

RICHARD BURNET: Yes. We get, synergies across all our banners whether it be franchise, Sport Mart, National, Sport Chek, Coast. We pool that entire buy to negotiate the best rates that we can.

ANDREA BECKINGHAM: Okay. Great. Thank you.

BOB SARTOR: Right. Ladies and gentlemen, thank you for listening in on the call. We were very, very focused on basically the revitalization of Chek in the front half. We're now in the midst of a Mart revitalization that I'll talk to momentarily.

We very much have an objective of continuing to drive the momentum that we've achieved in all of our corporate banners now in the fourth quarter and we're very focused on delivering a good quarter obviously, but especially positioning ourselves with significantly reduced comp inventories, revitalized banners and quite frankly the people and the methods necessary to manage that inventory better than we ever have.

Certainly if there is any key learning here, it's that it is not so much the volume you have but what you do with it. And clearly, we had an opportunity and a tremendous margin opportunity in a company our size to

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properly manage that flow of goods and we are looking at best-in-class retailers in the U.S. and we've learned a heck of a lot by doing so.

From a Sport Mart perspective, we expect to be in a test market within the next probably six to eight weeks with at least a look, a different look for the store. The Sport Mart revitalization will be, I think, more visually different for the consumer than Chek even in terms of the consumer messaging both in store and outside of store in terms of the visual presentation and I think that it will be based on what we've seen to date in terms of the people we've been working with outside of the company to help us with this will be a very, very exciting transformation for that banner.

In terms of Q4 to date, we have not provided specific comp increases and that is obviously by design. Our preference would be to get the quarter under our belt and then talk about the performances at that point in time. I can tell you, and based on our press release that the performance we had in Q3 is being built upon in Q4.

With that, I'd like to thank you very much for attending. We are going to a board meeting for the next three hours roughly and then, we will be returning calls as quickly as we can afterwards.

Thank you very much.

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

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